STATE OF CONNECTICUT

AUDITORS’ REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2006

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON  ROBERT G. JAEKLE
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April 29, 2008

AUDITORS’ REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2006

We have examined the books, records, and accounts of the Connecticut Housing Finance Authority (CHFA), as provided in Section 2-90 and Section 1-122 of the General Statutes, for the calendar year ended December 31, 2006. Included in this examination is the State Housing Authority (SHA), a subsidiary of the CHFA, established in accordance with Section 8-244b of the General Statutes.

SCOPE OF AUDIT:

This audit was primarily limited to performing tests of the CHFA’s compliance with certain provisions of laws, regulations, contracts, and grants, including but not limited to a determination of whether the CHFA has complied with its regulations concerning the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

We also considered the CHFA’s internal control over its financial operations and its compliance with requirements that could have a material or significant effect on its financial operations in order to determine our auditing procedures for the purpose of evaluating the CHFA’s financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objects. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the CHFA’s activities during the calendar year in the five areas identified above and a review of other such areas as we considered necessary. The financial statement audit of the CHFA, for the calendar year ended December 31, 2006, was conducted by the Authority’s independent public accountants.
This report on our examination consists of the Comments, Condition of Records, and Recommendations which follow.

COMMENTS

FOREWORD:

The Connecticut Housing Finance Authority (hereafter referred to as the CHFA or the Authority) operates under the provisions of Chapter 134, Sections 8-241 through 8-265qq of the General Statutes. It was established by the 1972 Session of the General Assembly as the successor to the Connecticut Mortgage Authority, which had been established by the General Assembly in 1969. The CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the State. It was created to alleviate the shortage of housing for low-income and moderate-income families, and to encourage the development of a balanced community of all income levels in the urban areas. In accordance with Section 8-244b of the General Statutes, the CHFA established the State Housing Authority, which is considered a subsidiary of the CHFA.

Funds to finance mortgage loans are primarily obtained by issuing bonds, the interest from which has generally been exempt from Federal income tax to the bondholder. Loans made from the proceeds of bonds are secured by a first mortgage lien. Funds derived from the excess of interest income from loans over bond interest expenses are used to pay operating expenses of the CHFA.

Board of Directors and Administrative Officials:

In accordance with Section 8-244, subsection (a), of the General Statutes, the governing body of the Authority consists of 15 directors. Four directors are ex-officio members, seven members are appointed by the Governor, and four are appointed by the General Assembly. Members of the CHFA Board of Directors as of December 31, 2006, were as follows:

Ex-officio members:
Denise L. Nappier State Treasurer
Howard F. Pitkin State Banking Commissioner
Robert L. Genuario Secretary, Office of Policy and Management
James F. Abromaitis Commissioner, Dept. of Economic and Community Development

Appointed members:
Rolan Joni Young, Chairperson
Joseph H. Fisher, Vice Chairperson
Orest T. Dubno
Lena L. Ferguson
Jeffrey Freiser
J. Scott Guilmartin
Thomas W. Hynes
Kimberly A. Neilson
Auditors of Public Accounts

Steven A. Montesano
Diane Randall
Vacancy

The current vacancy has existed since November 2005. Other members who also served during the audited period were:

Leslie I. Olear
John P. Burke
Jack E. McGregor

Gary E. King served as President/Executive Director during the audited period and retired on February 29, 2008. John K. Craford, Executive Vice President, was appointed Acting Interim President and Executive Director.

In accordance with Section 8-244b, subsection (a), of the General Statutes, the governing body of the State Housing Authority consists of three members who are appointed by the Board of Directors of the CHFA. Members of the State Housing Authority Board of Directors as of December 31, 2006, were as follows:

Rolan Joni Young, Chairperson
Joseph H. Fisher
Thomas W. Hynes

New Legislation:

Public Act 06-47 of the February 2006 Regular Session increased the CHFA’s uninsured permanent mortgage cap from $750,000,000 to $1,000,000,000. This change became effective October 1, 2006.

Public Act 06-194 of the February 2006 Regular Session required the CHFA to set aside not less than $2,000,000 to be used to provide loans directly to residents to purchase mobile manufactured homes to be located in a manufactured housing community. This requirement became effective July 1, 2006.

CHFA Programs:

The CHFA provides housing-related financing through several programs at interest rates below those generally available. Programs include Downpayment Assistance, Police Homeownership, Military Homeownership, Teacher Mortgage Assistance, and the Assisted Living Demonstration Pilot Program. Financing programs are divided into two general categories, single-family housing and multi-family housing.
Single-Family Housing:

The CHFA provides financing to low- and moderate-income households to help create affordable housing opportunities. Single-family homes, condominiums and qualified mobile homes may be financed. The Authority’s homebuyer mortgage funds are distributed through participating lenders and are generally available for a maximum of 30 years.

The Authority adopts limitations for eligibility in its home mortgage programs. Limitations include sales price and family income, and vary based on geographical areas within the State.

The Authority requires the homeowner to occupy and use the residential property for a permanent, primary residence within 60 days of the closing of the mortgage loan. Various other criteria related to both borrower eligibility and property eligibility is contained in the Procedures of the Connecticut Housing Finance Authority.

The Authority also operates an Urban Area Mortgages Program for home mortgages. Under this program, the Authority may finance mortgage loans in certain State and Federally designated urban targeted areas of the State with less restrictions on the borrower’s income. Applications under this program are considered only when desired loans are not available.

Multi-Family Housing:

Multi-family mortgage loans provide permanent financing for the construction of new, or the rehabilitation of pre-existing, multi-family projects. Increasing the supply and availability of affordable housing for low- and moderate-income households is the primary role of the CHFA. By offering financing terms not generally available in the commercial market, the Authority can help developers achieve feasibility for projects which otherwise would not be possible.

Projects eligible for financing under this program may be designated for individuals, families, the elderly, or people with special needs. Projects must contain a minimum of 25 units, while smaller projects may be considered for non-profit organizations. Federal tax credits are available to developers under this plan provided that certain set-aside requirements related to tenant income are met.

There is a Multi-family Housing Underwriting Unit (Unit) that underwrites the financing of multi-family rental housing developments, providing direct construction and/or permanent mortgage loans to private developers and not-for-profit sponsors for construction and/or rehabilitation of rental housing. The staff reviews loan proposals, analyzes sites and financial statements, and performs feasibility analyses to determine a proposal’s acceptability. The Multi-family Technical Services staff ensures that plans and specifications meet Authority standards and that construction proceeds are disbursed according to approved plans and timetables, and approves budget changes and observes the integrity of developments. The Unit also verifies projected costs, reviews appraisals for accuracy and completeness, and administers the State of Connecticut Low Income Housing Tax Credits by monitoring unit compliance and tenant eligibility.
Section 8-251, subsection (a), of the General Statutes currently permits the Authority to purchase or make $1,000,000,000 of mortgage loans, for single-family or multi-family housing programs, which are uninsured or not guaranteed by a Federal agency, a Federally chartered corporation, a private mortgage insurance company, or the State or the Authority itself. As of December 31, 2006, the Authority had financed or firmly committed to finance approximately $791,113,000, or 79 percent of the allowable maximum of such mortgage loans.

RÉSUMÉ OF OPERATIONS:

During the calendar year ended December 31, 2006, the Authority maintained three funds in accordance with the provisions of Section 8-258 of the General Statutes: the Housing Mortgage Capital Reserve Fund, the Housing Mortgage General Fund, and a Housing Mortgage Insurance Fund. In addition, the Authority maintained Special Needs Housing Funds, including a Capital Reserve Fund, and a Special Needs Housing Renewal and Replacement Fund, and Housing Draw Down Funds, including Bond Escrow Fund and the Rebate Fund. During the audited period, CHFA assets also consisted of various component units created to hold foreclosed real estate. As noted above, we did not audit these funds since they were already audited by an independent public accounting firm. We rely on the opinion expressed by the independent public accountants. The following information includes general data about funds associated with CHFA. More detailed financial data concerning these funds can be found in the Authority’s Annual Reports.

Housing Mortgage Capital Reserve Fund:

In accordance with Section 8-258, subsection (a)(1), of the General Statutes, the Housing Mortgage Capital Reserve Fund shall maintain an amount of moneys sufficient to meet the principal and interest payments on outstanding bonds required in the succeeding calendar year. This Fund consists of proceeds from the sale of bonds that are required to be deposited into this account by the bond resolution. Also included in this Fund are other moneys available to the Authority which it determines to utilize for this purpose. This Fund would only be used to pay bond principal and interest if there were insufficient funds within the Housing Mortgage General Fund.

Housing Mortgage General Fund:

The Housing Mortgage General Fund was established pursuant to Section 8-258, subsection (a)(3), of the General Statutes to account for any moneys not required to be deposited into the Housing Mortgage Capital Reserve Fund or allocated to any other fund, including proceeds from the sale of bonds. This fund is used to pay all operating costs, including payments of principal and interest on the bonds issued by the Authority. No appropriations have been made by the General Assembly for the general operations of the Authority with the exception of the initial appropriation made in the 1969-1970 fiscal year. The State provides services to CHFA for the processing of payroll and related employee benefits. During the fiscal year ended June 30, 2006, the CHFA wired $12,768,345 to the State Treasurer’s Office to provide for such costs.
Housing Mortgage Insurance Fund:

In accordance with Section 8-258, subsection (a)(4), of the General Statutes, the CHFA is authorized to establish a Housing Mortgage Insurance Fund. This fund shall consist of mortgage insurance premium receipts; money or assets received from loan defaults or delinquencies (including sales, lease or rental of real property); moneys lent or paid by the State for inclusion in this fund; and any other moneys available to the Authority which it determines to include therein. Payments for expenses related to the protection of the interest of the Authority in connection with delinquent or defaulted insured mortgages shall be made from this fund. Loans and advances may be made from said funds as provided by Section 8-250 of the General Statutes.

Statement of Net Assets (thousands of dollars):

<table>
<thead>
<tr>
<th>Assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in mortgage loans</td>
<td>$2,701,355</td>
<td>$2,469,955</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>821,290</td>
<td>1,007,175</td>
</tr>
<tr>
<td>Funds held under Capital Reserve Funds Requirements</td>
<td>707,295</td>
<td>637,046</td>
</tr>
<tr>
<td>All other assets</td>
<td>159,835</td>
<td>120,031</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$4,389,775</strong></td>
<td><strong>$4,234,207</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds Payable</td>
<td>$3,422,231</td>
<td>$3,313,097</td>
</tr>
<tr>
<td>Escrow deposits</td>
<td>154,346</td>
<td>140,575</td>
</tr>
<tr>
<td>All other liabilities</td>
<td>57,005</td>
<td>52,438</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$3,633,582</strong></td>
<td><strong>$3,506,110</strong></td>
</tr>
</tbody>
</table>

**Net Assets**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ 756,193</strong></td>
<td><strong>$ 728,097</strong></td>
<td></td>
</tr>
</tbody>
</table>

Income Statement (thousands of dollars):

<table>
<thead>
<tr>
<th>Revenues</th>
<th>For the Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Interest on mortgage loans</td>
<td>$150,754</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>73,204</td>
</tr>
<tr>
<td>All other revenues</td>
<td>19,685</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$243,643</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$158,354</td>
</tr>
<tr>
<td>Administrative</td>
<td>27,686</td>
</tr>
<tr>
<td>Statutory Transfer</td>
<td>-0-</td>
</tr>
<tr>
<td>All other expenses</td>
<td>29,507</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$215,547</strong></td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ 28,096</strong></td>
<td><strong>$ 12,124</strong></td>
<td></td>
</tr>
</tbody>
</table>
Connecticut Housing Finance Authority Bonds:

In accordance with the provisions of Section 8-250, subsection (12), and Section 8-252 of the General Statutes, the Authority is authorized to issue bonds as necessary to provide sufficient funds for carrying out the purposes of the Authority. Bonds issued by the Authority have generally been tax-exempt. The tax-exempt bonds are not backed by the full faith and credit of the State of Connecticut. However, the State, on or before December 1st of each year, must appropriate from the State General Fund whatever amount is certified by the Chairman of the Authority as necessary to restore the Capital Reserve Fund to the required minimum capital reserve. The State General Fund has not been asked to fund the Capital Reserve Fund during the audited period. As of December 31, 2006, the amount on deposit in the Bond Resolution Capital Reserve Fund was $700,224,000, which was in excess of the Bond Resolution Capital Reserve Fund minimum requirement of $243,954,000. The amount on deposit in the Indenture Capital Reserve Fund was $4,095,000, which was in excess of the Indenture Capital Reserve Fund minimum requirement of $3,854,000. For both of these capital reserve funds, the minimum is the amount of debt service due in the following year and the maximum is the greatest amount of debt service due in any succeeding year. The Authority generally issues three different types of bonds; Housing Mortgage Finance Program Bonds, Special Needs Housing Mortgage Finance Program Bonds and Housing Draw Down Bonds. The table below illustrates the changes in bonds payable for the year ended December 31, 2006.

Change in Bonds Payable (thousands of dollars):

<table>
<thead>
<tr>
<th>Types of Program Bonds:</th>
<th>Outstanding at 12/31/05</th>
<th>Issued</th>
<th>Retired</th>
<th>Outstanding at 12/31/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Mortgage Finance</td>
<td>$2,939,090</td>
<td>$676,350</td>
<td>$249,589</td>
<td>$3,365,851</td>
</tr>
<tr>
<td>Special Needs Mortgage Finance</td>
<td>55,060</td>
<td>-0-</td>
<td>1,095</td>
<td>53,965</td>
</tr>
<tr>
<td>Housing Draw Down</td>
<td>318,947</td>
<td>-0-</td>
<td>316,532</td>
<td>2,415</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$3,313,097</strong></td>
<td><strong>$676,350</strong></td>
<td><strong>$567,216</strong></td>
<td><strong>$3,422,231</strong></td>
</tr>
</tbody>
</table>

Investments:

In accordance with Section 8-258, subsection (c), and Section 8-250, subsection (18), of the General Statutes, the CHFA shall invest any funds not needed for immediate use or disbursement including any funds held in reserve. The nature of such investments is limited to obligations issued or guaranteed by the United States of America or the State of Connecticut and to other obligations which are legal investments for savings banks in this state and to time deposits or certificates of deposit or similar type investments as determined by the Authority.

Staffing Levels:

The number of employees as of December 31, 2005 and December 31, 2006, was 107 and 122, respectively, an increase of 14 percent.
Personal services costs, including fringe benefits, increased by $2,083,855, or 17 percent due to the increase in the number of full-time employees.

**Other Examinations:**

The CHFA has been subject to annual audits by independent public accountants covering its financial operations, its loan processing functions, and the Section 8 Federally assisted housing payments program under the United States Housing Act of 1937. The independent public accountant’s report to CHFA for the year ended December 31, 2006, expressed an unqualified opinion on CHFA’s financial statements and reported no material weaknesses in internal control. This was reported to the Board of Directors in a letter dated April 16, 2007.
CONDITION OF RECORDS

There were no recommendations developed as a result of this audit examination.
RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit examination resulted in two recommendations. The following is a summary of those recommendations and the action taken by the Connecticut Housing Finance Authority.

- The Authority should follow procedures to ensure compliance with legislative requirements to obtain affidavits disclosing gifts and campaign contributions, consulting agreements, and third party fees for certain contracts. Our current review noted that the Authority has implemented procedures requiring signed affidavits to be returned to the Authority prior to the execution of any contract, therefore we are not repeating this recommendation.

- The Authority should reduce the time period between selecting a firm providing legal or other services (service provider) and formalizing the contract for those services. Our review did not indicate any significant delays between the selection of a service provider and the formalizing of the contract, therefore this recommendation is not being repeated.

Current Audit Recommendations:

There were no recommendations as a result of this examination.
INDEPENDENT AUDITORS’ CERTIFICATION

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Connecticut Housing Finance Authority’s activities for the calendar year ended December 31, 2006. This audit was primarily limited to performing tests of the Authority’s compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority’s internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the Connecticut Housing Finance Authority, for the calendar year indicated above, was conducted by the Authority’s independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Connecticut Housing Finance Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Housing Finance Authority is the responsibility of the Authority’s management.

As part of obtaining reasonable assurance about whether the Connecticut Housing Finance Authority complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority’s financial operations for the calendar year ended December 31, 2006, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

Our examination included reviewing all or a representative sample of the Authority’s activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed no instances of noncompliance.
Internal Control:

The management of the Connecticut Housing Finance Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority’s internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority’s financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants, and other financial resources

Our consideration of the internal control over the Authority’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants that would be material in relation to the Authority’s financial operations or noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the Connecticut Housing Finance Authority’s compliance with the provisions of the laws, regulations, contracts, and grants included within the scope of this audit.
CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Housing Finance Authority during the course of our examination.

David Tarallo
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jackle
Auditor of Public Accounts