



BOARD OF DIRECTORS

*California Housing Finance Agency
Board of Directors*

Audit Committee

Holiday Inn Capitol Plaza
300 "J" Street
Sacramento, California
(916) 446-0100

January 20, 2011

10:00 a.m.

1. Roll Call.
2. Chairman comments.
3. Update regarding Bureau of State Audits (BSA) review
4. Review current Audit Committee charter regarding potential revisions..... 1
5. Public testimony.
6. Adjournment.
7. Handout of the Minutes of the November 17, 2010 Audit Committee meeting 5

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RESOLUTION 06-15

RESOLUTION APPROVING AUDIT COMMITTEE CHARTER

WHEREAS, the California Housing Finance Agency (the "Agency") is required by law to have audited financial statements of both the California Housing Finance Fund, and the California Housing Loan Insurance Fund, and

WHEREAS, on January 12, 2006, the Board of Directors adopted Resolution 06-08, authorizing the creation of an audit committee of the Board; and

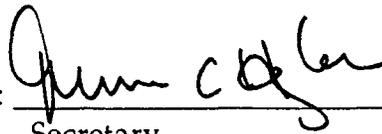
WHEREAS, the Chairman of the Board named Director Jack Shine as the Chairman of the audit committee, and Directors Carol Galante and Peter Carey as the additional members of the committee, as authorized by the terms of resolution 06-08; and

WHEREAS, the members of the committee and the staff of the Agency have developed a proposed charter for the committee;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached "Audit Committee Charter-May 2006" is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-15 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 6, 2006, at Sacramento, California.

ATTEST: 
Secretary

**CALIFORNIA HOUSING FINANCE AGENCY
AUDIT COMMITTEE CHARTER
May, 2006**

MISSION

The Audit Committee of the Board of Directors of the Agency will assist the Board of Directors in fulfilling its oversight responsibilities in the area of financial reporting and accounting integrity. In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, with Agency executive management and staff, and with the Agency's independent auditors. The Audit Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. The committee will have direct access to independent auditors, as well as anyone in the organization.

COMPOSITION

The Audit Committee will be comprised of no less than three voting members of the Board, to be selected by the Chairman of the Board to serve on a rotational basis with staggered terms.

AUTHORITY

The Audit Committee has certain limited powers delegated to it by Board Resolution 06-08, and will act in an advisory capacity to the Board concerning audits and related financial matters. Management, staff and the independent auditor will serve as a resource to Committee in their understanding of the Agency's financial reporting responsibilities and any significant issues related to financial reporting and accounting policies. All employees of the Agency are directed to cooperate as requested by members of the Committee.

MEETING

The Audit Committee will meet at least twice per year. The committee will also report to the full Board, at a regular meeting of the Board of Directors at least once a year, on the audit process and results of such audits. All meetings of the committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Agency staff will serve as staff to the committee.

MINUTES

Minutes of each meeting will be prepared and sent to all members of the Board. The committee minutes need not be verbatim. Minutes of meetings are public records unless exempted under the California Public Records Act or other applicable law.

DUTIES

The Audit Committee will conduct its oversight activities by:

1. Periodically reviewing with the assistance of Agency management, staff and independent auditors the Agency's policies and procedures. Part of this review shall include the direct inquiry of management and independent auditors about the significant risks or exposures and the steps management has taken to minimize such risk to the Agency.
2. Review with the staff and independent auditor the scope and general extent of the independent auditor's examination. The Audit Committee's review shall include an understanding from the independent auditor of the factors considered in determining the audit scope, including:
 - a. Industry and business risk characteristics of the Agency
 - b. External reporting requirements
 - c. Materiality of the various segments of the Agency's activities
 - d. Quality of the Agency's internal control structure
 - e. Other areas to be covered during the audit engagement
3. Review with the Agency's management, staff and independent auditors, upon the completion of their audit, financial results for the year. This Committee shall:
 - a. Review the Agency's annual financial statements and the opinion of the independent auditors;
 - b. Discuss with management, staff and independent auditors any current accounting and reporting issues, including recent professional and regulatory pronouncements – Agency management and staff shall have the duty to inform Committee members of significant relevant issues and developments in accounting and financial reporting;
 - c. Discuss with Agency management, staff and the independent auditor any significant changes from preceding years;
 - d. Review the adequacy of disclosure of significant items;
 - e. Discuss with Agency management, staff and the independent auditor the effect on financial statements of any proposed or implemented changes in accounting policies initiated by the Agency, independent auditors or pronouncements of standard boards or governmental authorities
 - f. Presentation of financial statements
 - g. Report to the Board any illegal, improper or sensitive transactions that have come to the attention of the Committee through information received by management, staff or the independent auditor or by any other means;
 - h. Review significant adjustments proposed by the independent auditors.
4. Review all management letter items from the independent auditor and the written responses from management about each comment or finding. Discuss with the

independent auditors the level of professional competence of the Agency's financial and accounting personnel, and any relevant recommendations, which the auditors may have.

5. Recommend to the Board of Directors any appropriate changes in the duties of the Committee. Review and update the Committee's charter annually.
6. Review the Agency's selection process in obtaining a multi-year auditing services contract with an independent auditor.
7. Review legal and regulatory matters that may have a material impact on the financial statements and related compliance policies and programs.
8. Review with management the Agency's Conflict of Interest/Code of Ethics policy and the Agency's system of enforcing the policy.

STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

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AUDIT COMMITTEE
PUBLIC MEETING

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Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
Burbank, California

Wednesday, November 17, 2010
9:10 a.m. to 9:22 a.m.

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Reported By: YVONNE K. FENNER, CSR #10909, RPR

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A P P E A R A N C E S**Committee Members Present:**

MICHAEL A. GUNNING
Acting Committee Chair
Vice President
Personal Insurance Federation of California

PETER N. CAREY
President/CEO
Self-Help Enterprises

ELLIOTT MANDELL
For LYNN L. JACOBS, Director
Department of Housing and Community Development
State of California

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CalHFA Staff Present:

LORALYN HAMAHASHI
Deputy Comptroller

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

L. STEVEN SPEARS
Chief Deputy Director

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Public Testimony:

TIM STENVICK
Partner
Deloitte and Touche LLP

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1 BE IT REMEMBERED that on Wednesday,
2 November 17, 2010, commencing at the hour of 9:10 a.m.,
3 at the Burbank Airport Marriott Hotel and Convention
4 Center, Producers A and B, 2500 Hollywood Way, Burbank,
5 California, before me, YVONNE K. FENNER, CSR #10909,
6 RPR, the following proceedings were held:

7 --o0o--

8 ACTING CHAIRPERSON GUNNING: Call to order the
9 meeting of the Audit Committee. Ready?

10 --o0o--

11 **Item 1. Roll Call**

12 ACTING CHAIRMAN GUNNING: JoJo, roll call.

13 MS. OJIMA: Thank you.

14 Mr. Carey.

15 MR. CAREY: Here.

16 MS. OJIMA: Mr. Mandell for Ms. Jacobs.

17 MR. MANDELL: Here.

18 MS. OJIMA: Mr. Smith.

19 (No audible response.)

20 MS. OJIMA: Mr. Gunning.

21 ACTING CHAIRMAN GUNNING: Here.

22 MS. OJIMA: Thank you.

23 ACTING CHAIRMAN GUNNING: Excellent. Thanks.

24 --o0o--

25 **Item 2. Chairman comments**

1 July, and this followed all the way through, you know,
2 late October. They really had to go over all the
3 calculations that the Agency performed on the
4 effectiveness of the swaps against the bonds, and the
5 results were shown on the financial statements.

6 That was one of the biggest things this year, is
7 that we had to show the \$292 million worth of swaps on
8 the balance sheet and adjust the beginning equity by
9 about 19 million for the carryforward portion of that.
10 I'll turn it over to Tim right now.

11 And I just wanted to mention that we will be
12 going over the financial results during the regular part
13 of the Board meeting, but I do have slides available if
14 there's any questions.

15 ACTING CHAIRMAN GUNNING: Great, thanks,
16 Tim --Lori.

17 Tim.

18 MR. STENVICK: Sure. Good morning and thanks
19 for inviting me to be here with you, Committee Members.

20 As Lori said, we've completed the audit for
21 2010, fiscal 2010. In addition to the -- sort of the
22 primary financial statements of the -- of the Fund, we
23 also do a number of ancillary projects or audits having
24 to do with compliance with federal rules for grants and
25 contracts, also, some work around the Prop 1C funds.

1 There's some -- you know, just some required procedures
2 around that. Also, in terms of some of your
3 HUD-assisted projects, there are some reports we do.
4 So -- so there's really kind of a suite of things that
5 go into the audit.

6 You know, this was -- this was -- I think from
7 both CHFA and our perspective, it was a challenging
8 audit, and I think there were, you know, a couple
9 reasons for that, one simply being the environment that
10 we're in, you know, with the housing -- the housing
11 environment in California, which has some direct effects
12 on your financial statements.

13 Also, as Lori mentioned, there was sort of a big
14 change in the rules around derivative investments, and,
15 you know, CHFA has lots of those in the form of swaps on
16 some of your bond offerings. And, in fact, you know, I
17 think that both CHFA, in terms of preparing the
18 financials, and Deloitte, in terms of, you know,
19 auditing and helping get the disclosures right and the
20 accounting right, we were really sort of leading the
21 charge on a national basis, as you certainly are one of
22 the earlier reporters and also one of the largest
23 entities, you know, having those types of -- of
24 vehicles.

25 So, you know, that's sort of the -- the --

1 that's the blow-by-blow.

2 The -- the punch line is that your financial
3 staff performed very admirably and dealt with those
4 challenges. And I think we -- we collectively got the
5 reports out when we needed to, probably not any sooner
6 than we needed to, but when we needed to, to the
7 respective state agencies that needed them, as well as,
8 you know, the requirements of your bond indentures.

9 We got great, great cooperation from -- from
10 your team, and you should know that on these kinds of
11 accounting matters, CHFA really has played a leading
12 role across the country in -- in helping to not only
13 interpret the rules but really make sure that they've
14 ended up in the right place to begin with from a, you
15 know, practicality standpoint.

16 So we did not have any audit adjustments, which
17 is admirable. I think given the -- the size and
18 complexity of your financials -- really in an audit, I
19 think there's probably no better sort of gauge of a
20 report card, if you -- if you will, than whether the
21 auditors had to suggest some things to fix the financial
22 statements, which -- which we did not in your case.
23 And -- and we got --

24 MR. GUNNING: Yeah, can you just -- what were
25 some of the challenges? I mean, is it just listing all

1 of the types of swaps or what? Could you just expand?

2 MR. STENVICK: Well, you know, I don't have the
3 number on the top of my head, but there's hundreds of
4 these things, and --

5 ACTING CHAIRMAN GUNNING: So they --

6 MR. STENVICK: -- they all had to be valued.

7 ACTING CHAIRMAN GUNNING: That's the challenge.

8 MR. STENVICK: And that is a challenge.

9 ACTING CHAIRMAN GUNNING: At that time.

10 MR. STENVICK: These things have -- have --
11 these -- these investments have -- there have always
12 been some disclosures around them in the -- in the
13 footnotes, but this year, you know, the new rules
14 required that they actually be fair valued and put on
15 the -- the -- put on the balance sheet, the fair value
16 put on your financial statements.

17 And -- and it's not really only just the volume,
18 but there are different types of investments. There
19 are -- you know, it's kind of like the -- the --
20 everyone -- or not everyone, but certainly lots of them
21 have a different story and nuances and -- and things.
22 So it was a huge effort on the part of not only our
23 accounting group but your, you know, financing group.

24 MR. SPEARS: Mr. Chairman, I'd say too that the
25 way that this document, this rule, GASB 53, is written,

1 isn't exactly a model of clarity, and we struggled. We
2 had a lot of -- a lot of deep discussions with Deloitte,
3 us, you know, about how to interpret it exactly, and I
4 think we came up with the right answer.

5 But, again, these folks didn't have, you know,
6 experience from around the country. We're leading the
7 way in interpreting this, presenting it on the financial
8 statement, getting it right, and I think they did a very
9 good job.

10 I would say this: The -- some of Bruce's staff
11 helped with this and I just -- you know, Lori's staff
12 worked very hard. Tony Sertich, that works for Bruce,
13 and Tim Hsu, worked very hard on getting the numbers
14 right, running numbers, getting valuations. It was a --
15 it was a tough exercise. It really was.

16 MR. STENVICK: It was. And in my experience,
17 there are a lot of public agencies that would really
18 struggle under similar circumstances, just from a
19 financial, you know, expertise and depth to be able to
20 do that. So you're -- you're as -- you know, as we've
21 always reported to you, you know, we continue to be
22 impressed with the knowledge and quality of your
23 financial function.

24 And -- and it's a rigorous audit. I mean we
25 certainly spend -- as Lori would agree, I'm sure, you

1 know, it's -- it's a -- it's a pretty -- it's a pretty
2 big process, and we spend, you know, well over a
3 thousand hours sort of turning over rocks and sort of
4 really looking at everything, so.

5 So really that's -- that's kind of my report. I
6 guess that is my report, so.

7 MR. CAREY: Mr. Chair, can I ask a question?

8 ACTING CHAIRMAN GUNNING: Yes.

9 MR. CAREY: What's the net impact of the GASB
10 rule, the new GASB rule, on the financials?

11 MR. STENVICK: So the -- the net impact was that
12 as of the beginning of the year there was a \$20-million
13 or 19-million, something around --

14 MS. HAMAHASHI: It's -- it's in Footnote 14.
15 And also there's -- in Footnote 7, also.

16 MR. CAREY: Great.

17 MR. STENVICK: But -- but kind of the ballpark
18 answer is there was around a \$20-million hit to your P
19 and L, and about a \$250-million, \$300-million, somewhere
20 in that range, liability or -- or obligation put on the
21 balance sheet for that invest -- for the -- for the fair
22 value of the swaps. I think I got those numbers about
23 right.

24 So not -- not humongous numbers, but a lot of --
25 a lot of work to get to them.

1 MR. CAREY: One more?

2 Was there a management letter?

3 MR. STENVICK: There -- there was a management
4 letter. I don't think it's in the packet, though, but
5 we've provided it to -- there was a management letter.
6 I didn't see it in the packet this morning, but I'm sure
7 staff would be happy to get it to you. There were no
8 significant matters. That's kind of the key.

9 MR. CAREY: That's sort of the question.

10 MR. STENVICK: In fact, it was pretty
11 boilerplate, so, yeah, don't -- sorry about that.

12 (Interruption by the court reporter for
13 clarification of the record.)

14 ACTING CHAIRMAN GUNNING: My bad. I asked if it
15 was something we should have for the committee, and the
16 answer was yes.

17 MS. HAMAHASHI: We can get that --

18 ACTING CHAIRMAN GUNNING: Okay.

19 MS. HAMAHASHI: -- sent over to the Committee.

20 --o0o--

21 **Item 4. Public testimony**

22 ACTING CHAIRMAN GUNNING: Steve, if nothing
23 else, open up for public testimony.

24 Anyone from the public?

25 Diane?

1 Any further questions?

2 Any further comments?

3 --o0o--

4 **Item 5. Adjournment**

5 ACTING CHAIRMAN GUNNING: With that, we adjourn
6 the meeting.

7 (The meeting concluded at 9:22 a.m.)

8 --o0o--

1 REPORTER'S CERTIFICATE

2
3 I hereby certify the foregoing proceedings were
4 reported by me at the time and place therein named; that
5 the proceedings were reported by me, a duly certified
6 shorthand reporter and a disinterested person, and was
7 thereafter transcribed into typewriting by computer.

8 In witness whereof, I have hereunto set my hand
9 this 6th day of December, 2010.
10

11
12 _____
13 Yvonne K. Fenner

14 Certified Shorthand Reporter

15 License No. 10909, RPR