

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

TSAHC Offices
2200 East Martin Luther King, Jr. Blvd.
Austin, Texas 78702

Thursday,
August 15, 2013
9:15 a.m.

COMMITTEE MEMBERS:

WILLIAM H. DIETZ, JR., Vice Chair

GERRY EVENWEL
DAVID LONG
MELINDA SMITH

I N D E X

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1
2 MR. DIETZ: I think we are ready to call the
3 Audit Committee meeting to order, and it is August 15,
4 2013 at 9:15 a.m.

5 Let's have a roll call. Bill Dietz, I'm here.
6 Gerry Evenwel?

7 MR. EVENWEL: Present.

8 MR. DIETZ: David Long?

9 MR. LONG: Here.

10 MR. DIETZ: Melinda Smith?

11 MS. SMITH: Here.

12 MR. DIETZ: We're all here and accounted for.

13 Do we have any public comment?

14 (No response.)

15 MR. DIETZ: Then it looks like the first tab
16 item is: Presentation, discussion and approval of minutes
17 of the Audit Committee meeting that was held on September
18 13. Is that right?

19 MR. LONG: I make a motion to approve the
20 minutes, as written.

21 MR. DIETZ: Is there a second?

22 MR. EVENWEL: I know people are looking at me
23 for a second, but I wasn't at that meeting. I was not a
24 participant in that meeting so I don't feel comfortable.

1 MR. LONG: Okay, that's fine.

2 MS. SMITH: I second.

3 MR. DIETZ: All in favor of approving the Audit
4 Committee meeting minutes from the meeting held on
5 September 13, 2012, say aye.

6 (A chorus of ayes.)

7 MR. DIETZ: On to tab item 2: Presentation,
8 discussion and possible approval of the Fiscal Year 2014
9 Operating Budget.

10 MR. EVENWEL: Before we get into that, may I
11 ask a question?

12 MR. DIETZ: Yes.

13 MR. EVENWEL: We have a statement that says
14 this is what this committee does, and it doesn't
15 specifically say approve the budget.

16 MR. DIETZ: That's right.

17 MR. EVENWEL: Can you walk me through why the
18 committee is looking at it, not literally, but just how do
19 we stretch our mission?

20 MR. DIETZ: Correct me if I'm wrong, but my
21 understanding is that the Audit Committee approves the
22 budget for presentation to the Board of Directors. The
23 full Board actually approves the budget. So we're not in
24 this committee meeting formally approving a budget, we're

1 just approving it to go to the Board of Directors.

2 MR. EVENWEL: And I understand that, what we're
3 doing, but it's not in our procedure that that's one of
4 the responsibilities of this group. Should that be in
5 that document?

6 MR. DIETZ: Should that document be expanded to
7 include.

8 MS. SMITH: The guidelines?

9 MR. EVENWEL: Is that what it's called?

10 MR. DIETZ: That's a good point because we
11 definitely do that.

12 MR. EVENWEL: It says Audit Committee
13 Guidelines, and it does not talk about approving or
14 looking at or even glancing at this and then sending it to
15 the Board.

16 MR. DIETZ: Right.

17 MR. LONG: We can certainly modify. I can't
18 answer your question definitively because I don't think it
19 was intended to be excluded. I think the premise was that
20 the Audit Committee, from the standpoint of its scope,
21 whether it's stated or not, was that all fiscal review
22 and/or coordination of anything to do with the audit
23 review, Mr. Mikeska's reviews, those types of things,
24 would be presented to the Audit Committee, and then the

1 Audit Committee would make a recommendation to the full
2 Board which would then approve or disapprove anything the
3 Audit Committee approved of.

4 MR. EVENWEL: And I have no problem with it.

5 MR. LONG: You're just saying it's not
6 specifically stated as part of the guidelines.

7 MR. EVENWEL: Should it be?

8 MR. LONG: Well, we can certainly, as tab item
9 3 is approval of the Audit Committee Guidelines, we can
10 amend the guidelines to incorporate, at your discretion,
11 Mr. Evenwel, the language that would incorporate that.

12 MR. DIETZ: Are the Audit Committee Guidelines
13 subject only to Audit Committee approval? Is that
14 something that we self-regulate, or does the entire Board
15 have to approve the Audit Committee Guidelines?

16 MR. LONG: I don't have an answer to that.

17 MR. EVENWEL: I think we're a committee of the
18 Board, so the Board has to approve it.

19 MR. LONG: It would seem logical, what Mr.
20 Evenwel just said, is that the full Board has to approve
21 the guidelines of the Audit Committee as a subset of the
22 Board.

23 MR. EVENWEL: So having gone through that
24 laborious discussion, should we do this before it's in

1 those guidelines?

2 MR. LONG: I would ask Ms. Livingston, do you
3 have any thoughts on whether or not it would be
4 inappropriate, given that we would be talking through it?

5 MR. EVENWEL: It's apparently historical.
6 Right? I mean, we've done this. I'm new on the committee
7 so I'm only asking the question.

8 MR. LONG: No. I appreciate your comments.

9 MR. EVENWEL: So the committee has done this
10 before so maybe that's enough.

11 MR. LONG: Precedent?

12 MR. EVENWEL: If that's the right word.

13 MR. LONG: If it is, yes.

14 MR. DIETZ: I would suggest that we move
15 forward with the normal course of business that we
16 typically do in this committee, and that for clarity's
17 sake for the future we do exactly what Mr. Evenwel
18 suggested and include in the Audit Committee Guidelines
19 specifically and more comprehensively what we do being the
20 Audit Committee.

21 MR. LONG: And I would concur with that, and I
22 think I would even add that I'm of the opinion the Board
23 of Directors, the full Board is expecting that as part of
24 what they would see from you today.

1 MR. EVENWEL: The committee's work.

2 MR. LONG: The committee's work. And even
3 absent the language in the actual guidelines -- which we
4 can amend and change at the full Board meeting -- I would
5 suggest that we do go forward with the budget review so
6 that they understand that what we have done in the past is
7 going to be what they would see from us at the Board
8 meeting in about an hour and a half.

9 MR. EVENWEL: Just questions.

10 MR. LONG: No. I think it's great questions.
11 I appreciate your insight on it.

12 MR. DIETZ: That's great. That will add some
13 clarity for future Audit Committees.

14 So with that, why don't we go ahead and proceed
15 forward with tab 2 which is: Presentation, discussion and
16 possible approval of the fiscal year 2014 operating
17 budget.

18 MR. EVENWEL: No objection.

19 (General laughter.)

20 MS. SMITH: Good morning. My name is Melinda
21 Smith, for the record, and we are presenting the fiscal
22 year 2014 operating budget.

23 I have given you a handout which is the
24 operating budget on the first page and then there are

1 supporting schedules behind that, supporting each of the
2 line items. Overall, we're requesting a budget of around
3 \$8 million and in revenues \$8,081,000 and expenditures
4 \$7.9 million. And I would be happy to go over the detail.

5 Should we just start from the beginning?

6 MR. DIETZ: I think so, that may be helpful,
7 with particular emphasis just on those items that are
8 significantly different from what the 2013 budget called
9 for.

10 MS. SMITH: You want to focus on those items?
11 Okay.

12 Just to sort of get started, page 2 of the
13 handouts, that's our servicing income and it has not
14 changed that significantly from last year, but I did want
15 to point out that that represents our small loan portfolio
16 of second lien loans and our master servicing agreement
17 for the Texas Department of Housing and Community Affairs.

18 We act as master servicer on three of their bond
19 programs, and so this represents the income from those
20 programs.

21 Page 3 is our Single Family Bond Program
22 income, and that is a number that has fluctuated
23 significantly over the last few years. That line item is
24 made up of our Single Family Bond issuer fees, our

1 Mortgage Credit Certificate Program. During the past year
2 we had a sale of one of our older bond programs, some
3 certificates from the program. This also includes our new
4 TBA Program, and our Single Family Loan Compliance
5 Program. So total income that we're projecting for fiscal
6 year 2014 from that program is \$3.7 million.

7 On page 4, this is our Multifamily Oversight
8 and Rental Program. This basically represents issuer fees
9 and asset oversight fees related to the various
10 multifamily bond programs that we have issued over the
11 years. Also, it includes a few asset oversight contracts
12 that are just exclusively asset oversight, and then also,
13 our Single Family Rental Program, the last line item on
14 that page, for a total of \$536,000.

15 Page 5 represents basically, these are notes
16 receivable from our various lending programs, it
17 represents the cash, principal and interest that we'll be
18 receiving on each of those, \$300,000.

19 Page 6 is our ACT Program revenue. This is
20 income from the sale of properties that we have purchased
21 or received, donated through the ACT Program and the
22 associated fees for the ACT and Veterans Program, and it's
23 \$2.2 million total for fiscal 2014.

24 On page 7 we have both our federal and state

1 grant programs. One thing I would like to point out about
2 this is our Neighborhood Stabilization Program, that grant
3 is winding down. The only thing that we will be receiving
4 in the new year are reimbursements for the holding costs,
5 the costs that we're incurring to keep the properties and
6 lots mowed and the homeowners association fees paid, et
7 cetera, until we sell those properties. And then we'll
8 also have income from the National Foreclosure Mitigation
9 Counseling Program again this fiscal year, \$177,000. And
10 then we have some grant funds from foundations and various
11 banks that we're expecting, \$790,000.

12 MR. EVENWEL: That's a big jump.

13 MS. SMITH: Yes, it is.

14 MR. EVENWEL: Do we have something in the
15 pipeline that we know about, or that's just an estimate?

16 MR. LONG: It's an anticipated continuation.
17 We have a grant and it was due and we're anticipating an
18 extension of that grant, so we have to reflect it as new
19 funds coming in.

20 MR. EVENWEL: So it's something in the pipeline
21 already.

22 MR. LONG: Yes, sir.

23 MS. SMITH: The last two revenue items just
24 represent our investment revenue, just on the

1 Corporation's invested funds, and then our tenant income
2 from the lease of the office space on this side of the
3 building over here. It's not a great deal of income, but
4 every bit counts.

5 On page 8, this is salary expenditures, and
6 we're budgeting 20 FTEs. That includes the addition of
7 one FTE for the Single Family Loan Compliance Program.

8 MR. LONG: And then we added a second position,
9 just for potential growth wherever we might need that
10 staff person. It wouldn't be added unless we knew we had
11 a demand for it, but you know, we just want to be prepared
12 budget-wise in case we have to add a person.

13 MS. SMITH: And we only budgeted that for half
14 a year.

15 MR. LONG: Correct.

16 MS. SMITH: Let's see, on page 10 are our
17 professional fees. We have a variety of different
18 professional fees, legal, accounting, our investment
19 advisor, Patterson & Associates, First Southwest Company.
20 Professional fees also includes our software maintenance
21 contract for our new loan servicing, our loan compliance
22 software. And then we've added a little additional money
23 in that line item to overhaul the online reporting system
24 for our asset oversight program. It's in need of some

1 work right now. It's difficult for the properties out in
2 the field to upload information, so we wanted to
3 streamline that and make that better. So total
4 professional fees are budgeted at \$333,000.

5 On page 11 are our notes payable. These are,
6 for the most part, associated with a receivable on the
7 other side where we have made a loan through one of our
8 lending programs and we have borrowed the money from
9 Federal Home Loan Bank and then put in some of our own
10 funds, and so for the most part, all of these are
11 collateralized by a receivable on the other side.

12 One thing I'd like to point out is during the
13 year we did pay off the mortgage on the office building,
14 so we no longer have a mortgage loan. And additionally,
15 we have a note from the Meadows Foundation that will be
16 due in December of 2013 for \$500,000.

17 MR. LONG: And that's what's reflected in that
18 2000 MLK, that's the significant variance between the
19 actual and the budgeted. \$66,750 was the actual pay down
20 and the interest on that for the year.

21 MS. SMITH: Page 12 is travel and meals, and
22 this is budgeted just based on historical experience and
23 staff's knowledge about what they have planned for the
24 year. In the case of Asset Oversight, how many properties

1 they'll be monitoring on site, that sort of thing, and of
2 course, just our regular travel for the Board and staff
3 conferences, et cetera.

4 Nothing else really particularly jumps out at
5 me. If you want to skip to page 15, that's our budgeted
6 insurance expense. I did want point out that --

7 MR. EVENWEL: Now, you said 15, my document
8 says 13.

9 MR. LONG: Hers includes the two pages for the
10 salaries breakout.

11 MR. LONG: I'm on page 13, just like you are.

12 MS. SMITH: I'm so sorry. I didn't realize
13 there was a difference. I'm so sorry.

14 MR. LONG: Mr. Evenwel, I'm on the same page
15 you are. Are you there too, Mr. Dietz?

16 MR. DIETZ: Yes.

17 MR. LONG: It's Exhibit B-7.

18 MS. SMITH: So Exhibit B-7 is our insurance
19 expense, and I did want to point out that we've had a
20 significant increase in insurance expense, primarily
21 related to the number of donated properties that we've
22 received. We have some 500 properties and the general
23 liability and property and casualty related to those
24 properties has been significant. That's the \$72,000 that

1 you see, it's the next to the last line item, vacant
2 properties/lots. The rest of the insurance has, for the
3 most part, remained pretty much the same.

4 On Exhibit B-9, this budgeted Single Family and
5 Multifamily program expenditures. At the top of the page
6 this is the ACT and Single Family/Multifamily rental
7 programs, and we have expenditures related to the sale of
8 the ACT properties and the related closing costs and the
9 costs of holding those properties, and then we've also
10 included \$500,000 in additional lines of credit that might
11 be extended during the year through the lending program.

12 At the bottom of the page is our Single Family
13 Rental program. This is the new program where we're
14 actually purchasing a few homes and renting them. I'm
15 sure David can provide you with a lot more detail on that
16 if you were interested.

17 MR. LONG: If you remember, what the Board
18 approved was the Corporation expending funds for the
19 acquisition of single family rental properties to create
20 affordable properties in the market, and the original
21 scope would be the MSA for Austin and the surrounding
22 areas. I had reported at the last meeting that we had
23 acquired two properties so far, one in Round Rock, one in
24 Pflugerville, and as of yesterday, we have an offer

1 accepted on a property in south Austin.

2 So the scope would be that we would look to
3 continue that, staying within the original budgeted dollar
4 amount that the Board gave us to continue that program.
5 We don't envision that it's going to be a huge expense,
6 but we do want to budget for up to, but as the market
7 changes and property availability drives that whole
8 program, we'll see where it goes. But that's what she's
9 presenting here is that continuation of that program into
10 this fiscal year.

11 MS. SMITH: Exhibit B-10 is our federal and
12 state grant expenditures. This is the NFMC, the National
13 Foreclosure Mitigation Counseling program, which has
14 continued over from last year, and then you may recall I
15 mentioned earlier the Neighborhood Stabilization Program
16 has wound down and the only thing we're expecting is to be
17 reimbursed for the cost of maintaining the properties
18 until they're sold, the mowing and homeowner association
19 fees, et cetera.

20 And then the last exhibit that I've included is
21 for the Single Family Homeownership program. This
22 includes the Homebuyer Education program and the training
23 that they offer through that program. I believe they do
24 it twice a year. And then the various fees, et cetera

1 that have to be paid for our Mortgage Credit Certificate
2 program to the Bond Review Board, et cetera.

3 And that's about it. If you have any
4 questions, I'd be more than happy to try and answer them.

5 MR. DIETZ: It looks like the biggest expense
6 differences are the principal and interest on the notes
7 payable, and that's because of paying off the mortgage,
8 and then the insurance expense is because we've got a lot
9 more properties than we used to have. And then the last
10 one is the Single Family/Multifamily program expenditures,
11 and again, that's because of the expansion of that.

12 MR. LONG: I mean, it's for good reasons, it's
13 expanding our programs, there is cost associated with it.

14 We also anticipate a revenue stream to offset those
15 costs. So in trying to achieve our mission of providing
16 affordable housing, there is an expenditure to acquire
17 things and then the potential income stream that comes
18 back when we put people in those houses and they start
19 paying rents, or we have the sale of the properties to
20 affordable borrowers and those sales reimburse the
21 Corporation for its expenses. So there should be an
22 offsetting revenue stream with each of the expenses, it's
23 just a timing issue.

24 MR. DIETZ: Thank you for walking us through

1 that, Melinda. I think that's very clear and detailed.

2 MS. SMITH: You're welcome.

3 MR. DIETZ: Gerry, since this is your first
4 time in this particular meeting.

5 MR. EVENWEL: My only comment -- and what you
6 did is really good, I understand what's happening here --
7 but are we getting into a situation of too much mission
8 creep -- as we would say in a different world.

9 MR. LONG: I'm not sure I understand. What is
10 that?

11 MR. EVENWEL: I know we're not the full Board
12 here, and everything you're doing, the Board has been
13 approving it, but we're getting into a lot of new areas
14 here, which is all good, I'm not saying it's bad, but are
15 we getting into too many new areas, or we're managing it?

16 MR. LONG: I think we're managing it. I think
17 we have very good staff in place to manage these programs.

18 I think we are not competing with the private sector
19 which has always been a big kind of mission to try and
20 make sure we don't step on toes, if you will. I think the
21 Corporation's exposure in these areas is well secured. We
22 don't seem to be doing anything without staff giving us an
23 analysis. As an example, when we buy a property for a
24 single family rental, the one we have a contract on that

1 was accepted yesterday, it's a two-bedroom, one-bath
2 condominium in south Austin. The rents in that
3 neighborhood are running between \$1,200 and \$1,300 a
4 month, we'll rent it for under \$1,000. So we believe
5 we're providing a very solid, affordable living area in a
6 very high demand area, and we can do that through this.

7 I guess could somebody else have purchased that
8 and rent it for \$1,300, sure, but we do it in a manner to
9 create some affordable housing. We're not trying to buy a
10 thousand properties in the Austin Metro area and compete
11 with anybody, we're just picking up those units that we
12 feel are going to give us enough to keep an affordable
13 process in place.

14 Same thing with the Single Family Compliance.
15 That was an extension of a program that we had already
16 been doing and we believed what we did is accomplished not
17 only the generation of a revenue stream to enhance what we
18 could do in the Single Family program, but we gave our
19 borrowers and our lenders a much quicker process, we gave
20 them a much more hands-on review by us, and we control
21 that program a lot better. Rather than it being
22 outsourced to a third party and still paying that third
23 party to do it, we're doing it internally.

24 So I think in each of those two examples I gave

1 was to show that while it looks like we're expanding
2 outside the mission or expanding our mission too broad, I
3 would say we've stayed very focused on the single
4 family/multifamily affordable housing mission, we've just
5 tried to expand our ability to control those areas of
6 scope that the Board has given us approval to do so. And
7 yes, in some areas it looks like we're reaching out a
8 little further than we have in the past, but I think the
9 market has given us that availability to do so.

10 I'll give you an example on the Single Family
11 Rental -- Mindy and James aren't here to explain -- we've
12 been looking at properties in the Cedar Park/Leander area
13 for months, and literally when a property hits the market
14 up there, there's five offers on it, if it's a reasonable
15 property. And we are trying to provide affordable
16 housing, and I can promise you with that demand, we're not
17 going to be able to provide affordable housing in that
18 area unless we find the right property and put it in
19 there, because a lot of those are investor purchased for
20 case, sight unseen. It's a realtor working with a real
21 estate investment firm who is just buying properties as
22 quick as they can. They're not going to worry about the
23 affordability of the rent on that, where if we go in and
24 we can do that, we can provide affordability. So we're

1 going to be very competitive in our rents, but we're not
2 going to be so competitive that we have a majority of the
3 market, we never would be in that position.

4 So again, I think, Mr. Evenwel, to your
5 question, I would say we're expanding the scope of what we
6 do within the programs you've approved us to do by
7 providing a better service or a better product without
8 trying to get too, if you will, thin in what we're doing.

9 We're trying to stay focused in the core without getting
10 too far outside the bull's-eye, if you will.

11 I don't know if I answered your question.

12 MR. EVENWEL: I feel more comfortable. I've
13 been involved in other associations years ago that just
14 kept creeping and creeping and creeping and getting bigger
15 and bigger and doing lots of extra things, and I'm saying
16 wait a second, that's not our main focus. But we're still
17 there, you feel comfortable we're still there.

18 MR. LONG: Yes. And another example would be
19 Melinda mentioned several times about the direct lending
20 program that we offer. We will work with a local non-
21 profit partner organization who wants to be a developer
22 for us. All these 500 properties, well, we're not going
23 to build on those 500 properties, we'll work through a
24 network of builder/developer partners that we have worked

1 with and we know will have the ability to do that. Well,
2 in some instances we've grown those organizations from
3 being partners on a small scale to one of them now has a
4 \$500,000 line of credit with us. That organization
5 started off with like \$100,000 line of credit.

6 So those partners, we've helped with capacity-
7 building on that, and I do believe that is some role that
8 may be viewed as a stretch but I believe it to be a very
9 key role in working with other smaller, non-profit
10 organizations that not only provide a service back to us,
11 but we can grow them to becoming better at what they do in
12 their specific niche market that they serve, and one of
13 them is right here in Austin.

14 We have that all over the state. Mr.
15 Danenfelzer and Ms. Ropiak have expanded that program.
16 What might be 500 properties, we can't do those all over
17 the state from this office, so we work with our non-profit
18 partners, and sometimes it helps us to provide them a cash
19 flow to do that through a line of credit, but we generate
20 a revenue on that line of credit and it's typically to
21 build on an asset we already own. So we find it to be a
22 pretty solid model to work from.

23 Do we find kinks in it every once in a while?
24 Sure. Sometimes the local non-profits that we work with

1 don't turn out to be the best that we could have and we
2 have to either work to expand their capacity or find that
3 we can't work with them anymore. And we've had
4 conversations about that. But I think in goal we always
5 try and stay within the core mission where we started, but
6 sometimes it is an expansion of the effort to ensure that
7 we're able to meet our goal.

8 So I think those three examples show that we're
9 stepping outside the box a little bit but it's all focused
10 to ensure we're doing what we need to be doing with our
11 resources back to our mission stated goals.

12 MR. EVENWEL: Good.

13 MR. DIETZ: Any other questions about the
14 budget? The Board, at least historically, has relied
15 heavily on this committee's recommendation of bringing the
16 budget to the Board, and so I want to make sure that we
17 have had ample time to ask any questions.

18 MR. LONG: And I might add, Mr. Evenwel, that
19 this committee, Mr. Dietz will be asked to give a report
20 in the full agenda of the Board meeting, as you probably
21 saw in your Board book, so there's an opportunity for
22 dialogue on that and there is an agenda item, tab item 2,
23 in the full Board agenda for them to have additional
24 Q-and-A after Mr. Dietz's report to the Board on

1 everything, because I know Mr. Mikeska is going to come up
2 and give you an audit report as well. So they'll have a
3 chance for further dialogue on that, so this would be
4 further discussed at that point.

5 MR. DIETZ: That's true.

6 MR. DIETZ: Any other discussion, comments? Is
7 there any public comment?

8 (No response.)

9 MR. DIETZ: Is there a motion to approve for
10 presentation to the Board of Directors the fiscal year
11 2014 operating budget?

12 MR. EVENWEL: I so move.

13 MR. DIETZ: Is there a second?

14 MR. LONG: I'll second.

15 MR. DIETZ: All in favor of approval of the
16 fiscal year 2014 operating budget for submission to the
17 Board of Directors, please say aye.

18 (A chorus of ayes.)

19 MR. DIETZ: The motion passes.

20 Let's move on to tab 3: Presentation,
21 discussion and possible approval of the Audit Committee
22 Guidelines.

23 MS. SMITH: Yes. Under tab 3 we have the Audit
24 Committee Guidelines, and the guidelines do state that

1 they should be approved annually, so that was our purpose
2 here today. And we have one minor change on the very
3 first page which was really just to expand item 4 under
4 purposes regarding the Audit Committee's primary duties
5 and responsibilities. They are to monitor compliance by
6 the Corporation and its directors, officers and employees
7 with all applicable laws, regulations, contracts,
8 agreements and grants, and the Corporations code of ethics
9 and conflict of interest policies. And what we've added
10 there was just the laws, regulations, contracts,
11 agreements and grants, just to expand that one little
12 section. And I believe that recommendation came from our
13 auditor.

14 MR. LONG: I would also add that, given Mr.
15 Evenwel's comments earlier, that we would look to ask the
16 Board to add more in here. Is that what the committee
17 would like to recommend to the Board?

18 MR. DIETZ: Yes. I think that we would like to
19 enumerate the specific responsibilities, including
20 preliminary approval of the budget.

21 MR. LONG: Is that correct for you, Mr.
22 Evenwel?

23 MR. EVENWEL: Yes.

24 MR. DIETZ: And I don't know if between now and

1 the Board meeting we can talk about specific language or
2 how we can do that. Ms. Livingston is here from Greenberg
3 Traurig as counsel, so we can maybe confer with her as to
4 what we're adding in is appropriate, at least from the
5 committee members' viewpoint.

6 MR. DIETZ: The one change that you had brought
7 to the table, is that to be done vis-à-vis the annual
8 audit? Is that how we would be responsible for ensuring
9 compliance with those laws and regulations?

10 MS. SMITH: Yes.

11 MR. DIETZ: Okay. Just wanted to make sure I
12 understood.

13 MR. EVENWEL: That change that's proposed in
14 number 4, should we be getting something in writing that
15 says here the synopsis of our regulations, contracts,
16 agreements and grants, and then on the opposite side of
17 the page say this is how we did or did not follow those?

18 MR. LONG: Mr. Mikeska, do you want to answer
19 that?

20 MR. EVENWEL: I'm just wondering. I don't know
21 if I've seen every regulation, contract, agreement and
22 grant that this Corporation has.

23 MR. MIKESKA: For the record, my name is Don
24 Mikeska with Mikeska, Monahan and Peckham, the independent

1 auditors for the Corporation.

2 Part of the audit that we're going to discuss,
3 the audit engagement, includes an audit on our part of the
4 compliance by the Corporation with laws, regulations,
5 grants and other agreements. That's required by the GAO,
6 Governmental Accounting Office, under Government Auditing
7 Standards. So we do see and go through those various
8 contracts and grant agreements that could have a material
9 impact.

10 MR. EVENWEL: You go through each one?

11 MR. MIKESKA: Well, those that could have a
12 direct and material effect on the financial statements.

13 MR. EVENWEL: Material effect. Okay.

14 MR. MIKESKA: With respect to, let's say, debt
15 agreements where you might be required to have certain
16 levels of net worth or certain ratios of debt to equity.
17 Compliance with OMB A-33, for instance, which is the
18 Single Audit, where you have federal funds and you expend
19 those federal funds, there's 14 potential compliance
20 requirements and as part of the audit we look at what,
21 again, could have a direct and material effect on the
22 financial statements.

23 When I say direct and material effect on the
24 financial statements, it could be by inclusion or

1 exclusion of certain facts and circumstances that would
2 impact the financial statement user's opinion of the
3 Corporation, meaning where non-compliance with that
4 particular item might represent the requirement to repay
5 those funds. I've had that situation happen in Austin
6 where the city did not require with certain federal
7 requirements and had to repay monies to the federal
8 government. That has a material effect on the financial
9 statements.

10 MR. EVENWEL: Is the threshold a dollar amount
11 or is the threshold different with each?

12 MR. MIKESKA: We're going to discuss
13 materiality when we talk about the audit engagement, but
14 materiality is in the eye of the financial statement user.

15 It could be a dollar amount or it could be a financial
16 statement disclosure. But materiality, for the most part,
17 is usually defined in dollar amounts from the standpoint
18 of the auditor, and the feds, obviously, they are going to
19 say 5 percent of your federal expenditures is material. I
20 don't pick that number but that's what the feds use.

21 Compliance with laws, regulations, grants,
22 contracts and other agreements has a very broad sense.
23 Obviously, you are delegating that responsibility for
24 compliance to management, but the Audit Committee and the

1 Board, those charged with governance are ultimately
2 responsible for that. That's why I recommended that the
3 language be placed in the guidelines because, as we will
4 see when we deliver the audit report, that very language
5 appears in the GAO Governmental Audit Opinion.

6 MR. EVENWEL: Would this include any lawsuits
7 that we're involved in, if any?

8 MR. MIKESKA: Well, lawsuits obviously could
9 result from failure to comply with terms of some sort of
10 contract.

11 MR. EVENWEL: I know we're not a public
12 corporation, so we look at it a little differently.

13 MR. MIKESKA: That still is an issue that is
14 addressed as part of the audit. We communicate directly
15 with all counsel in writing and request that they respond
16 to us if there are any items, whether they be contingent
17 in nature or whether or not a claim has been filed. So we
18 do review that. And as part of the financial statement
19 disclosure, management would be required to disclose any
20 contingencies, commitments, contracts and other agreements
21 that could have a material effect on the financial
22 statement user/reader. Again, you don't want to exclude
23 something from the financial statements that is important
24 to the user of those financial statements.

1 And you've got multiple users. You've got the
2 State Auditor's Office, you've got all your bond trustees,
3 and we have the Texas Legislature and we've got Texas
4 Department of Housing and Community Affairs. You've got a
5 lot of parties that are interested in your financial
6 statements, so there's a very big picture there by the
7 users.

8 MS. SMITH: Thank you, Don.

9 MR. LONG: I guess, Mr. Evenwel, one other
10 question I would have would be regarding the addition of
11 the language regarding the oversight of this committee to
12 review the proposed budget and any recommended changes in
13 the future, if there's a budget amendment or whatever.
14 Are you comfortable with us putting together some language
15 between now and then, or would you like to do it at this
16 time before we start.

17 MR. EVENWEL: I'd even feel comfortable doing
18 this at our next meeting of the Board.

19 MR. LONG: Okay, that's fine.

20 MR. EVENWEL: It's not a small thing to amend
21 something like this.

22 MR. LONG: I understand that. I'm just looking
23 to you for your concerns about timing to make sure we
24 don't not comply with what you're looking to accomplish.

1 MR. EVENWEL: I just want to be sure that if
2 that's something we should be doing that it's in here as a
3 shall do, then we ought to have it in here.

4 MR. LONG: I would suggest to you it is
5 perceived that that's exactly what this committee does.

6 MR. DIETZ: And in looking at the purposes of
7 the committee, monitor the integrity of the Corporation's
8 financial reporting process and system, I mean, that could
9 be included.

10 MR. EVENWEL: Well, that was my question: is
11 something in here interpreted to be this?

12 MR. DIETZ: I think that that's theoretically
13 included in that number 1 in our purposes, so perhaps the
14 best way to really clarify that is down under paragraph 3,
15 responsibilities and duties, that might be the best place
16 to add another numeral. We've got four responsibilities
17 and duties enumerated, maybe add a fifth that specifically
18 states that we're supposed to do that.

19 MR. EVENWEL: Well, I have the same comment on
20 our agenda as tab number 4, where we're discussing
21 officers and stuff like that, is that something that we
22 should be doing? Is that in our guidelines? I mean, is
23 there something in our guidelines that would make me feel
24 comfortable that we should be doing that?

1 MR. DIETZ: That specifically the Audit
2 Committee should be doing that on a preliminary basis
3 before the Board approves it?

4 MR. EVENWEL: Yes.

5 MR. LONG: I think on tab item 4, Mr. Evenwel,
6 we were going to suggest that we pull that item anyway.

7 MR. EVENWEL: I mean, it looked like it was a
8 copy from the Board, but I was wondering why we should.

9 MR. LONG: Well, I think it was one of those
10 things because we were looking at officers, I think we
11 wanted to have -- it was a presentation and discussion, it
12 really wasn't a formal request that this committee
13 approve, but we wanted to have you guys consider it and
14 talk through what it would mean for the Corporation, but
15 on the agenda it was listed as a possible approval of a
16 ratification to the resolution. So I think what we're
17 talking about is we want to pull it on both agendas at
18 this point and bring it to the Board the next time because
19 we had some further discussion we wanted to have on it
20 internally anyway. So we wouldn't even need to consider
21 tab item 4 for the Audit Committee at this time. Staff
22 would recommend that we pull it, if that's okay with the
23 other members of the committee.

24 MR. DIETZ: As well as to pull it from the

1 Board agenda.

2 MR. LONG: That's correct. When we get to the
3 full Board meeting, I'll mention to you, Mr. Chairman, at
4 the time of the meeting that we pulled tab item 4 -- I
5 think it's listed as tab item 4, as well. It is tab item
6 4, so we would pull it from both agendas, at this
7 committee meeting, as well as at the full Board when we
8 have that meeting later today.

9 MR. EVENWEL: Well, continuing our discussion
10 of tab number 3, on page 2 of the guidelines it says the
11 committee shall meet a minimum of two times a year. I
12 only know of the committee meeting once this last twelve-
13 month period.

14 MR. DIETZ: Fiscal year.

15 MR. LONG: We mean in a fiscal year which is
16 September 1 through August 31, and we typically would meet
17 to do the budget and then we'll meet during the audit
18 review period for Mr. Mikeska's review presentation to the
19 Audit Committee and the Board of the final audit. Those
20 are the two times that we perceive to meet, but we can
21 meet beyond those.

22 MR. EVENWEL: Because we only had one minutes
23 on here which was last September which just led me to
24 believe that between last September and now, it hasn't had

1 a meeting.

2 MS. SMITH: We would have had one in December
3 and approved the audit.

4 MR. LONG: There's no minutes is what he's
5 saying.

6 MR. EVENWEL: There's no minutes from that
7 meeting.

8 MR. LONG: There's no minutes for that meeting
9 to be approved. I have no idea on that answer.

10 MR. EVENWEL: Just a question.

11 MR. LONG: We could present those at the next
12 meeting.

13 MR. EVENWEL: That concludes my remarks.

14 MR. LONG: In response to that, Mr. Chairman,
15 what I would suggest we do is we bring the Audit Committee
16 meeting minutes for the December meeting at the next
17 meeting when we meet, and that way we'd be up to date on
18 the minutes review and this meeting's minutes at that
19 time. Because Mr. Evenwel is correct, there should have
20 been minutes available. Whether they're prepared or not,
21 they should still need to be reviewed and discussed at the
22 committee meeting for approval, and I, quite honestly,
23 can't tell you why we don't have minutes for the December
24 meeting available.

1 MR. DIETZ: I don't remember if we met in
2 December.

3 MR. LONG: We did because Mr. Mikeska made a
4 presentation to the committee prior to his presentation to
5 the full Board of the audit.

6 MR. DIETZ: Okay.

7 MR. LONG: So we can pull that transcript and
8 generate minutes for that, as well as for this meeting,
9 and we'll present those at the Audit Committee meeting
10 that we would hold sometime, I think it's in December when
11 we hold that, and we'll have those available if that's
12 sufficient for the committee.

13 MR. DIETZ: So I think that what we'll probably
14 need to do is figure out exactly how we're wording this
15 amendment -- or the recommended amendment to the Audit
16 Committee Guidelines. We've already got specific language
17 for the amendment that staff brought to the committee, and
18 then with the other amendment, are we pending that,
19 tabling that until the next Audit Committee meeting?

20 MR. EVENWEL: I'd feel comfortable doing that
21 since it's a brand new piece of business that came up.

22 MR. DIETZ: Yes.

23 MR. LONG: So the next Audit Committee meeting
24 we would look at not only the guidelines as amended per

1 the conversations today, but also pulling it from the full
2 Board meeting today to have it available at the next Board
3 meeting if that's commensurate with that same time frame.

4 Correct?

5 MR. EVENWEL: And that's certainly enough time.

6 MR. LONG: We're fine either way. At the
7 discretion of the committee members, we're fine to do it
8 either way.

9 MR. DIETZ: So is there any other discussion
10 regarding the Audit Committee Guidelines, or any public
11 comment regarding the Audit Committee Guidelines?

12 (No response.)

13 MR. DIETZ: If not, I'll entertain a motion to
14 approve the amended Audit Committee Guidelines, as
15 presented.

16 MR. LONG: Are we approving them based on this
17 current change that's being recommended, with the idea
18 that we would have further changes at the next meeting?

19 MR. DIETZ: Yes.

20 MR. LONG: Under that scenario, I'll make a
21 motion to approve.

22 MR. EVENWEL: Second.

23 MR. DIETZ: All in favor of approval of the
24 Audit Committee Guidelines as presented for presentation

1 to the Board of Directors, please signify by saying aye.

2 (A chorus of ayes.)

3 MR. DIETZ: Any opposed?

4 (No response.)

5 MR. DIETZ: Okay. That passes.

6 On to tab item 4 which we are pulling.

7 MR. LONG: Yes, sir. We prefer to withdraw
8 that agenda item at this time.

9 MR. DIETZ: Okay. Then I think we're on to tab
10 item 5 which is: Presentation and discussion of the
11 annual financial and OMB Circular A-133 audit for the
12 fiscal year ended August 31, 2013.

13 MR. MIKESKA: For the record, my name is Don
14 Mikeska. I'm with Mikeska, Monahan and Peckham, the
15 independent auditor for the Corporation, and I do
16 appreciate the opportunity to visit with you this morning
17 and discuss the audit engagement as it is currently
18 planned. Professional standards require that the auditor
19 communicate with those charged with governance,
20 specifically the audit committee, where such a committee
21 exist.

22 This is the annual audit. The audit of
23 financial statements will be conducted in accordance with
24 Government Auditing Standards, as I stated earlier. They

1 will also be conducted in accordance with OMB Circular A-
2 133, commonly known as the Single Audit, and that is
3 because the Corporation is expected to expend more than
4 \$500,000 in federal awards. That's the cutoff point.
5 This may be the last year for the Single Audit, based on
6 the budget, because the budget looked like your revenues
7 are going to be less than \$500,000 next year.

8 But one of the things I wanted to mention, your
9 financial statements, they are management's financial
10 statements, and those charged with governance are
11 responsible for signing off on those financial statements.

12 They are discreetly presented in the State of Texas CAFR,
13 the combined financial statements of the State of Texas.
14 There's a column that says Texas State Affordable Housing
15 Corporation.

16 We are considered a subset auditor of the State
17 Auditor's Office because of that, and we will have to
18 communicate directly with the State Auditor's Office
19 regarding our planning and our materiality levels so that
20 they can pass approval of our audit plan. So that is part
21 of the engagement letter that I believe Mr. Dietz will be
22 signing today, and in that engagement letter we
23 specifically state that our work papers will be made
24 available to the State Auditor if they so deem that it's

1 necessary to review our work.

2 This is the first time this has happened and
3 it's because of a change in auditing standards stating
4 that where you have a combined report, a report of
5 combined entities and the same auditor is not auditing
6 each one of the component parts, the lead audit -- which
7 in this case is the State Auditor -- is responsible for my
8 work, ultimately. But that's not a real concern at this
9 point in time, I just wanted to let you know that there is
10 a big fish up there looking over our shoulder.

11 You should have in front of you a written
12 communication from my office, dated today's date, and this
13 is more or less referred to as the communication with the
14 Audit Committee prior to commencement of field work. The
15 field work is anticipated to begin approximately October
16 16. We're required to present a draft of the audited
17 financial statements to the State Auditor's Office by
18 November 20. We're required to present the final audited
19 financial statements to the State Auditor's Office by
20 December 20. We have in the past made those deadlines and
21 I don't see any reason why we would not make those
22 deadlines again this year.

23 We will meet again in December, prior to the
24 release of the financial statements, with the Audit

1 Committee and again with the full Board, as we have in the
2 past, to discuss the items that appear in the audit. And
3 there will be another required communication between the
4 auditor and the Audit Committee at that time, in writing,
5 just in prose, let's say, stating exactly what we found,
6 if there were any items that needed to be reported as
7 reportable conditions or material weaknesses. There have
8 been none in the past, but every year we're responsible
9 for reporting those.

10 This is a very long letter and I'm not going to
11 sit here and read it to you, but in the first page we're
12 stating exactly what our auditing responsibilities are, so
13 we are responsible for providing you with reasonable
14 assurance that your financial statements are free of
15 misstatement. Obviously, we will not audit all the
16 transactions during the year, we will use judgmental
17 selections to select certain transactions. We will use
18 predictive analysis in an attempt to satisfy ourselves as
19 to the operations for the year.

20 Management's responsibilities on page 2 would
21 indicate that management is responsible for the financial
22 statements, making decisions relating to the financial
23 statements, establishing and maintaining internal
24 controls, adjusting the financial statements to correct

1 any material misstatements, to design and implement
2 programs and controls to prevent and detect fraud. Our
3 responsibility is also to detect material fraud; we're not
4 responsible for detecting immaterial fraud. If we would
5 ever find any, we would report to the Audit Committee,
6 regardless.

7 Because we're conducting the audit in
8 accordance with Government Auditing Standards, there's two
9 tests that we actually apply: one is fraud, the other one
10 is abuse, and on page 3 we define abuse as being a
11 decision being made to expend monies or take some sort of
12 action that's not reasonable, and the test usually would
13 be: would it make the headlines of the local newspaper.
14 It might not be material to the financial statements, but
15 it could be just as simple as going to a conference in
16 Hawaii that had no bearing whatsoever on our particular
17 mission statement, would a prudent person do that.

18 Again, we're required to communicate any
19 deficiencies, any material weaknesses, so we go ahead and
20 define what a deficiency is and what a material weakness
21 is.

22 Management is responsible for implementation of
23 Government Accounting Standards Board opinions, called
24 GASB. I apologize in advance for using so many acronyms.

1 The GASB itself is controlled by the Financial Accounting
2 Foundation. FASB, Financial Accounting Standards Board,
3 more or less governs non-governmental entities; GASB,
4 Government Accounting Standards Board, governs accounting
5 for government. They're both covered by Financial
6 Accounting Foundation. So FAF is up here, FASB is over
7 here and GASB is over here.

8 Under Government Accounting Standards Board
9 opinions, we don't follow FASB at all. There's been more
10 or less a codification, if you will, of all of the
11 Government Accounting Standards bulletins and they're now
12 codified into basically a single document which is GASB-
13 62. In the current year there are three particular
14 pronouncements that will be implemented for the first
15 time. None will have a significant impact on the
16 Corporation. The only one that I think you'll really
17 notice is GASB-63 which is primarily a change in
18 nomenclature on the statements.

19 In the past we've used the term "net assets."
20 You will not see that term this year; you'll see "net
21 position." So when we have a statement of assets and
22 liabilities, it's going to be a statement of net position;
23 when you have the income statement, at the bottom you're
24 going to see beginning net position, the income or loss

1 for the year, and ending net position. There's a few
2 other minor little tweaks like that, but that's the only
3 significant thing I see.

4 Next year you will have to implement GASB-65
5 and there will be some significant changes. When I say
6 next year, 2013-2014 fiscal year. We will talk about that
7 and we will disclose some of the impact of that,
8 management will disclose some of that in the financial
9 statements. Which brings up a good point. The financial
10 statements belong to the Corporation. I don't prepare the
11 financial statements, Melinda and her staff prepare the
12 financial statements. The only thing that I'm going to
13 have in that report are three opinions: an opinion on the
14 financial statements, I'll have an opinion on compliance
15 with laws, regulations, contracts and other agreements,
16 and I'll have an opinion on compliance with the Single
17 Audit requirements of your federal awards. Those are the
18 only parts of the report that really the auditors handle.

19 So the footnotes will disclose the potential
20 impacts of things that occur after the August 31 year-end,
21 called subsequent events, and it's common to go ahead and
22 state in the footnotes the impact of any future
23 pronouncements that are already cast at this time. And
24 one of the most significant impacts is that the bond

1 issuance costs will be expensed in the year the bond is
2 issued. That's a new change. Up to that point in time,
3 bond issuance costs sat on your balance sheet -- I'll use
4 that word -- and they're amortized as part of the cost of
5 the issuance of the bonds, the bond interest. Now the
6 accounting gods have said that's a pure expense. It will
7 have a significant impact on your future financial
8 statements.

9 But there's an upside to it as well because
10 certain income items that were in the past deferred into
11 future years, they'll be recognized as income immediately.

12 MR. EVENWEL: Both expense and income.

13 MR. MIKESKA: Yes. So both will be impacted,
14 there will be a change. And that's important to the
15 financial statement reader and it's important to you as
16 trying to digest the financial statement. So that
17 disclosure will appear in the footnotes on commitments,
18 contingencies and any other events that might occur after
19 August 31 of 2013.

20 Are there any questions that I could answer at
21 this time?

22 MR. DIETZ: I don't think so. I mean, there's
23 nothing different from previous years.

24 MR. MIKESKA: No, there's not. Pretty much off

1 the computer and whatnot. There might have been just a
2 few little terms that change each year.

3 MR. DIETZ: But no substantial differences or
4 anything to note.

5 MR. MIKESKA: Anything you want to add,
6 Melinda?

7 MS. SMITH: I don't think so, I think you
8 covered it all.

9 MR. MIKESKA: I will tell you that while I'm
10 here conducting the field work, I will be attending the
11 Board meetings. If you have a Board meeting in October, I
12 may or may not be here then, but I'll certainly be here
13 for any November meeting, and usually at that time,
14 management asks me to just give you an update on the
15 progress of the field work, and I'll certainly be
16 available. I will be a fixture here for several weeks in
17 the fall.

18 MR. DIETZ: And it doesn't look like on this
19 tab item that any action is required from the Audit
20 Committee, this is just a presentation only.

21 MS. SMITH: Right.

22 MR. DIETZ: Thank you, Mr. Mikeska.

23 MS. SMITH: Thank you, Don.

24 MR. DIETZ: Is there any reason for the Audit

1 Committee to go into closed meeting?

2 MR. LONG: No, sir.

3 MR. DIETZ: Is there any other discussion about
4 anything pertinent to the Audit Committee?

5 MR. LONG: No, sir.

6 MR. DIETZ: If not, then we are adjourned, and
7 it is 10:17.

8 (Whereupon, at 10:17 a.m., the meeting was
9 concluded.)

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C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: August 15, 2013

I do hereby certify that the foregoing pages, numbers 1 through 47, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy King before the Texas State Affordable Housing Corporation.

(Transcriber) 08/20/2013
(Date)

On the Record Reporting
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