

MINUTES OF THE REGULAR MEETING  
OF THE  
AUDIT COMMITTEE  
WEST VIRGINIA HOUSING DEVELOPMENT FUND  
JUNE 28, 2018

A regular meeting of the Audit Committee of the West Virginia Housing Development Fund ("Fund") was held on Thursday, June 28, 2018 at the office of West Virginia Housing Development Fund, 5710 MacCorkle Avenue, SE, Charleston, West Virginia. The meeting was called to order at 8:02 a.m. by Chair John Gianola, with the following members present:

John Gianola, Chair  
Steven Travis, Representative for the  
Honorable Patrick Morrissey, Attorney General (via phone)  
Josh Stowers, Representative for the Honorable John Perdue, Treasurer

Staff Present:

Erica Boggess, Executive Director  
Chad Leport, Division Manager - Accounting and Finance  
Martha Lilly, Legal Assistant  
Jill Martin, Executive Assistant  
Kelley Ridling, Senior Manager - Internal Audit  
Kristin Shaffer, Senior Legal Counsel  
Crystal Toney, Deputy Director - Administration

Others Present:

Samme Gee, Esquire, Jackson Kelly PLLC  
Anthony Carpenter, Brown Edwards  
Rob Adams, Brown Edwards

CONSIDERATION/APPROVAL OF THE  
MINUTES OF THE MAY 24, 2018 MEETING

Representative Josh Stowers moved for the approval of the Minutes of the May 24, 2018 regular meeting. His motion was seconded by Representative Steven Travis, and, upon the affirmative vote of the three (3) members present, the Chair declared the motion adopted.

INTRODUCTORY AUDIT COMMUNICATIONS  
FROM BROWN EDWARDS

Mr. Rob Adams, with Brown Edwards, spoke briefly about the auditor's responsibilities and informed the Committee that an engagement letter had been signed.

Chair Gianola stated the Fund hired a new internal audit manager and is trying to transform the entire audit function. Chair Gianola stated that the Fund needs to move towards control based testing instead of balance sheet testing and asked if Brown Edwards had identified any opportunities to test controls.

Mr. Adams stated that Brown Edwards is following the current internal audit plan, but would be meeting with the new audit staff and would focus on reprioritizing the current approach to maximize the ability to complete the audit in a timely manner and to evaluate the mix of internal control testing versus standard type testing needs.

A brief discussion followed.

Mr. Adams stated that Brown Edwards was also in attendance to allow open communication between the auditors and those charged with governance and left business cards to allow members of the audit committee or management to contact him directly regarding any issues that need to be discussed confidentially.

TRANSFER OF THE AFFORDABLE HOUSING  
TRUST - GASB 69

Ms. Boggess stated that effective June 8, 2018, under Senate Bill 261, the Housing Development Fund took over the administration of the West Virginia Affordable Housing Trust Fund (AHTF), which is now a separate and distinct fund within the Fund called the Affordable Housing Fund (AHF).

Ms. Boggess stated that GASB 69 is a government accounting standard on reporting combining government operations. Ms. Boggess stated that GASB 69 has three different classifications - mergers, acquisitions, and transfers. Ms. Boggess stated that the AHTF transfer is not an acquisition, but staff and Brown Edwards disagree on whether it is a merger or a transfer. Ms. Boggess indicated that the Fund believes the transaction is a transfer. Under GASB 69, a government transfer is considered effective on the date of the transfer. Ms. Boggess stated that Brown Edwards believes the transaction is a merger, and a merger is effective as of the beginning of the reporting period in which the merger occurs.

Ms. Boggess explained that staff thinks reporting the transaction as a merger would be misleading to the Fund's financial statement users. Ms. Boggess also stated that while staff and Brown Edwards disagree regarding whether the transaction is a merger or transfer, both agree that the transaction is immaterial to the Fund.

Ms. Boggess requested approval to deviate from Brown Edward's interpretation of the GASB 69 and to treat this transaction as a merger which will result in an immaterial, uncorrected audit difference in the management representation letter. Ms. Boggess also reported that this would not be the first time the Fund has not followed a GASB pronouncement, when immaterial, to present what staff believes is a better picture of the Fund's financial position.

Mr. Rob Adams stated that its experts advised that a merger is the more appropriate way to treat the transaction, and Brown Edwards will be required to put this in writing, but it will be very transparent and will be a non-issue.

Representative Stowers moved for the approval to deviate from the GASB 69 reporting standards as presented. His motion was seconded by Representative Travis, and, upon the affirmative vote of the three (3) members present, the Chair declared the motion adopted.

CONSIDERATION/APPROVAL OF THE  
PROPOSED FISCAL YEAR 2019 OPERATING  
BUDGET

Ms. Crystal Toney presented the proposed 2019 Fiscal Year Operating Budget. Ms. Toney stated that the proposed Operating Budget for fiscal year 2019 is \$12,351,600, which is a \$158,600 increase from the fiscal year 2018 budget and approximately \$785,600 over estimated 2018 expenditures. Ms. Toney highlighted the expenses in the memo provided to the Committee and stated that staff is requesting the approval of the 2019 budget in the amount of \$12,351,600 and for further recommendation to the Board.

Chair Gianola suggested that staff begin using a three-year projection of business when preparing the budget.

A brief discussion followed.

Representative Stowers moved approval of the proposed Fiscal Year 2019 Administrative Budget for further recommendation to the Board of Directors as presented. His motion was seconded by Representative Travis, and upon affirmative vote of the three members present, the Chair declared the motion adopted.

A copy of the Fiscal Year 2019 Operating Budget is attached as Exhibit A.

INFORMATIONAL ITEM - FISCAL YEAR 2017  
PROJECTION OF INCOME AND EXPENSES

Ms. Crystal Toney presented the Fiscal Year 2019 Projection of Income and Expenses and stated that it is based on several factors, including production as presented in the funding allocation, anticipated loan payments, bond issuances, debt service, and disbursements.

Projections are also based on the following assumptions: a) estimated average short-term investment rate is 1.75% and estimated long-term rate is 4.14%; b) loan originations are estimated to be \$102.8 million and payoffs and scheduled loan amortization are expected to be \$83.7 million, and the average loan rate used is 4.558%; c) the weighted average debt rate for total outstanding debt is expected to be approximately 3.47%; and d) administrative budget in the amount of \$12.4 million.

Ms. Toney further stated that projected net earnings will decrease approximately \$1,522,000 in fiscal year 2019.

Chair Gianola stated that it would be helpful if he had information on predictable interrelationships in the budget.

A brief discussion followed.

A copy of the Fiscal Year 2019 Projection of Income and Expenses for the Fund is attached as Exhibit B.

#### CONSIDERATION/APPROVAL OF PROPOSED FISCAL YEAR 2019 FUNDING ALLOCATION

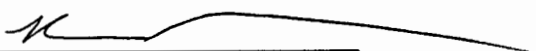
Ms. Toney presented the proposed Fiscal Year 2018 Program Funding. Ms. Toney explained that available funding is provided from Board approved programs funded from general operating funds and allocated by the Board for anticipated program activity. Statutory/Restricted Programs include programs funded through federal programs or other sources that are restricted by federal regulation, bond resolutions, the Housing Development Fund Act or other regulations/contracts.

Representative Stowers moved approval of the Proposed Fiscal Year 2019 Funding Allocations and further recommendation to the Board of Directors as presented. His motion was seconded by Representative Travis, and upon affirmative vote of the three (3) members present, the Chair declared the motion adopted.

A copy of the Fiscal Year 2019 Program Funding Allocation is attached as Exhibit C.

#### ADJOURNMENT

There being no further business, Representative Stowers moved to adjourn the meeting. His motion was seconded by Representative Travis, and upon the affirmative vote of the three (3) members present, the Chair declared the motion adopted. Meeting adjourned at 9:51 a.m.

  
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Kristin Shaffer  
Assistant Secretary