DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY
BOARD OF DIRECTORS MEETING

April 11, 2017
815 Florida Avenue, NW
Washington, DC 20001
5:30 p.m.

<u>Minutes</u>

I. Call to order and verification of quorum.

The Chairman, Mr. Buwa Binitie, called the meeting to order at 5:37 p.m. and asked the Secretary to the Board of Directors, Mr. Todd A. Lee, to verify a quorum. With three members present, the Board of Directors (the "Board") had a quorum, and the meeting continued. The following members were present at roll call: Buwa Binitie, Sheila Miller, Bryan "Scottie" Irving, Stanley Jackson, and Stephen Green (who participated telephonically).

Approval of the Minutes from the March 14, 2017 Board Meeting.

Mr. Jackson called attention to a syntax error acknowledged by DCHFA Director of Government Affairs, Nkosi Bradley. Mr. Bradley distributed a corrected version of the minutes to the Board. A motion to approve the minutes from the meeting of March 14, 2017 as distributed was made by Mr. Jackson and seconded by Ms. Miller. The minutes were approved by a chorus of ayes.

II. Cohn Reznick Presentation: The Agency's 2016 Audited Financial Statements.

Mr. Dan Kenney, CPA, Partner with CohnReznick LLP ("CohnReznick") gave an overview of its auditor's report presentation with the financial statements and introduced Ms. Krishna Patel, CPA, Manager with CohnReznick, and Mr. Bryan Benson, CPA, Senior Manager with CohnReznick, the individuals tasked with providing a summary presentation on the financial statements themselves. Mr. Kenney then introduced Ronald P. Walker, CPA, Managing Partner at Walker & Co., LLP as the party responsible for summarizing the management letter to the Board.

Mr. Kenney then orally outlined the entire collection of audit documents.

Ms. Patel then presented the following:

<u>With regard to assets:</u> Assets have increased by 18 percent. Total assets overall increased by 17 percent, due primarily to the fact that mortgage, infrastructure, and loans receivable

have increased significantly, which in turn stems from the fact that there were significant bond issuances during the year.

Multi-factor securities and fair values have decreased. Investments held in trust have increased and have convened in funds that have been held for construction funding for a large project.

The firm was able to confirm over 90 percent of cash, mortgage, construction, receivables, and investment balances in 2016.

<u>With regard to liabilities:</u>

Current liabilities have increased by 30 percent. Overall total liabilities have increased by 18 percent. This is mainly due to the increase in bonds payable. In 2016, there was an issuance of $292 million in bonds, which is offset by $103 million of bonds that matured during the year.

<u>With regard to statement of administrative expenses and changes:</u>

Overall, operating income has increased by 60 percent. This is mainly due to an increase in the operating revenues, and those are listed in the “other” category. These are due to the fees that were owed under the multi-family bond issuances.

Another area of significant increase is the interest on the mortgage and construction loans that stem from significant increases in mortgage and construction loan volume, which correspond to increases in the revenue.

Under operating expenses, the general administrative expenses have increased, primarily within the multifamily fund, due to the expenses incurred in relation to bond issuances.

Interest expense and related trustee fees and other expenses have also increased, due to the issuance of the bonds during the year. The change in that position overall is increased by 20 percent, due to the normal printing activity to which there was a decrease in the fair value of the mortgage-backed securities. In 2015, it was only $522,000, and in 2016, it was $3.3 million, which represents a reduction in net position.

Overall, the net position at the end of 2016 was higher by 7.8 percent from 2015.

Ms. Patel then discussed “GASB 72,” which is a revised General Accounting Standards Board (“GASB”) accounting rule regarding fair value measurement and application. The firm reviewed the adoption of GASB 76 within the hierarchy of generally accepted accounting principles, and found no changes needed to be made.

Ms. Patel then directed the Board’s attention to various footnotes and tables reflecting Agency investments.

In explaining the accounting of fair valued investments, per GASB 72, Ms. Patel explained: Level One is the quoted market prices in active markets. An example would be government publications or trade and securities. Level Two are inputs other than quoted market prices that are observable directly or indirectly. An example would be a restricted stock or mortgage-related assets. Level Three are unobservable inputs, and these are valuations that are based on management's assumptions. DCHFA does not have any Level Three investments.

Mr. Benson interjected that the classifications have nothing to do with risk but just how the item is valued. He provided an example of a risky stock, which could be considered a Level One because is an active market, where a mortgage-backed security is considered a Level Two input.

Ms. Patel continued to list various notes and tables related primarily to the previously discussed items.

After audibly reviewing the audit document, Mr. Binitie expressed his pleasure that the Agency's balance sheet breakdown lists fund types such that the Agency and Board can clearly distinguish its pass-through activity from its general fund activity.

Mr. Binitie then inquired on the increase in the multi-family revenue bond program from $10 million to $17 million, and surmised in his question that from a pure income and expense standpoint, the Agency's net position is basically about $10 million. Mr. Lee indicated that the $10 million reflects change and the net position is $67 million.

Mr. Lee then went on to state that there is equity in some of the Agency's bond indentures that show up in multifamily funds. He once again indicated that the Agency's net worth is at least $67 million, and immediately revised his reading of the number to $77 million.

Mr. Binitie asked how the process of gathering information in the subject audit differed from the year before. Mr. Benson indicated that Mr. Walker's presentation would address that question. Mr. Walker then began his presentation.

Mr. Walker stated that the firm in presenting to the Board must disclose significant deficiencies. Citing the departure and replacement of the Agency's CFO, he noted that a significant deficiency was found in staff turnover.

Mr. Binitie asked whether the hiring of a new CFO was sufficient to overcome the deficiency.

Mr. Walker indicated that the loss of an Agency CFO and a Controller was significant, despite the eventual replacement of said CFO. Mr. Walker indicated that the Agency's hiring of a consulting group assisted with preparation of the Agency's financial statements, which allowed CohnReznick to perform its auditing procedures.

He indicated that CohnReznick worked closely with the consultant, which revealed a few material adjustments related to loan receivables and bond accruals.

Mr. Walker stated that ultimately, the Agency was able early to detect and understand, through the firm's auditing procedures, that certain adjustments were necessary in closing out of accounts. The Agency made those adjustments, and provided them to the firm, all within the assigned deadline.

Mr. Kenney restated Mr. Walker's explanation of the standard by which the auditor's report "material and significant" deficiencies.

Mr. Lee indicated that the deficiency was caused by Agency turnover, and therefore it was a material finding that Mr. Walker specified was a resulted in the Agency's inability to timely close its own books without the assistance of a consultant.

Mr. Kenney commended the Agency for meeting its reporting deadline for the second time in roughly 25 years.

He then discussed the assessment measure that reviews adherence to prior the year's comments.

Per Mr. Kenney, the prior year's audit recommended that the Agency automate some processes and move further away from using Excel spreadsheets to close out a complex set of books. The Agency addressed that concern by acquiring software and is working to implement it.

Mr. Walker then began an overview of a so-called Statement on Auditing Standards 114 Letter, which contains information that the auditor is required to tell the Board above and beyond management-level comments.

Mr. Walker indicated that per that letter, the Agency understands all relevant accounting standards and policies, and has applied them properly, and that said standards and policies were properly recorded in 2016.

Mr. Walker then discussed the varying categories and series of bonds, all of which carry noteworthy risk and some which contain equity. This is an item that required notation in the "qualitative" discussion of the Agency's accounting practices.

Difficulties encountered in performing the audit, other than what Mr. Walker stated in the management letter, did not rise to the level where it required discussion.

Mr. Walker then discussed issues flagged for adjustment, each of which were minor, but material in the aggregate.

He discussed that among those items was $345,000 in missed interest accruals.

There was discussion between Mr. Lee and Mr. Walker over which party at the Agency signed the management representation letter.

Mr. Binitie expressed his general pleasure with the audit, and then asked whether all of previously discussed software would be fully implemented by the time of engagement for next year's audit. DCHFA CFO, Ms. Yvette Downs, indicated that the discussed systems would be in place by July 1, 2017, and that the old and new systems will run simultaneously through the end of the Fiscal Year. Ms. Yvette Downs then stated her intent to engage in a preliminary discussion with the auditors so that in light of the newly implemented technology, each party will be prepared for the upcoming 2017 audit process.

Mr. Binitie inquired on the missed accrual of $345,000. Mr. Benson attributed the error to the manual booking system and new staff. He then stated that the mistake did not reflect a pervasive problem. Mr. Benson further stated that but for deadline pressures; the Agency might have caught the error on its own. Ms. Downs concurred, stating that the deadline required submission of a draft trial balance that the Agency knew was not quite complete.

Mr. Binitie asked whether Mr. Lee planned to present an Executive Director's report. Mr. Lee responded in the negative.

III. Adjournment

A motion to adjourn the meeting was made by Ms. Miller, and seconded by Mr. Jackson. The motion was approved by a chorus of ayes.

The meeting adjourned at 6:20 p.m.

Submitted by Todd A. Lee, Secretary to the Board of Directors on May 9, 2017.

Approved by the Board of Directors on May 9, 2017.