

**AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION
To be held at the offices of
Texas State Affordable Housing Corporation
2200 East Martin Luther King Jr. Blvd
Austin, Texas 78702
September 13, 2012 at 9:00 am**

**CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM**

Jo Van Hovel
Chair

The Audit Committee of Texas State Affordable Housing Corporation will meet to consider and possibly act on the following:

PUBLIC COMMENT

ACTION ITEMS IN OPEN MEETING:

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| Tab 1 | Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 14, 2011. |
| Tab 2 | Presentation, Discussion and Possible Approval of the Fiscal Year 2013 Operating Budget. |
| Tab 3 | Presentation and Discussion of the Annual Financial and OMB Circular A-133 Audits for the Fiscal Year Ended August 31, 2012. |

CLOSED MEETING

Consultation with legal counsel on legal matters – Texas Government Code § 551.071
Deliberation regarding purchase, exchange, lease, or value of real property – Texas Government Code § 551.072
Deliberation regarding prospective gift or donation to the state or Texas State Affordable Housing Corporation – Texas Government Code § 551.073
Personnel Matters – Texas Government Code § 551.074
Implementation of security personnel or devices – Texas Government Code § 551.076
Other matters authorized under the Texas Government Code

OPEN MEETING

Action in Open Meeting on Items Discussed in Closed Meeting

ADJOURN

Individuals who require auxiliary aids or services for this meeting should contact Laura Ross, ADA Responsible Employee, at 512-477-3560 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that the appropriate arrangements can be made.

Texas State Affordable Housing Corporation reserves the right to recess this meeting (without adjourning) and convene at a later stated time, if and to the extent allowed by law. If Texas State Affordable Housing Corporation adjourns this meeting and reconvenes at a later time, the later meeting will be held in the same location as this meeting. Texas State Affordable Housing Corporation also reserves the right to proceed into a closed meeting during the meeting in accordance with the Open Meetings Act, Chapter 551 of the Texas Government Code. If permitted by the Open Meetings Act, Chapter 551 of the Texas Government Code, any item on this Agenda to be discussed in open meeting may also be discussed by the Board (and any other authorized persons) in closed meeting.

**AUDIT COMMITTEE MEETING
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Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Blvd.
Austin, TX 78702
December 14, 2011 at 9:00 am**

Summary of Minutes

**Call to Order, Roll Call
Certification of Quorum**

The Audit Committee Meeting of the Texas State Affordable Housing Corporation (the “Corporation”) was called to order by Jo Van Hovel, Audit Committee Chair, at 9:15 am on December 14, 2011, at the offices of Texas State Affordable Housing Corporation, 2200 E. Martin Luther King Jr. Blvd, Austin, TX 78702. Roll Call certified that a quorum was present.

Committee Members Present

Jo Van Hovel, (Vice Chair) Chair
Jerry Romero, (Board Member) Alternate Member
David Long, (President) Ad Hoc Member
Melinda Smith, (Chief Financial Officer) Ad Hoc Member

Committee Members Absent

William H. Dietz, Jr., (Board Member) Member

Staff Present

Liz Bayless, Executive Vice President
Nick Lawrence, Controller
Betsy Lau, Senior Accountant
Laura Ross, Corporate Secretary
Cynthia Gonzales, Office Manager and Assistant Corporate Secretary

Special Guests

Don Mikeska, Mikeska, Monahan & Peckham
Pam Stein, Greenberg Traurig

Public Comment

There was no public comment.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on September 14, 2011.

Mr. Romero made a motion to approve the minutes of the Audit Committee Meeting held on September 14, 2011. Ms. Smith seconded the motion. A vote was taken and the motion was approved.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2011.

Mr. Mikeska began by informing the Committee that he had spoken with Ms. Van Hovel in October both by phone and in person about the planning procedures and time frame for the field work of the audit. At that time Ms. Van Hovel had asked that certain areas be looked into and Mr. Mikeska informed the Committee that after reviewing those areas he no findings to report. Mr. Mikeska also noted that he had communicated with Mr. Dietz in October via written communication.

Mr. Mikeska relayed to the Committee his initial concern with doing the audit, that there may be the presumption that he couldn't provide an opinion from an independent viewpoint, because of his history and familiarity with the Corporation. He reported that he had discussed this concern with Ms. Van Hovel and the President and CFO of the Corporation and in order to ensure that his independence hadn't been compromised, he had contracted with an outside CPA firm to review his audit planning, as well as review the audit work papers and report from the past year for any suggested changes. Mr. Mikeska reported to the Committee that after review completing their review, the CPA firm had no suggestions or comments; they confirmed the audit was being conducted according to professional standards.

Mr. Mikeska made the Committee aware that management was responsible for establishing internal controls for detecting material fraud. He would be presenting a letter for the Audit Committee Members' signature that would state the facts and circumstances of the audit were correct. He added that he had spoken with the Corporation's counsel to ensure that nothing had been left out of the report like possible claims or threats of litigation.

Mr. Romero requested that a letter from the outside CPA firm be obtained that stated no findings had been found in that review of Mr. Mikeska's work. Mr. Mikeska stated that he would obtain a letter from the CPA firm, and as an addition comment on the matter, he made the Committee aware that costs associated with the review of his work would not be passed on to the Corporation.

Mr. Mikeska provided a summary of the audit, explaining that it consisted of three sections. The first section of the audit was conducted in accordance with Generally Accepted Auditing Standards. The second section of the audit which was conducted in accordance with Government Auditing Standards, which is commonly referred to as the Yellow Book opinion. The final section of the audit was the Single Audit, required because the Corporation had expended more than \$500,000 in federal funding. He noted that this involved mainly the Neighborhood Stabilization Program (NSP) program where the Corporation expended \$3 million during the fiscal year, but it also included the National Foreclosure Mitigation Council (NFMC) program. Mr. Mikeska reported that there were no findings or questioned costs, and there were no findings of non-compliance with the requirements of the program, nor did he find instances of material weaknesses in internal controls over compliance. Mr. Mikeska gave a brief explanation of his process for completing this portion of the audit.

Mr. Mikeska proceeded to go through the audit report, beginning with the first section which was the management's discussion and analysis. He explained that this section covered the financial reports in a narrative format and noted that it was a requirement of Government Auditing Standards to include this section in the audit report. Mr. Mikeska then referenced the next section which was the independent auditor's report. He explained that this was the auditor's opinion on the financial statements. Referring to the report, he read into the record, "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas State Affordable Housing Corporation as of August 31st and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles accepted in the United States of America". He confirmed for the Committee that this was an unqualified, or clean, opinion. The letter also stated that the audit was done in accordance with Government Auditing Standards and specifically stated that "In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole". He noted that this was a clean opinion on the expenditure of federal awards.

Mr. Mikeska briefly the Notes to the Financial Statements which told the reader more information about certain line items of the financial statements. He pointing out that Note 6 indicated that there were three years worth of Form 990s outstanding and subject to review by the IRS, however he read into the record that, "Management believes it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are required to be reported in these financial statements".

Romero inquired about the value of the Corporation's office building. Ms. Smith and Mr. Long explained that a new appraisal would need to be completed to formally assess the current value. Mr. Long further stated that the value included in the financial statements was based on the initial appraisal received at the time of acquisition and additional costs associated with the upgrades and renovations made to the building since acquisition.

Mr. Mikeska continued to go over the Footnotes to the Financial Statements and discussion turned to Note 24 which covered subsequent events. Mr. Romero inquired as to what the threshold was for disclosing subsequent events. Mr. Mikeska explained that the threshold amounted to whether the event was material or not. Each event was tested as to whether somebody's use of the financial statements would be influenced by having the event listed or not having it listed.

After reviewing the footnotes, Mr. Mikeska turned to page 44, the Schedule of Expenditures of Federal Awards, which dealt with the single audit of the federal funding expended by the Corporation during the fiscal year. He noted that the footnotes to this section on page 45 described the programs supported by the federal awards. Mr. Mikeska then turned to the Yellow Book opinion on page 46. Mr. Mikeska explained that government auditing standards stipulated that the auditor review internal controls and look for material weaknesses or significant deficiencies in internal controls over financial reporting. Referring to the 4th paragraph, Mr. Mikeska read, "Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses." Mr. Mikeska discussed the auditing procedure that was used to form this opinion, and noted that testing had disclosed no instances of non-compliance or other matters that were required to be reported under Government Auditing Standards. Therefore, the Yellow Book opinion was a clean opinion.

Mr. Mikeska then addressed the OMB A-133 Single Audit, specifically he read from the document, "In our opinion, Texas State Affordable Housing Corporation complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011....We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above." He concluded that this was a clean opinion.

Regarding the Schedule of Findings and Questioned Costs, Mr. Mikeska pointed out that there were no findings or questioned costs with regard to the financial statements or the federal program award and noted that because there had been no findings on the single audit for two consecutive years, the Corporation had qualified to be a low-risk auditee during next year's single audit which meant that the auditor would only have to include 25% of the federal programs in his test sample.

Mr. Mikeska referenced the management letter and stated that it had been included because of Mr. Dietz's request the previous year that one be included in the audit stating there were no deficiencies or material weaknesses in internal controls. Mr. Mikeska then went over the final section of the audit that listed in writing the auditors duties and responsibilities and the responsibilities of management.

Mr. Mikeska ended by thanking Ms. Smith and her staff for their assistance during the audit. Ms. Van Hovel inquired about the Corporation's title on the building and Mr. Mikeska explained that the Corporation had clear title, subject to the mortgage and noted that there were no other liens on the property.

Ms. Smith thanked Mr. Lawrence, Ms. Aldrich and Ms. Gonzales for all their assistance and hard work during the audit process. Ms. Van Hovel thanked the staff.

Mr. Romero made a motion to recommend the audit to the full board for approval. Ms. Smith seconded the motion. A vote was taken; Mr. Long was absent for the vote. The motion passed unanimously.

Tab 3 Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.

Ms. Smith stated that the Audit Committee was required to review the Guidelines on an annual basis. She informed the Committee that this year staff had no recommended changes to the Guidelines. She added that Mr. Mikeska had also reviewed them and had no suggestions for changes.

Ms. Van Hovel made a motion to approve the Audit Committee Guidelines for recommendation to the Board for approval. Ms. Smith seconded the motion. Ms. Van Hovel asked for public comment and none was given. A vote was taken and the motion passed unanimously.

Open Meeting

There was no further discussion or comments in Open Meeting.

Adjournment

Mr. Romero made a motion to adjourn the meeting. The Audit Committee Meeting officially adjourned at 10:00 a.m.

Respectfully submitted by _____
Laura Ross, Corporate Secretary

Tab 2

Presentation, Discussion and Possible Approval of the Fiscal Year 2013 Operating Budget.

The FY 2013 Operating Budget will be provided at the Audit Committee Meeting



MIKESKA • MONAHAN • PECKHAM • PC
Certified Public Accountants

August 24, 2012

To the Audit Committee of the Board of Directors
Texas State Affordable Housing Corporation

We are engaged to audit the financial statements of Texas State Affordable Housing Corporation for the year ended August 31, 2012. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 24, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider Texas State Affordable Housing Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Texas State Affordable Housing Corporation's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about Texas State Affordable Housing Corporation's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Texas State Affordable Housing Corporation's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on Texas State Affordable Housing Corporation's compliance with those requirements.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Organization. We will communicate our significant findings at the conclusion of the audit. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Management Responsibilities

Management is responsible for:

- The basic financial statements and accompanying information;
- Making all management decisions related to the financial statements;
- Establishing and maintaining internal controls, including the monitoring of ongoing activities and the selection of appropriate accounting principles;
- Adjusting the financial statements to correct any material misstatements;
- The design and implementation of programs and controls to prevent and detect fraud; and
- Identify and ensure that the Corporation complies with all applicable laws, regulations, contracts, agreements, and grants.

Substantive Tests and Materiality

Our audit plan includes substantive testing of the account balances that we consider to be significant or material to the financial statements and related information. We will not examine all of the transactions recorded in the books and records.

We will use confirmation procedures to communicate directly with third parties such as banks, financial institutions, creditors, customers, and attorneys. We will select additional account balances or transactions that we consider significant for detail testing. We will examine supporting information received from third parties and may utilize predictive tests to measure anticipated results or balances compared to the amounts recorded in the financial statements.

Materiality will be determined during our preliminary planning procedures. Materiality will be based upon our review of the preliminary financial statements and will serve as a guide for the determination of our auditing procedures. It is usually stated in terms of a percentage of total assets, total revenues, total income or total net worth. However, materiality also relates to the design of the financial statements and the disclosures made in the accompanying footnotes.

Materiality is a judgment amount at best. Simply put, materiality is an amount (or a financial statement disclosure) that by its inclusion or omission from the financial statements, could influence the financial statement user's conclusions about the Corporation. Therefore, materiality is determined by the financial statement user.

Fraud and Abuse

We will design our auditing procedures to detect material fraud or abuse. However, fraud or abuse may exist and not be detected by us.

- Collusion by employees can disguise fraudulent transactions, vendors or employees.
- Management can override internal control procedures by virtue of its ultimate control over the preparation of the financial statements.
- We will interview employees regarding their knowledge of any fraud or abuse.

Abuse is distinct from fraud, illegal acts, and violations of contracts or grants. When abuse occurs, no law, regulation, or contract is violated. Rather, abuse involves behavior that is deficient or improper when compared to that of a prudent person. The normal "test" is, "Would this make the headlines in the local papers?" An example of abuse is travel to an exotic location or frivolous expenditures that would not be considered prudent by your peers or by those reviewing your financial statements.

Communication of Deficiencies and Material Weaknesses

The auditor must communicate *significant deficiencies* and *material weaknesses* to management and those charged with governance.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance. A *control deficiency* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility (a reasonable possibility exists when the likelihood of the event is either *reasonably possible* or *probable* as those terms are used in SFAS No. 5) that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We will communicate our finding at or near the completion of our engagement in a written communication to the Board of Directors and the Audit Committee.

Other Matters

We gave significant consideration to establish that we are independent from the Corporation in both fact and appearance. We engaged the services of another certified public accounting firm to review our planning and prior year working papers to ensure that independence has not been impaired.

Timing of Audit

It is estimated that field work will begin on or about October 10, 2012. Most of the confirmation requests and direct communications with third parties will be mailed prior to this time.

This information is intended solely for the use of the Audit Committee, the Board of Directors and management of Texas State Affordable Housing Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours



Mikeska, Monahan & Peckham, PC