

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE ANNUAL MEETING OF THE COMMISSIONERS
HELD ON JULY 26 AND 27, 2005

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the annual meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on July 26 and 27, 2005 at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Douglas R. Fahl, Chairman
Jay Fisette, Vice Chairman
Terri M. Ceaser
Jody M. Wagner
John P. McCann
Edward L. McCoy
Charles McConnell
Gerald W. Hopkins
Jack Loeb, Jr.
William C. Shelton
Yvonne T. Allmond

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Arthur N. Bowen, Managing Director of Finance and Administration
Ronald A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Tammy A. Tyler, Strategic Development Leader
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Robert Halloran, Marketing Director
J. Michael Hawkins, Director of Community Housing
Teresa Coleman, Publications Manager
David J. White, Jr., Business Development Officer
Marcia Griffin, HomeFree- USA

Christine Gould, HomeFree- USA
Pearl Anderson, Vision Integration Services
Tony Hill, Vision Integration Services
Members of the public

Chairman Fahl called the meeting of the Committee of the Whole to order at 3:20 p.m. on July 26, 2005. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee, except Vice Chairman Fisetto who joined the meeting in progress as noted below and thereafter remained present during the meeting.

Chairman Fahl welcomed Commissioner Allmond to the Board, and Commissioner Allmond gave a brief summary of her professional experience. Ms. Dewey then introduced Mr. Hawkins to the Commissioners.

Ms. Dewey reported on the Authority's organizational performance highlights for fiscal year 2005. During this report, Vice Chairman Fisetto joined the meeting. The Commissioners and the staff reviewed and discussed the principal accomplishments of the Authority during fiscal year 2005, including the following: projected net revenues of \$124.6 million; expected production of 5,678 homeownership units, of which 3,799 is targeted to household with less than 80% of area median income; expected production of 6,313 rental units, of which 5,814 is targeted to households with less than 60% of area median income; the refinancing of 34 rental developments consisting of 3,957 units that will preserve their affordability for at least 10 years; the new homeownership loan products, including First Choice and Zero Pricing, offered during the fiscal year; the increases in production in the SPARC and Homestride programs; the delinquency and foreclosure rates in the homeownership program of 4.66% and 0.31%, respectively, and the delinquency rate of 0.84% in the rental program; the expansion of the servicing of Habitat for Humanity homeownership loans to 880 loans for 21 chapters; the increase in the ratings to AAA/Aaa for the bonds issued under the Commonwealth Mortgage Bond resolution; the offering of 453 homeownership classes to 7,616 participants, including 84 classes that were targeted to minorities and were attended by 1,349 participants; the new REACH *Virginia* program that will triple the subsidy funds available for the Authority's loan programs; the development of the AccessVA.org website to provide information on accessible housing and related services; the establishment of the customer contact center; and the launch of the Authority's advertising campaign.

Mr. Chandler reported on the status of reservations for federal low-income housing tax credits for calendar year 2005. During this report, the Commissioners and staff discussed the process for ranking applications for tax credits, the amounts of tax credits that had been reserved, and the additional tax credit amounts requested by the applicants who have not received a reservation of credits.

Mr. Ritenour reported on the status of the Authority's request for proposals for minority outreach services. Following this report, Ms. Griffin and Ms. Gould joined the

meeting and presented a description of the services that HomeFree- USA proposed to provide to the Authority for its minority outreach initiative. Upon the conclusion of this presentation, Ms. Griffin and Ms. Gould left the meeting. Ms. Anderson and Mr. Hill then joined the meeting and described the services that Vision Integration Services proposed to provide to the Authority for such initiative.

There being no further business, the meeting of the Committee was adjourned at approximately 6:16 p.m. on July 26, 2005.

Chairman Fahl called the regular meeting of the Board of Commissioners to order at approximately 11:53 a.m. on July 27, 2005. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Vice Chairman Fisette who left the meeting as noted below.

Chairman Fahl then relinquished the floor to Vice Chairman Fisette for the purpose of electing the Chairman of the Board. Commissioner McCann, on behalf of the Executive Committee, reported that the Committee recommended the nomination of Commissioner Fahl for Chairman. Vice Chairman Fisette declared the floor open for nominations for Chairman. Commissioner McCann nominated Commissioner Fahl, and Commissioner Shelton seconded the nomination. There being no further nominations, Commissioner Shelton moved that the floor be closed. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner Fahl was elected Chairman by the affirmative vote of each of the Commissioners noted above as present at the meeting. Chairman Fahl then assumed the chair and declared the floor open for nominations for Vice Chairman. Commissioner McCann, on behalf of the Executive Committee, reported that the Committee recommended the nomination of Commissioner Fisette for Vice Chairman. Commissioner McCann nominated Commissioner Fisette, and Commissioner Hopkins seconded the nomination. There being no further nominations, Commissioner Hopkins moved that the floor be closed. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner Fisette was elected Vice Chairman by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Commissioner McConnell, on behalf of the Programs Committee, reported that the Committee recommended approval of the proposed resolution to approve and ratify the reservations of tax credits by the Authority and further recommended approval of the reservations of tax credits for Gosnold Apartments, Parham Park Place II, Hunter's Park at Cherrydale, and Mountain Crest. Commissioner McConnell then moved approval of the resolution entitled "Resolution Approving and Ratifying Reservations of Federal Low-Income Housing Tax Credits" dated July 27, 2005, in the form attached hereto and approval of the reservations of tax credits for Gosnold Apartments in the amount of \$372,278, Parham Park Place II in the amount of \$41,981, Hunter's Park at Cherrydale in the amount of \$54,563, and Mountain Crest in the amount of \$85,350. This motion was seconded by Vice Chairman Fisette and was approved by the affirmative vote of each of

the Commissioners noted above as present at the meeting. Commissioner McConnell next reported that the Committee had received staff reports on homeownership and multi-family loan production and delinquencies and on the Housing Choice Voucher Program. Commissioner McConnell reported that the Committee had received, and recommended approval of, staff recommendations on (i) the restructuring of the funding of the Single Family SPARC program on a fiscal year basis and (ii) the allocation of Single Family SPARC funds in the amount of \$113 million for fiscal year 2007 which, together with the allocation of \$113 million of Single Family SPARC funds for fiscal year 2006, would be released in January 2006 as SPARC Round 5 and may be utilized for a period of 18 months, all as set forth in the memorandum dated July 19, 2005 from Mr. Ritenour to the Commissioners. Vice Chairman Fisette moved approval of such recommendations as set forth in Mr. Ritenour's memorandum. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell reported that the Committee had reviewed and considered the issues to be discussed at the tax credit forum to be held by the Authority for proposed changes to the Qualified Allocation Plan for 2006 and had reviewed the schedule for approval of such changes.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

Commissioner Hopkins moved that the Board of Commissioners convene in closed session to discuss and consider the performance and salary of Ms. Dewey in accordance with Section 2.2-3711.A.1 of the Code of Virginia and that Ms. Dewey, Ms. Taylor and Mr. McKellar, who are deemed necessary to be present or will reasonably aid the Board of Commissioners in its consideration of the aforesaid topic, may be present during the closed session. This motion was seconded by Commissioner Ceaser and approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. At the conclusion of the closed meeting, the Commissioners reconvened in an open meeting. Each Commissioner certified, by roll call vote, that to the best of his or her knowledge, only public business matters lawfully exempted from open meeting requirements under the Freedom of Information Act and only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the closed meeting by the Commissioners. Commissioner McCann moved approval of the recommendations of the Executive Committee with regard to Ms. Dewey's compensation. This motion was seconded by Commissioner Hopkins and was approved by a vote of 8-3 with Chairman Fahl and Commissioners McCann, Hopkins, Ceaser, Wagner, Loeb, McConnell, and Allmond voting "aye" and Vice Chairman Fisette and Commissioners Shelton and McCoy voting "nay."

Ms. Dewey then presented the minutes of the Committee of the Whole and the regular meeting of the Commissioners held on May 16 and 17, 2005. At this point, Vice Chairman Fisette left the meeting. On motion duly made and seconded, the minutes of the Committee of the Whole and the regular meeting of the Commissioners held on May

16 and 17, 2005 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

Mr. Bowen presented a report on the Authority's operating statement for the period ended May 31, 2005 and the Authority's quarterly unaudited financial statements for the period ended March 31, 2005.

On motion duly made and seconded, the resolution entitled "Resolution Establishing Regular and Annual Meeting Dates of the Board of Commissioners through July 31, 2006" dated July 27, 2005, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting.

On motion duly made and seconded, the resolution entitled "Resolution of Recognition and Appreciation of Joan D. Gifford" dated July 27, 2005, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Chairman Fahl reported that the Committee of the Whole had reviewed and discussed the report on the Authority's organizational performance for fiscal year 2005, the report on the status of the reservations of federal low-income housing tax credits for calendar year 2005, and the presentations of the proposals for minority outreach services.

Commissioner McCann, on behalf of the Audit/Operations Committee, reported that the Committee had received a staff report and recommendations on the proposals received by the Authority for its employee benefits and had approved the staff's recommendations for the employee healthcare plans. Commissioner McCann next reported that the Committee had received a presentation from representatives of KPMG LLP on their plan for the performance of the Authority's 2005 annual audit and that the Committee had requested them to prepare for the Committee a report on best practices under the Sarbanes-Oxley Act. Commissioner McCann then advised the Commissioners that the Committee had received reports from the General Auditor on the updated audit schedule and the status of audit recommendations. Commissioner McCann next reported that the Committee recommended approval of a staff bonus pool of \$1,000,000 for fiscal year 2005. On motion duly made and seconded, the staff bonus pool of \$1,000,000 for fiscal year 2005 was approved by the affirmative vote of each of the Commissioners then present at the meeting. Commissioner McCann then reported that the Committee had received a report from Mr. Bowen on the salient features of the Authority's proposed Commonwealth Mortgage Bonds, 2005 Series B-AMT and C, and Rental Housing Bonds, 2005 Series G-Taxable, H-AMT and I.

Ms. Dewey presented her report of operations. In this report, Ms. Dewey advised the Commissioners as to the dates and locations of the Appalachian Housing Summit, the September meeting of the Commissioners, the Governor's Housing Conference, and the NCSHA Conference. Ms. Dewey also reported on a proposed site for the Authority's Southwest Virginia Office. During this report, the Commissioners and staff discussed estimated costs of acquiring the site and constructing the office and possible alternative

locations. Upon the conclusion of this discussion, it was the consensus of the Commissioners that the staff be authorized to proceed with the acquisition of the site and that the staff contract with an attorney in Wytheville to perform the legal services relating to the acquisition.

Chairman Fahl commended the staff for the Authority's performance in fiscal year 2005 and expressed his appreciation for the opportunity to serve as Chairman for another term. Ms. Dewey thanked the Commissioners for their support of the staff and their commitment to the Authority.

There being no further business, the meeting was adjourned at approximately 1:10 p.m.

Douglas R. Fahl, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE
ON JULY 27, 2005

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on July 27, 2005, at 601 South Belvidere Street, Richmond, Virginia.

COMMITTEE MEMBERS PRESENT:

Charles McConnell, Committee Chairman
Terri M. Ceaser
William C. Shelton
Jay Fisette
Yvonne T. Allmond
Jack Loeb, Jr.

OTHER COMMISSIONERS PRESENT

Jody M. Wagner
John P. McCann
Edward L. McCoy
Gerald W. Hopkins

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
Arthur N. Bowen, Managing Director of Finance & Administration
Ronald A. Reger, Managing Director of Information Services
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Michele G. Watson, Director of Homeownership Development Programs
John F. Hastings, Director of Multi-Family Development Programs
Tammy A. Tyler, Strategic Development Leader
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Sharon B. Fairburn, Housing Choice Voucher Program Director
J. Michael Hawkins, Director of Community Housing
Paul M. Brennan, Deputy General Counsel
Richard B. Taylor, Government Relations Manager
Teresa Coleman, Publications Manager
Yolanda Dickerson, Executive Assistant

The meeting of the Committee was called to order by Committee Chairman McConnell at approximately 9:45 a.m. All of the members of the Committee listed above as being present at the

meeting were present at that time and remained present throughout the meeting.

Chairmen McConnell opened the floor for public comments on the proposed reservations of federal low-income housing tax credits. Mr. Sam Aitken and Mr. John Davies, representing Culpeper Community Development Corporation, made comments in support of The Haven; Mr. Doug Lyons, representing Lyons Development, made comments in support of Parkview Apartments; Ms. Claire A. Collins, representing Bath County, Mr. Stuart L. Hall, representing Bath County, Mr. Walter L. Failes, a resident of Bath County, and Ms. Virginia H. Nawlin, representing Bath County Retirement Home Limited Partnership, made comments in support of Mountain Crest; Ms. Claudia Gooch, representing The Planning Council, and Ms. Alice Tousignant, representing Virginia Supportive Housing, made comments in support of Gosnold Apartments; and Mr. Mark Kinser, representing Unlimited Construction, Inc., made comments in support of High Meadows. Following these comments, Commissioners Wagner, McCann, McCoy and Hopkins left the meeting.

On motion duly made and seconded, the minutes of the meeting of the Programs Committee held on May 17, 2005 were approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Ritenour presented the recommendations of the staff that the proposed resolution to approve and ratify the reservations of tax credits be approved and that the reservations of tax credits for Gosnold Apartments, Parham Park Place II, Hunter's Park at Cherrydale, and Mountain Crest be approved. Commissioner Fisette moved that the Committee recommend approval of the resolution entitled "Resolution Approving and Ratifying Reservations of Federal Low-Income Housing Tax Credits" dated July 27, 2005, and that the Committee also recommend approval of the reservations of tax credits for Gosnold Apartments in the amount of \$372,278, Parham Park Place II in the amount of \$41,981, Hunter's Park at Cherrydale in the amount of \$54,563, and Mountain Crest in the amount of \$85,350. Commissioner Fisette commented that the Commissioners support the point ranking system in the Qualified Allocation Plan but flexibility is required in exceptional cases such as Gosnold Apartments and further commented that the approval of the additional tax credits for Parham Park Place II, Hunter's Park at Cherrydale, and Mountain Crest was based on the merits of their requests and should not be construed to mean that additional tax credits will be automatically awarded if the costs of the developments should increase subsequent to the initial reservations of tax credits. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Ms. Watson reviewed the homeownership bi-monthly production report, and Mr. Hastings reviewed the multi-family bi-monthly production report.

Mr. Dolce presented reports on the status of delinquencies and foreclosures in the homeownership and multi-family loan servicing portfolios.

Sharon Fairborn presented an update on the status of the Housing Choice Voucher Program.

Mr. Ritenour presented staff recommendations on (i) the restructuring of the funding of the Single Family SPARC program on a fiscal year basis and (ii) the allocation of Single Family SPARC funds in the amount of \$113 million for fiscal year 2007 which, together with the allocation of \$113 million of Single Family SPARC funds for fiscal year 2006, would be released in January 2006 as SPARC Round 5 and may be utilized for a period of 18 months, all as set forth in his memorandum dated July 19, 2005 to the Commissioners. Commissioner Shelton moved that the Committee recommend approval of such recommendations as set forth in Mr. Ritenour's memorandum. This motion was seconded by Commissioner Loeb and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Chandler reviewed the issues to be discussed at the tax credit forum to be held by the Authority for proposed changes to the Qualified Allocation Plan for 2006 and reviewed the schedule for approval of such changes.

There being no further business, the meeting was adjourned at 10:55 a.m.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE HELD ON JULY 27, 2005

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Executive Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on July 27, 2005, at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMITTEE MEMBERS PRESENT:

Douglas R. Fahl, Committee Chairman
Jay Fisette
John P. McCann
Charles McConnell

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Tammy N. Taylor, Managing Director of Human Resources
J. Judson McKellar, Jr., General Counsel

Commissioner Fahl called the meeting of the Committee to order at approximately 8:05 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting.

Commissioner Fahl declared the floor open for recommendations for the nomination for the Chairman of the Board. Commissioner McCann moved that the Committee recommend the nomination of Commissioner Fahl for Chairman, and this motion was seconded by Commissioner Fisette. There being no further recommendations for the nomination, the floor was closed. The motion to recommend Commissioner Fahl for Chairman was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting. Commissioner Fahl then declared the floor open for recommendations for the nomination for the Vice Chairman of the Board. Commissioner McConnell moved that the Committee recommend the nomination of Commissioner Fisette for Vice Chairman, and this motion was seconded by Commissioner McCann. There being no further recommendations for the nomination, the floor was closed. The motion to recommend Commissioner Fisette for Vice Chairman was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Commissioner Fisette moved that the Committee convene in closed session to discuss and consider the performance and salary of Ms. Dewey in accordance with Section 2.2-3711.A.1 of the Code of Virginia and that Ms. Dewey, Ms. Taylor, and Mr. McKellar, who are deemed

necessary to be present or will reasonably aid the Committee in its consideration of the aforesaid topic, may be present during the closed session. This motion was seconded by Commissioner McCann and was approved by the affirmative vote of each of the Committee members noted above as present at the meeting. At the conclusion of the closed meeting, the Committee members reconvened in an open meeting. Each Committee member then certified, by roll call vote, that to the best of his knowledge, only public business matters lawfully exempted from open meeting requirements under the Freedom of Information Act and only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the closed meeting by the Committee members.

Commissioner McCann moved that the Committee recommend that Ms. Dewey receive a \$15,000 bonus for fiscal year 2005, an increase in her salary to \$203,500, and a car allowance of \$500 per month. This motion was seconded by Commissioner McConnell and was approved by a vote of 3-1 with Commissioners Fahl, McCann and McConnell voting “aye’ and Commissioner Fisette voting “nay.”

There being no further business, the meeting was adjourned at approximately 9:36 a.m.

Minutes of the Meeting of the Audit/Operations Committee Held on July 26 and 27, 2005

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on July 26 and 27, 2005 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

Committee Members Present John McCann, Chairman
Douglas R. Fahl
Edward L. McCoy
Gerald W. Hopkins
Jody Wagner

Others Present Susan F. Dewey, Executive Director
Arthur N. Bowen, III, Managing Director of Finance & Administration
Tammy N. Taylor, Managing Director of Human Resources
Ron Reger, Managing Director of Information Services
Russ E. Wyatt, General Auditor
Barbara Blankenship, Human Resources Manager
Michelle S. Edmonds, Sr. Executive Assistant
Jeff Harlow, Aon Consulting
Kerry Smith, Aon Consulting
Robert Best, KPMG
Kevin Strecker, KPMG
Rob Churchman, KPMG
Donna Craver, KPMG

Meeting Called to Order The meeting was called to order at 1:30 p.m. on Tuesday, July 26, 2005. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting on July 26, 2005.

Presentation Jeff Harlow and Kerry Smith of Aon Consulting, Inc. and Barbara Blankenship, HR Manager presented an Overview of Benefits for 2006. The presentation included a review of the RFP process and outcome recommendations. After much dialogue, the Committee asked staff to bring a breakdown of employee and employer costs to the Committee meeting on July 27, 2005. The meeting was recessed at 3:15 p.m. on July 26, 2005.

Meeting Called to Order The meeting was reconvened at 10:20 a.m. on July 27, 2005. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting on July 27, 2005 with the exception of Commissioner Wagner and Commissioner Fahl who left and returned to the meeting as noted below.

Continued on next page

Audit/Operations Committee Minutes
July 27, 2005

Approval of Minutes

Commissioner Hopkins moved approval of the minutes of the meeting of the Audit/Operations Committee held on May 17, 2005. Commissioner Fahl seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

External Audit/KPMG

Robert Best, Kevin Strecker, Rob Churchman and Donna Craver of KPMG discussed their plan for the 2005 audit. The KPMG representatives reported that their staff will review the following processes in the current year audit: lending, bond management, treasury management, OREO management and financial reporting, including investments. The KPMG representatives also reported that planning and interim fieldwork for the upcoming audit was performed in mid-June 2005 and year-end fieldwork will be performed from August 2005 through September 2005. The KPMG representatives further reported that KPMG will prepare audited financial statements in time for them to be delivered to the Governor's Office by their September 30 due date. Mr. McCann suggested that KPMG representatives review the financial statements with members of the Audit/Operations Committee prior to their issuance via telephone conference call during the September Committee meeting to be held in Roanoke at the annual Governor's Housing Conference. Mr. Best agreed to do so. Rob Churchman discussed with the Committee the processes KPMG intends to follow regarding the accomplishment of the OMB A-133 Single Audit requirements. Mr. Best then reported that the annual management letter and single audit reports will be issued prior to October 15, 2005 and presented to the Audit/Operations Committee at its November meeting. Mr. Best also briefly discussed the potential impact of the Sarbanes-Oxley Act on VHDA and agreed to work with VHDA's General Auditor to prepare a document on its "best practices" VHDA may want to implement. Mr. Best, Mr. Strecker, Mr. Churchman and Ms. Craver left the meeting subsequent to their presentation and prior to the presentation by the General Auditor.

Internal Audit Update

The General Auditor reviewed his updated audit schedule with the Committee and reported on its status. The General Auditor reported that the Audit Division is on schedule at this time. Audits in progress include 1) Human Resources and its Ceridian HRIS Application System; 2) Payroll Department and its Source 550 Payroll Application System; 3) Windows 2000 Operating System; 4) Boxes Application System (VHDA's Records Retention System) and 5) Support Services (includes Office Services, Facility Services, Procurement, Signal System and Receptor System).

Continued on next page

Audit/Operations Committee Minutes
July 27, 2005

Internal Audit Update (cont'd)

The General Auditor also reported that there were no new reports issued since the last meeting, however, a number of those in progress are close to completion. The General Auditor then reported the following with regard to the status of the two audit issues that are not yet fully resolved.

1. Rewrite the Retiree Healthcare Plan. Audit recommended that the RHC Plan be rewritten to address certain inconsistencies and other issues identified in the plan document as well as to ensure plan solvency over the long term. Both the Leadership Team and the Audit/Operations Committee have approved the basic plan framework. HR is in the process of developing the Plan document and defining administrative requirements. and 2) Processing of Reservation Fees.
 2. Processing of Reservation Fees. Management is in the process of evaluating the entire fee structure, as they believe that VHDA may want to change its fee structure or eliminate the reservation fee all together.
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Human Resources Update

Tammy Taylor, Managing Director of Human Resources, provided a handout highlighting VHDA's FY '05 accomplishments. She also provided the committee with historical data on organizational performance (production and revenue) and compensation pools. During this presentation, Commissioners Wagner and Fahl rejoined the meeting. After much discussion, Commissioner Hopkins moved that the Committee recommend to the Board a bonus pool in the amount of \$1 million and seconded by Commissioner McCann. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting. VHDA will administer the bonus in accordance with its performance-based compensation program. Doug will address organizational performance and the pool at Thursday's Associate meeting.

Tammy Taylor then recapped yesterday's discussion of 2006 benefits. Commissioner Hopkins moved that the Audit/Operations Committee approve staff's revised recommendation for an HMO, POS (point of service) and PPO healthcare plans and seconded by Commissioner McCoy. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting. Tammy will report updates in September and November.

Salient Features

Art Bowen presented the salient features of an upcoming Rental Housing Bond and Commonwealth Mortgage Bond issues. The Rental Housing Bond issue will combine taxable and tax-exempt bonds, totaling up to \$300 million, and is expected

Continued on next page

Audit/Operations Committee Minutes
July 27, 2005

**Salient
Features** (cont'd)

to be rated Aa1/AA+ by Moody's and Standard & Poor's, respectively. The issue may include a refunding component. The issue is expected to carry standard provisions for a VHDA Rental Housing Bond issue.

The Commonwealth Mortgage Bond issue will consist of tax-exempt bonds, and will total up to \$400 million. A portion of the issue may be in a variable rate mode. The bonds are expected to be rated Aaa/VMIG-1 (for variable rate portion) by Moody's, and AAA/A1+ (for variable rate portion) by S&P. The issue is expected to carry standard provisions for a VHDA Commonwealth Mortgage Bond issue.

Adjournment

There being no further business, Commissioner McCann adjourned the meeting at 11:40 a.m.

Arthur N. Bowen, III
Managing Director of Finance &
Administration

John P. McCann
Chairman