

California Housing Finance Fund

Results of June 30, 2014

Financial Statement Audit
November 5, 2014

Audit Team

- Nancy Jones Principal
- Mandy Heagy Sr. Manager
- Scott McFadden Engagement Director
- Liz Swain Staff
- Lindsey Laraia Staff

Agenda

- Audit Approach
- Audit Results
- Single Audit
- Required Communications
- Future Pronouncements/Issues

Audit Approach

- CliftonLarsonAllen Professionals with Reliance on Specialists
- Integrated Teams
 - Auditors
 - IT Specialist
- Approach – Risk-Based, Assessment of internal controls and substantive testing
- Communication – Frequent, including formal status meetings, and informal communications

Audit Results

- **Auditors' Opinion on Financial Statements – Unmodified**
- **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**
 - Material Weakness for the correction of an overstatement of the allowance for loan losses in a prior year

Audit Results (cont.)

- **There were two audit adjustments in the current year:**
 - **Prior period correction of overstatement of allowance for loan losses \$39,494,450**
 - **Insignificant reclassification of HUD/FMC Revenues/Expenses**
- **There was no passed adjustments**

Management Letter

- **Management Letter Comments Related to the Following:**
 - IT
 - ◇ Change Management – 8 user accounts with access to the Multifamily Loan Accounting System development and production SQL servers
 - Replacement Reserve
 - ◇ One of six properties did not deposit the correct monthly amount into the replacement reserve account

Single Audit

- **Single Audit Reports Issued**

- Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 – Unmodified – One Finding

Major Program

Section 8 Project Based Cluster

Single Audit (cont.)

- **Findings and Questioned Costs**

- One Compliance Finding Related to:

- ◇ Other Noncompliance and Significant Deficiency – 6 of 18 project files did not have the Management and Occupancy Review results sent within 30 days of the completed onsite visit

Required Communications

- **Auditor's Responsibility Under Generally Accepted Auditing Standards (GAAS):**
 - The financial statements are the responsibility of management. Our audit was performed for the purpose of forming an opinion as to whether the financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Required Communications (cont.)

- **Qualitative Aspects of Accounting Practices:**
 - Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies are disclosed in the Summary of Significant Accounting Policies in Note 1 of the financial statements.
 - One new accounting pronouncements adopted in the current year had an impact on the financial statements: GASB's 65 (Items Previously Reported as Assets and Liabilities).
 - Other new accounting pronouncements GASB 69 (Government Combinations and Disposals of Government Operations) and GASB 70 (Accounting and Financial Reporting for Nonexchange Financial Guarantees) did not have an impact on the financial statements.

Required Communications (cont.)

- The preparation of the financial statements requires that certain estimates and judgments be made by management. These judgments and estimates include:
 - ◇ Allowance for loan losses
 - ◇ Fair market value of investments and other assets
 - ◇ Evaluation of Derivative Instrument effectiveness
 - ◇ Fair Value of Derivative Instruments
- We concluded that management has a reasonable basis for significant judgments and estimates that impact the financial statements.

Required Communications (cont.)

- **Difficulties Encountered in Performing the Audit:**
 - We encountered no significant difficulties in performing the audit.
- **Corrected Misstatements:**
 - There were two corrected misstatements (discussed previously)
- **Uncorrected Misstatements:**
 - There were no uncorrected misstatements (discussed previously).
- **Representations from Management:**
 - The representation letter was signed by management and is attached to the Communication.

Required Communications (cont.)

- **Management Consultations with Other Accountants:**
 - There were no consultations with other accountants
- **Disagreements with Management:**
 - There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters.
- **Significant Findings or Issues:**
 - There were no other findings or issues not already discussed (single audit finding)
- **Other Information in Documents Containing Financial Statements:**
 - Required Supplementary Information
 - Single Audit
 - Combining Schedules

Future pronouncements/Issues

- GASB 68 – Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27
- GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68

Review of Effects of Restatement 2012

Home Mortgage Revenue Bonds (HMRB)	2012 (as previously reported)	Restatement	Restated 2012
Allowance for Loan Loss – HMRB	\$(116,984)	\$23,077	\$(93,907)
Net Position – HMRB	\$184,041	\$23,077	\$207,118

Review of Effects of Restatement 2013

Home Mortgage Revenue Bonds (HMRB)	2012 (as previously reported)	Restatement 2012	Restatement 2013	Restated 2013
Allowance for Loan Loss – HMRB	\$(116,984)	23,077	16,417	\$(69,636)
Net Position – HMRB	\$184,041	23,077	16,417	\$195,168

Comparison of Note 7

	2013 (as previously reported)	Restatement	2013 as Restated
Beginning of year balance	\$199,776	\$(23,077)	\$176,697
Provision for program loan losses	68,612	(16,417)	52,196
Chargeoffs	(55,365)		(55,365)
End of year balance	\$213,023	\$(39,494)	\$173,528

Open Discussions / Questions