

# STATE OF CONNECTICUT



**AUDITORS' REPORT  
CONNECTICUT HOUSING FINANCE AUTHORITY  
FOR THE CALENDAR YEARS ENDED  
DECEMBER 31, 2012 AND 2013**

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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Hartford, Connecticut 06106-1559

ROBERT M. WARD

April 29, 2015

### **AUDITORS' REPORT CONNECTICUT HOUSING FINANCE AUTHORITY FOR THE CALENDAR YEARS ENDED DECEMBER 31, 2012 AND 2013**

We have audited certain operations of the Connecticut Housing Finance Authority (CHFA) in fulfillment of our duties under Sections 1-122, 8-260, and 2-90 of the Connecticut General Statutes. Included in this examination is the State Housing Authority (SHA), a subsidiary of CHFA, established in accordance with Section 8-244b of the General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended December 31, 2012 and 2013. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to 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 assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and

performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

- (1) no deficiencies in internal controls;
- (2) no apparent noncompliance with legal provisions; and
- (3) no need for improvement in management practices and procedures that we deemed to be reportable.

## **COMMENTS**

### **FOREWORD**

The authority operates under the provisions of Chapter 134, Sections 8-241 through 8-265ss of the General Statutes. The authority was established during 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. CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the state and was created to alleviate the shortage of housing for low-income and moderate-income families, as well as 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, CHFA established the State Housing Authority, which is a subsidiary of 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 the authority's operating expenses.

## **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 16 directors. Five 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, 2013, were as follows:

### **Ex-officio members:**

Evonne Klein	Chairperson Commissioner, Department of Housing
Catherine Smith	Commissioner, Dept. of Economic and Community Development
Denise L. Nappier	State Treasurer
Howard F. Pitkin	Banking Commissioner
Benjamin Barnes	Secretary, Office of Policy and Management

### **Appointed members:**

Orest T. Dubno, Vice Chairperson  
Kathleen A. Corbet  
Heidi DeWyngaert  
Kathleen A. Dorgan  
Nuala E. Droney  
Jeffrey Freiser  
J. Scott Guilmartin  
Meghan Lowney  
Richard R. Orr  
Jared Schmitt  
1 Vacancy

The vacancy occurred when one member stepped down in February 2011 and was filled subsequent to the audit period on April 9<sup>th</sup>, 2014.

Susan Whetstone served as interim president/executive director until the permanent appointment of Eric Chatman to the post effective May 21, 2012. Mr. Chatman served through the remainder of the audited period.

In accordance with Section 8-244b subsection (a) of the General Statutes, the governing body of the SHA consists of three members appointed by the board of directors of CHFA. Members of the SHA board of directors as of December 31, 2013, were as follows:

Evonne Klein	Chairperson
Kathleen Corbet	
Anne Foley	

## **NEW LEGISLATION**

Public Act 13-65, effective July 1, 2013, increased the maximum allowed uninsured mortgages held by the authority from \$1,500,000,000 to \$2,250,000,000.

Public Act 13-234, effective June 19, 2013, states that the chairperson of the CHFA board shall be appointed by the Governor. Previously, the chairperson of the CHFA board was the Commissioner of Economic and Community Development.

## **CHFA PROGRAMS**

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**

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 are 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 with fewer restrictions on the borrower's income. Applications under this program are considered only when conventional loans are not available.

### **Multi-Family Housing**

Multi-family mortgage loans provide permanent financing for the construction of new, or 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 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 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 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 construction proceeds are disbursed according to approved plans and timetables, 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.

Until December 31, 2012, Section 8-251 subsection (a) of the General Statutes permitted the authority to purchase or make \$1,500,000,000 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, the state, or the authority itself. The authority had financed or firmly committed to finance approximately \$1,099,946,000, or 73 percent of the allowable maximum of such mortgage loans as of December 31, 2012. Effective July 1, 2013, Public Act 13-65 amended section 8-251 subsection (a) of the General Statutes to permit \$2,250,000,000 of such uninsured loans. The authority had financed or firmly committed to finance approximately \$1,274,646,000, or 57 percent of the allowable maximum, of such mortgage loans as of December 31, 2013.

## **RÉSUMÉ OF OPERATIONS**

During the calendar years ended December 31, 2012 and 2013, 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, 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 previously noted, 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 money 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 monies available to the authority that it can 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 monies 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 calendar years ended December 31, 2012 and 2013, CHFA wired \$18,026,266 and \$19,847,921, respectively, to the Office of the State Treasurer to provide for all such payroll and payroll processing costs.

**Housing Mortgage Insurance Fund**

In accordance with Section 8-258 subsection (a)(4) of the General Statutes, 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), monies lent or paid by the state for inclusion in this fund, and any other monies available to the authority that it can include therein. Payments for expenses related to the protection of the authority's interest 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 Position (millions of dollars)**

<b>Assets</b>	<b>As of December 31,</b>		
	<b>2013</b>	<b>2012*</b>	<b>2011*</b>
Current Assets	\$ 700.7	\$ 1,263.0	\$ 994.8
Capital Assets	3.1	3.3	3.5
Noncurrent Assets	3,956.2	4,107.3	4,367.9
<b>Total Assets</b>	<b>4,660.0</b>	<b>5,373.6</b>	<b>5,366.2</b>
<b>Deferred Outflows of Resources</b>	<b>125.7</b>	<b>215.6</b>	<b>233.6</b>



**Liabilities**

Long-Term Debt	3,197.0	3,926.0	3,950.2
Other Liabilities	674.4	732.6	717.0
<b>Total Liabilities</b>	<u>3,871.4</u>	<u>4,658.6</u>	<u>4,667.2</u>

**Net Position**

Net Investment in Capital Assets	3.1	3.3	3.5
Restricted	942.9	957.4	968.2
Unrestricted Deficit	(31.7)	(30.1)	(39.1)
<b>Total Net Position</b>	<u>\$ 914.3</u>	<u>\$ 930.6</u>	<u>\$ 932.6</u>

\*Restated for GASB No. 65 implementation

**Statement of Revenues, Expenses and Changes in Net Position (millions of dollars)**

**As of December 31,**

	<b>2013</b>	<b>2012*</b>	<b>2011*</b>
<b>Operating Revenues</b>			
Interest on Mortgage Loans	\$ 173.5	\$ 187.0	\$ 199.5
Interest on Investments	25.1	33.5	38.4
Fees and Other Income	5.6	5.4	11.1
<b>Total Operating Revenues</b>	<u>204.2</u>	<u>225.9</u>	<u>249.0</u>
<b>Operating Expenses</b>			
Interest	140.1	157.4	160.7
Administrative	33.5	33.9	35.1
All Other Expenses	15.0	21.1	28.4
<b>Total Operating Expenses</b>	<u>188.6</u>	<u>212.4</u>	<u>224.2</u>
<b>Operating Income</b>	<u>15.6</u>	<u>13.5</u>	<u>24.8</u>
Non-operating Revenues (Expenses):			
Net Increase (Decrease) in the Fair Value of Investments	(33.5)	(17.8)	27.2
Other	1.6	2.3	3.2
<b>Total Non-Operating Income (Loss)</b>	<u>(31.9)</u>	<u>(15.5)</u>	<u>30.4</u>
<b>Change in Net Position</b>	<u>\$ (16.30)</u>	<u>\$ (2.00)</u>	<u>\$ 55.20</u>

\*Restated for GASB No. 65 implementation

## **Governmental Accounting Standards Board Statement No. 65 Implementation**

In 2013, the authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Prior to implementation, bond issuance costs were classified as an asset, then deferred and amortized over the term of the related bond issuance. These costs are now expensed when incurred and are classified as an operating expense in the Statements of Revenues, Expenses and Changes in Net Position. In accordance with the requirements of this new standard, the authority's net position was restated retroactively, resulting in changes in total net position of (\$25,055,000) as of December 31, 2011 and (\$27,711,000) as of December 31, 2012.

## **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 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 General Fund has not been used to fund the Capital Reserve Fund during the audited period. The table below illustrates required and actual reserves for the audited years.

## **Capital Reserve Fund Requirements and Deposits**

	Capital Reserve Funds	
	Bond Resolution	Special Needs Indenture
December 31, 2012		
Minimum Required Reserve	\$ 282,012,000	\$ 4,582,000
Reserve Required to Issue New Debt	282,012,000	4,591,000
<b>Actual Reserves</b>	<b>685,438,000</b>	<b>5,697,000</b>
December 31, 2013		
Minimum Required Reserve	214,017,000	4,591,000
Reserve Required to Issue New Debt	231,214,000	4,591,000
<b>Actual Reserves</b>	<b>\$ 543,018,000</b>	<b>\$ 5,552,000</b>

Minimum required reserve is the amount of debt service due in the following year. Reserve required to issue new debt is the greatest amount of debt service due in any succeeding year. The authority generally issues two types of bonds; the Housing Mortgage Finance Program Bonds and the Special Needs Housing Mortgage Finance Program Bonds. The table below illustrates the changes in bonds payable for the years ended December 31, 2012 and December 31, 2013.

**Change in Bonds Payable (thousands of dollars)**

<b><u>Types of Program Bonds:</u></b>	<b>Balance at 12/31/11</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/12</b>
Housing Mortgage Finance *	\$3,699,742	\$834,575	(\$790,365)	\$3,743,952
Special Needs Mortgage Finance	65,280	-	(1,700)	63,580
Single Family Special Obligation	362,905	-	(10,985)	351,920
Multifamily Special Obligation	27,610	-	(460)	27,150
	<b><u>\$4,155,537</u></b>	<b><u>\$834,575</u></b>	<b><u>(\$803,510)</u></b>	<b><u>\$4,186,602</u></b>

	<b>Balance at 12/31/12</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/13</b>
Housing Mortgage Finance *	\$3,743,952	\$614,606	(\$1,281,881)	\$3,076,677
Special Needs Mortgage Finance	63,580	-	(1,760)	61,820
Single Family Special Obligation	351,920	-	(18,795)	333,125
Multifamily Special Obligation	27,150	-	(420)	26,730
	<b><u>\$4,186,602</u></b>	<b><u>\$614,606</u></b>	<b><u>(\$1,302,856)</u></b>	<b><u>\$3,498,352</u></b>

\* Includes Housing Mortgage Finance Program Other Bonds.  
Additions include new issues and accreted interest.  
Reductions include retirements and refunded bonds.

**Investments**

In accordance with Section 8-258 subsection (c) and Section 8-250 subsection (18) of the General Statutes, 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 other obligations that are legal investments for savings banks in this state and time deposits or certificates of deposit or similar type investments as determined by the authority. The authority's investments were valued at \$1,778,101,000 on December 31, 2012 and \$1,128,160,000 on December 31, 2013, including \$689,114,000 and \$546,923,000 in capital reserve funds for the respective audited years. Interest earnings on investments totaled \$33,500,000 for the year ended December 31, 2012 and \$25,100,000 for the year ended December 31, 2013.

### **Staffing Levels**

CHFA employed 129 and 134, individuals as of December 31, 2011 and 2012, respectively; an increase of 3.8 percent. The number of employees as of December 31, 2013 was 135, an increase of less than one percent.

Personal services costs, including fringe benefits, increased by about \$560,000, or three percent, for 2012 and increased by about \$1,822,000, or ten percent, for 2013. Increases in 2013 were mainly attributable to salary increases and payouts for accrued time for retirees.

### **Other Examinations**

CHFA has been subject to annual audits by independent public accountants covering its financial operations, 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 dated April 26, 2013 for the year ended December 31, 2012, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control. The independent public accountant's report to CHFA dated April 24, 2014 for the year ended December 31, 2013, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control.

**STATE AUDITORS' FINDINGS AND RECOMMENDATIONS**

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

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- **CHFA should ensure that established contracting procedures are followed and that contracts are fully executed prior to the delivery of goods or commencement of services.** The current review noted improved controls and no further instances of delivery of goods or commencement of services prior to contract execution. As a result, the recommendation will not be repeated.

### *Current Audit Recommendations:*

There were no recommendations as a result of this examination.

**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.



Douglas Stratoudakis  
Associate Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts