

MINUTES
FINANCE/AUDIT COMMITTEE OF THE
CONNECTICUT HOUSING FINANCE AUTHORITY (“CHFA”)
REGULAR MEETING
December 15, 2011

Members Present: Michael Lyons, Chairperson of the CHFA Finance/Audit Committee
Orest T. Dubno, Vice Chairperson of the CHFA Board
Anne Foley representing Benjamin Barnes, Secretary, Office of Policy and Management
Donald Kirshbaum representing Denise Nappier, State Treasurer
Kimberly Neilson

Member Absent: Howard Pitkin, State Banking Commissioner

Mr. Lyons, Chairperson of the Finance/Audit Committee (the “Committee”), called the meeting to order at 9:00 a.m. in the Connecticut Room of CHFA’s offices, 999 West Street, Rocky Hill, Connecticut 06067.

Mr. Lyons asked the Committee members to consider the minutes from the November 3, 2011 and November 17, 2011 meetings.

Upon a motion made by Mr. Kirshbaum, seconded by Mr. Dubno, the Committee members voted in favor of adopting the minutes from the November 3, 2011 and November 17, 2011 meetings as presented (Ms. Foley was not present for the vote).

Mr. Nelson and Mr. Roberts from Ernst & Young discussed the audit plan for the audit of CHFA’s 2011 financial statements. Mr. Nelson provided an overview of the responsibilities of Ernst & Young. He explained that Ernst & Young will express opinions on the financial statement of CHFA for the year ended December 31, 2011, the real estate owned properties for the year ended September 30, 2011 and other real estate owned properties for the year ended December 31, 2011. Mr. Nelson stated that opinions will also be provided on the Schedule of Federal and State Awards as required by OMB A-133 and the Single Audit Amendments Act. He indicated that Ernst & Young will issue a report on the internal controls over the financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with government auditing standards. Any issues of noncompliance will be reported in the management letter and conveyed to the Finance/Audit Committee and Board. Mr. Nelson reviewed the executive team that will be serving CHFA.

Mr. Roberts discussed the areas of audit emphasis, noting that Ernst & Young will obtain and understand CHFA’s internal controls and will evaluate the various internal controls over financial reporting as a basis for determining the overall audit approach and scope. He

mentioned some of the issues that have been discussed or will be discussed with management including recent business developments, changes in the system and/or internal controls and accounting and auditing issues. Mr. Roberts noted that Ernst & Young has been involved with staff throughout the year on various issues. He reviewed the audit timetable, noting that the audit for some of the subsidiaries has already begun. It is anticipated that the results from the audit will be presented to the Finance/Audit Committee and Board in April.

Mr. Nelson discussed some of the accounting and auditing developments, some of which may affect CHFA. He talked about GASB Statement No. 60. He summarized that this statement will not have an impact on CHFA. Mr. Nelson explained that GASB Statement No. 61 is to improve financial reporting for a governmental financing reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. He stated that this statement should not have a significant impact on CHFA. Mr. Nelson indicated that GASB Statement No. 62 which incorporates into the GASB certain accounting and financial reporting guidance included in certain identified pronouncements before November 30, 1989, should not have a significant impact on CHFA. He discussed GASB Statement 63 and explained that the statement provides financial reporting guidance for deferred outflows and resources and deferred inflows of resources. The statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position rather than net assets. Mr. Nelson stated that the statement will not have a significant impact on CHFA but will change the term "net assets" to "net position."

Mr. Roberts reviewed the timing of required communications and the Ernst & Young peer review report which was performed by KPMG. He discussed the fraud considerations and the risk of management override. Mr. Roberts talked about the continuous communication efforts available to the Committee and Board through Ernst & Young.

Mr. Kirshbaum asked Ernst & Young to address draft pronouncements regarding the valuation and measurement of liability of post-retirement benefits and pension funds that could affect the state and ultimately the state's pledge of CHFA's bonds. Mr. Nelson spoke about the proposed pronouncement which could affect the state's bond rating and stated that comments on this issue should be provided by the end of February.

Mr. Kirshbaum questioned Ernst & Young's involvement with the valuation of CHFA's assets and each of the loans in its multifamily portfolio. Mr. Roberts explained that Ernst & Young looks at the methodology developed by management to determine individual valuations for each of its multifamily developments, noting that an audit is not performed for each project. Mr. Kirshbaum stated that the Connecticut Development Authority utilizes a third party contractor to look at the valuation of its portfolio on an annual basis and questioned whether CHFA should consider a third party contractor to value its loans. Mr. Nelson stated that Ernst & Young ensures that there are systems in place to determine valuation and that the methodology is being followed. Ernst & Young would be required to report any weaknesses to the Committee and/or Board. Mr. Craford noted the uniqueness of CHFA's multifamily portfolio and explained that the valuations are determined on a project by project basis based on the thorough and extensive methodology in place. A discussion ensued on the lack of value of some of the loans. Mr.

Craford emphasized the need to retain mortgages on the loans because of the possibility at some future point of CHFA being able to collect in the event CHFA has a lien on the property and there is some value.

Mr. Craford reported that CHFA's rating of AAA has been reconfirmed by Standard & Poor's. Mr. Lamb from Lamont Financial Services, CHFA's financial advisor, explained that the rating agencies in reaction to the federal crisis with the debt ceiling reviewed the AAA rated municipalities to determine whether they were satisfied with the existing credit ratings or whether ratings should be downgraded. Mr. Lamb stated that CHFA's credit rating of AAA was reconfirmed by Standard & Poor's because CHFA has sufficient credit capital to overcome the negative assumptions assigned to finance housing agencies.

Mr. Craford summarized the third quarter financial report. He mentioned that CHFA is comfortably ahead of projections for the third quarter of 2011 and should remain ahead of budget projections for the end of the year.

Ms. Lambert, CHFA Manager of Research and Analysis, discussed the monthly tracking report. She noted that two asset management projects will be presented to the Mortgage Committee and Board this month to help fund operating deficits at Trumbull on the Park in Hartford and 111 Pearl Street in Hartford. Additionally, the Mortgage Committee and Board will be asked to consider financing for Bayview Towers in Stamford. Ms. Lambert stated that any remaining funds at the end of the calendar year will go into the 2012 calendar year budget. Under homeownership, Ms. Lambert stated that 106 mortgage loans were purchased by CHFA in November, and it is anticipated that CHFA will purchase about 1,600 home mortgage loans by the end of the year.

Mr. Craford provided the delinquency report and noted that delinquencies are close to the rate as reported for the same period last year. In response to a question about the drop in the delinquency rate in March, Ms. Neilson stated that the drop can be somewhat attributed to the receipt of income tax returns.

There being no further business to discuss, upon a motion made by Ms. Neilson, seconded by Ms. Foley unanimously approved, the meeting was adjourned at 9:35 a.m.