TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,
December 12, 2013
9:07 a.m.

COMMITTEE MEMBERS:

WILLIAM H. DIETZ, JR.
GERRY EVENWEL

I N D E X

P R O C E E D I N G S

MR. DIETZ: The time is 9:07 a.m. And we are starting the Audit Committee of the Texas State Affordable Housing Corporation, held on December 12, at the Texas State Affordable Housing Corporation Offices. I'll do a quick roll call. Bill Dietz, I am here.

Gerry Evenwel.

MR. EVENWEL: Present.

MR. DIETZ: David Long.

MR. LONG: Here.

MR. DIETZ: Melinda Smith.

MS. SMITH: Here.

MR. DIETZ: We are all here. And so let's see. I think we -- first have any public comment?

(No response.)

MR. DIETZ: Hearing none, we will go into our action items for the open meeting. Tab 1 is our presentation, discussion and possible approval of the minutes of the Audit Committee meeting held on August 15, 2013.

MR. EVENWEL: So moved.

MR. LONG: Second.

MR. DIETZ: Great. All favor?

(Chorus of ayes.)

MR. DIETZ: Great. The approval of the minutes

of the Audit Committee meeting held on August 15, 2013 passes. Tab 2, the presentation, discussion and possible approval of the Annual Independent Financial Audit for the fiscal year ending August 31, 2013. And I think we have Mr. Mikeska here to -- or Ms. Smith to take us into that action item.

MS. SMITH: Good morning. As you know, we are required to have a financial audit annually. And it is due to the Comptroller of Public Accounts on December 20th.

We are actually a component unit of the State of Texas. So our audit report will appear as a column in the State of Texas annual audit report, which will be issued in January or February, I can’t remember exactly which one.

And Don Mikeska, our auditor is here, to present our audit to you, this morning. So I will turn it over to him.

MR. MIKESKA: Thank you, Melinda. My name is Don Mikeska. I am with the audit firm of Mikeska, Monahan and Peckham. And we have completed our field work of the audit. We have a draft of the report that has been provided to the Committee.

I should say that the financial statements really are the responsibility of management, and

management has prepared the financial statements. Our obligation to you is to audit those financial statement in accordance with auditing standards acceptable in the United States Government Auditing Standards and in accordance with OMB Circular A-133 commonly known as a single audit. And we have concluded our audit.

I can tell you right up front that the opinion is an unmodified, unqualified opinion, which means that it is a clean opinion. In terms of our Governmental audit procedures, we were required to audit for both abuse and fraud as well as noncompliance with any laws, regulations, contracts and grant agreements that could have a material, directly material affect on your financial statements. We noted no such noncompliance.

Under the single audit, we were responsible for testing the attributes under Circular A-133. There are 14 potential attributes that we would test for. The program that was your major program was the National, help me with these initials, NFMC; the National Foreclosure Mitigation Counseling program. And that was our major program.

We selected probably somewhere, let’s say 50 or 60 percent of all the expenditures that went out on the program. We found no -- there are no findings. No questioned costs. No reportable conditions that have to be reported to the Board.

The financial statements are quite a few documents. If you can turn to the table of contents only just briefly, I will just --

MR. EVENWEL: Pardon me. One little question.

MR. MIKESKA: Yes, sir.

MR. EVENWEL: This is a different document than I got in the mail. There is no material changes here, other than a couple of typos --

MR. MIKESKA: There are some typographical errors that were corrected. There was one reclassification, I think, that needed to be made with respect to the revenue that was set aside for the Veteran's program. I think, that was one change, I think that was made.

MR. EVENWEL: If it is material, just point it out.

MR. MIKESKA: No.

MR. EVENWEL: Okay. So I am just assuming there is nothing material.

MR. MIKESKA: No. It was nothing material. Just a reclassification within the numbers.

Looking at the table of contents, the management discussion and analysis is a document that is required under Government Auditing Standards. And it is really an attempt by management to get away from just a

flat financial statement and put into words what happened this year, for the non-accountant.

This is what is supposed to happen there. And it does. Under the page 8 and 9, that is the independent auditors' report. That is my document.

Statement of net position, you might refer to it as the balance sheet. It really is. It is the statement of assets, liabilities, net worth. That is just a nomenclature change this year, calling it net position. The statement of revenue, expenses and changes in net position, think of that as your income statement. It is your income and your expenses.

And the cash flow statement, that is designed to tell the financial statement reader where did TSAHC get their money, and where did they spend their money, in terms of cash?

The notes of the financial statement again, are an attempt to inform the reader as to the various accounting policies that were followed, and just add additional information. Not just give you a bunch of numbers, but explain in some sort of detail what occurred during the year.

Under the additional information on page 44, that is the scheduled expenditures of federal awards. That is the, both the NFMC National Foreclosure Mitigation

Counseling money, and the NSP, the Neighborhood Stabilization Program. Those are the two federal programs which you have. So that is what that -- that information is really for the Feds. And then we have to have notes to the scheduled federal awards.

On page 46, this is an auditor's opinion here on control over financial reporting and compliance based on Government Auditing Standards. This is what is commonly referred to as the Yellow Book Opinion, and again, it is a clean opinion.

On page 47 and 48, that is the opinion on compliance with your federal requirements, the 14 components, the potential 14 components I was referring to earlier. It is part of the single audit.

Schedule of findings and questioned costs. It is a terrible name for a statement, because there are no findings, and no questioned costs. But that statement clearly states that.

And then, we are required to report on any prior year findings and questioned costs. And there were none in the prior year. But that statement will show that.

And then, just for additional purposes, there is a scheduled revenues and expenditures by individual activity. That would be your single-family program versus

your multifamily program. And we were not asked to audit that. That is just an unaudited statement for additional information, really.

I don’t want to spend a whole lot of time going through the MD and A, the management discussion and analysis, because I really wanted to get to the financial statements themselves. And I will put my opinion first.

I really like, my perspective had done -- this is a brand new opinion. It is different than any opinion you have seen in the past on any financial statement. It is brand new. It applies to all auditors. And this is the first time you are seeing this.

And the reason why I like it is, it clearly sets out in paragraph form with a heading as to what we are saying. It is not just a bunch of gobbledygook trying to confuse the reader. And so, the first paragraph defines the financial statements.

The next paragraph, this is management’s responsibility, it basically says management is responsible for the financial statements; the auditor's responsibility basically saying, this is what we are supposed to do. We are supposed to find fraud or errors that are material in nature.

Then the opinion is really set out there. The opinion. In our opinion, the financial statements

referred to above present fairly and in all material respects the financial position of Texas State Affordable Housing Corporation, as of August 31. And that really just sets it out there. I really like that.

Other matters, there is some required supplemental information attached to this report. We go into detail about what it is. I can tell you really, what it is. It is basically, the scheduled expenditures of federal awards.

And then, the last paragraph, other reporting required by Government Auditing Standards. It is just saying, there is a Yellow Book Opinion attached as part of this financial statement.

Page 10 is the statement of net position, but for all practical purposes, let’s call it your balance sheet, because that is what it is. We start out with the current assets. These are assets that are expected to be realized or liquidated within the next operating cycle; one year; $23 million. That is good.

Noncurrent assets are going to be those assets that are going to be realized or recognized after one year. Most notably, the largest item there, obviously, is the restricted investments held by the bond trustee that are collateralizing the single-family bonds.

We do have some notes receivable of $3.7

million that are out there. One of the things that has really increased in the current year, owned real estate. Because of the Veteran's program and the ACT program, received over $6 million worth of properties this year. And last year, I think we had over $5 million in Neighborhood Stabilization Program properties that are still on the books.

So that is properties that are going to be converted at some point in time, probably more than one year. Although, certainly, some of the veteran's properties are going to be refurbished and resold during the current year. But from the standpoint of real estate as a noncurrent asset. So it is down in the noncurrent section of your assets.

Under the liability section, again, we classified those liabilities as what should be -- what is expected to be paid in the current year, versus after one year. And so you can see your ratio of current assets to current liabilities is commendable. We have got $23 million of current assets. But just under $6 million in current liabilities. So your liquid position is very commendable.

Again, the largest single liability being the revenue bonds payable, that are going to be paid out, presumably the next 27 I think, years. Something like

that.

The net position that was previously called net worth, net position includes those investments that are capital in nature. That is your building, furniture and equipment. So even though that is an asset, it is obviously not an expendable asset. So we clearly show that the net assets, the net investment in capital assets.

Then, $16 million of your net position is restricted for debt service. And that represents the excess of the assets held by the bond trustee if you will, over and above the liabilities that will be liquidated at this point in time. And then, you have unrestricted net assets of $14 million. Those are basically expendable assets at this point in time.

On page 12, this is a statement of revenues and expenses. And again, in the current year, the largest item of revenue represents interest income on both -- on all of the investments. That's the investments that you hold outright, as well as the investments that are held in trust by the bond trustee.

The second item, the decrease in fair value of investments, that's not a surprise, I know, to the Board. But it is not a very nice number on there; $11 million represents the decrease in the fair market value of the mortgage-backed securities.

Those securities still have a face value, a par value. And at the point in time that the mortgages are paid and the bonds are paid off and the mortgage-backed securities mature, they are going to mature at face; they really are.

So GASB number 31 requires that investments be recorded at fair value. So that's an issue that we have dealt with, really, every year: the fact that that's a paper loss, not a true cash loss.

Single-family program generated $3.9 million and that is primarily the TBA program, the to-be-announced program, and the MCC certificate sales. So those are -- that is a very good number.

Under public support, you will see that federal grants of $577,000 were received. That is the Neighborhood Stabilization program as well as the National Foreclosure Mitigation Counseling program.

And then the other contributions were $6.6 million. And that is primarily donated real estate, which again, is primarily from Bank of America, I believe. Yes. And that is recognized at fair value of the date of contribution; 6.6 million.

And those amounts, as I have probably explained, both in the MD and A and in the footnotes, those values are based on broker price opinions. We are

not paying for an appraisal. Touche.

We are not paying for an appraisal, but a broker will supply a BPO, Brokers Price Opinion. And it is usually a range; anywhere from, let's say, 50,000 to 75,000.

The practice by management has been to record it at the lower value, which is the conservative value. So that is primarily, you can see, even with that $11 million decrease in fair value of investments, the Corporation did obtain $10 million, almost $11 million in total revenue.

Operating expenses, obviously again, the majority of the monies spent relate to the payment of the interest on the bonds by the bond trustee, as well as some minor interest on some of the note payables. But your note payable portfolio is very small.

Payroll is a substantial balance as well. That is all wages, payroll costs, 401K contributions, payroll taxes, health insurance. That is everything rolled into that line.

The amortization number of 1.2 mil, that is the amortization of the bond issuance costs. Those costs are capitalized at the point in time the bonds are sold, and they are amortized over the life of the bonds.

Program and loan administration, I believe that

is primarily the cost associated with the TBA program, the single-family -- excuse me, the TBA program and the MCC Certificates. When you are holding on to how many properties would you say, 200, 300 properties?

MS. SMITH: 500.

MR. MIKESKA: 500 properties, there is a lot of costs associated with holding onto those properties. That is primarily what is in that line.

The grant expenditures of $1.1 million, that is your federal grants, with the appropriations, spent somewhere around $560,000 under the NSP and NFMC program, as well as there is something else in there, I can’t think of off the top of my head. That is NFC. But anyway, those are actual grant expenditures, where we received grants and we had to spend the money.

The Foundation Fund grants, that is the cash that was expended. Oh, I know what it was. The three, two or three properties that were given away as part of the Veteran’s program.

MS. SMITH: Oh, the Veterans program.

MR. MIKESKA: The Veterans program.

MS. SMITH: Yes.

MR. MIKESKA: Those properties represent a grant of non-cash, but a grant to others. So the net loss reflected is almost $5 million. If you could pull that

decrease in fair value of investment out of there, you would see you have a $6 million profit.

So that is really the cash, if you will. I shouldn't say cash, because there's -- 6 million of it was donated by Bank of America, those properties into your TBA program. Excuse me -- into your Veterans program.

MS. SMITH: Right.

MR. MIKESKA: On page 13, this is a cash flow statement. And this is what is called the direct method of presentation. You can see that operations provided $715,000 worth of positive cash.

The second section is noncapital financing transactions. This is primarily dealing with the borrowing processes that the Corporation goes through, both the bonds and the notes payable.

So that represents, you can see $95,000 was expended in the bond maturities, because certain -- I believe it is a very large section of bonds that they repaid during the year out of the 2009, ‘11, ‘13 series.

MS. SMITH: Right.

MR. MIKESKA: And then financing activities, the biggest thing is you will see there are payments of principal and capital acquisitions. That was the payoff of the note, the mortgage on this building. So this building is now free and clear of debt.

And then investing activities, again, it deals with the activity in the bond trustees accounts, as well as the activities of the investments that the Corporation holds.

So yes, there was a net decrease in cash of over $17 million. But that is primarily a result of the cash expended by the bond trustee to liquidate bonds. Operations, you had a positive cash flow.

And then page 14 is the indirect method. And obviously we are just trying to show you by account where the cash came from in operations. But it also shows the reader the noncash transactions that we were referring to earlier.

So $6.6 million was donated real estate that we received. $343,000 were those three properties that were donated under the Veterans program 100 percent.

And then, as part of your Veterans program, you are taking back I think 25 percent, a second lien if you will, that's forgivable over ten years on the Veterans programs. So during the current year, $13,000 of that debt was forgiven, because the buyer had abided by the terms of the loan and had lived there for one year.

There is an index to your footnotes, because every year, your audit report gets a little bit longer. I am not going to go over the footnotes in great detail.

But obviously the first section shows the nature of activities. It talks about TSAHC and TSAHC's programs.

And then it goes into the significant accounting policies over on page 19. These are footnotes that have been in here, in the audit report for many years. On page 21, we did add the valuation process of the donated properties, telling the reader that they are broker price opinions used to value those properties.

Note two is required by GASB. It is a very long footnote, talking about credit risk, talking about various types of risk that are associated with your investments. Your investment policy clearly states what types of risks may be taken and what types of investments can be purchased. And a lot of it has to be just regurgitated right here in this footnote.

We talk about interest rate risk, custodial risk. But again, your investment policy clearly sets that out. Melinda, are there any footnotes that you think that we should bring to the attention of the Committee?

MS. SMITH: The only one that I would think of was possibly the subsequent events, the multi family bond issue.

MR. MIKESKA: Okay.

MS. SMITH: And that is on page 42.

MR. MIKESKA: Yes. Management is required

to -- well, 41 and 42. Management is required to look at all of the events that have occurred from August 31, through today.

And we have to, if there are any significant events that have occurred, that would need to be mentioned in the footnotes. So in terms of the subsequent events, really, it is the multi family bond issue and is that the one in Georgetown?

MS. SMITH: Yes.

MR. MIKESKA: Okay. And then Note 25 deals again with the noncash contributions from Bank of America. And Note 26, we are just putting it in there every year, because the Corporation is subject to the Sunset Act, but that is -- fortunately, that is pushed out into the future, into 2023.

Segment information on 43, that is just a requirement by GASB. I don’t know that really has any impact to the Corporation. On page 44, this is the schedule of expenditures of federal awards, as we mentioned earlier. It shows the Neighborhood Stabilization Program, on the top, and then on the bottom, the Texas, the National Foreclosure Mitigation Counseling program, which was your major program.

Page 45 just gives an explanation of the accounting principles that were used to prepare that

schedule. Page 46 is one of my opinions. And this is the Yellow Book opinion on Government Auditing Standards.

We do look at internal control over financial reporting as it relates to compliance with the laws, regulations, contracts and other agreements. There were no deficiencies or significant deficiencies in internal control. We are required to look at compliance with those laws, regulations, contracts and grant agreements, and we noted no noncompliance with those that would have a direct material effect on the financial statements.

On page 47, this would be the single audit opinion. Again, it sort of mimics the opinion on the financial statements itself. It talks about the report, management's responsibility, the auditor's responsibility.

And then on the last paragraph on page 47, in our opinion, TSAHC complied in all material respects with the compliance requirements referred to that could have a direct material effect on its major federal programs. And again, we talk about internal control over compliance. We noted no deficiencies, or significant deficiencies or material weaknesses in compliance with the single audit act.

On page 49, this is the schedule of findings and questioned costs. And we do indicate that it was an unmodified, meaning a clean opinion. There are no

material weaknesses identified. There are no significant deficiencies that need to be reported.

Under the federal awards section, there were no material weaknesses identified, and there are no significant deficiencies that are required to be reported. And the auditor's report was unmodified.

And the very last sentence on there, the auditing qualified, there was a low risk auditee. And that means that for the last two years, there have been no findings.

The difference between high risk and low risk auditee, under a low risk auditee, the auditor is only responsible for looking at 25 percent of your total federal dollars. If you are a high risk auditee, the auditor would have to look at 50 percent of your dollars.

As it is, we looked up more than 50 percent, mainly because we had to get us a large enough sample size of those expenditures out of the National Foreclosure Mitigation Counseling programs. I think it was well in excess of 50 percent that we looked at.

And on page 51, there are no prior year findings, as we have mentioned. And then the last page, again, Melinda is providing this to a financial statement reader, more or less.

MS. SMITH: That is not in there.

MR. MIKESKA: They don't have that?

MS. SMITH: No.

MR. MIKESKA: I am sorry. This is what it looks like. But all it is saying is, this is your income and expense by program. It is an unaudited statement, basically. Because you don't want to pay me to sit down and try and figure out if this is all accurate by specific dollars.

Because judgment is involved when a transaction is coded in your book, what program do we put it in. How do we code Melinda's salary? How do we code David Long's salary. It has to be done by programs, and that is what this schedule is doing for the financial statement. It will be in the final package that goes to the State Auditor.

Incidentally, we are reporting directly to the State. Your auditor will be reporting directly to the State Auditor on our results of our audit, because you are a component unit of the State of Texas. They are responsible for all the auditors that do these various agencies. So we have to report directly to them.

You have two other documents that were handed out. One is a one-page letter. And it is the management letter that is not a management letter.

And the reason why I use that terminology, it states in there that defines what a deficiency of internal control is. And then, it goes on to state, there were no material weaknesses. There were no deficiencies in internal control.

The reason why we are supplying this particular letter is often times a grantor will request your financial statements, and they will also say, we want to see your management letter. There is no management letter. That is what this is basically saying, There are no deficiencies, no findings, no questioned costs, no material weaknesses.

The other document, which is a three-page document is a letter from me to the Audit Committee and the board of directors. And it is just -- it is a follow-up letter to the meeting that we held on August 15. At that meeting, I told you, this is how we are going to approach the audit. This is our responsibility. This is management's responsibility.

So again, I follow-up with our discussion. And in terms of, on page 1, the second, second to last paragraph, qualitative aspects of accounting practices, we state that all significant transactions have been recognized.

There are no new accounting policies that were

adopted during the year. We do inform you that accounting estimates are being used to prepare the financial statements.

And on page 2, we are telling you what those significant accounting estimates are. We encountered no difficulties in dealing with management. There were no corrected or uncorrected mistakes. What that means is adjustments. Were there any audit adjustments.

Now, Nick and Melinda are making those adjustments as they prepare for the audited financial statements, reflect any and all adjustments that management wanted to make. There were no disagreements with management. And as of today, Melinda and Mr. Long would provide me with a letter of representation signed by them, stating that they have provided me with all of the records, all of the minutes, and they have not withheld anything from the auditor in the course of my audit.

That is it in a nutshell. I do want to take an opportunity to thank Melinda, Nick, Betsy, all of the staff. I have been in everybody’s office. Liz, Dave. The audit is a big interruption to the normal daily flow of transactions. So I do appreciate the time and the effort that has been expended to assist with the audit.

There is going to be one little issue that we have to report to the State Auditors Office, and that is

going to be, we have an investment policy that says, all investments have to be collateralized. We have one CD at one bank, which is $250,000. That is covered by FDIC. They reinvested the interest of $99.

So you had $250,099 at this one bank; $99 was not collateralized. Unfortunately, the State Auditor doesn't allow us to use materiality in our report to them. We will have to say hey, guess what. The money has since been withdrawn?

MS. SMITH: Yes.

MR. MIKESKA: It is no longer in that bank.

MS. SMITH: Yes.

MR. MIKESKA: I doubt that you will do business with that bank again, because I believe they were instructed to not reinvest interest, but they did anyway. But --

MR. DIETZ: Do we normally buy exactly 250-, or do we --

MR. MIKESKA: I think it was 245-.

MR. DIETZ: It was 245-, that is what I would normally --

MS. SMITH: Yes.

MR. MIKESKA: Yes. So that was a communication issue, obviously.

MS. SMITH: That one, it had rolled over a

couple of times.

MR. DIETZ: And accumulated up to that amount?

MS. SMITH: Yes.

MR. DIETZ: Yes.

MS. SMITH: Teach us to do that.

MR. DIETZ: One other quick question.

MR. MIKESKA: Yes. Please.

MR. DIETZ: Just to provide edification. The donated real estate, because we have the $6.6 million roughly in donated real estate. And we are valuing that per broker's opinion, low range.

So that is probably coming in, you know, on the low end of a fair market valuation. Then do we -- that real estate then becomes an asset of the Corporation?

MR. MIKESKA: That is correct.

MR. DIETZ: Do we have to -- the same way we do for our investments, do we have to mark that real estate up and down, like we do our bonds?

MR. MIKESKA: Not up, but down, if it were to go down.

MR. DIETZ: Okay.

MR. MIKESKA: Yes. You are supposed to look at those assets at the end of the year and write them down, if they would go down. Given the housing market and what we are seeing, there was no need to reevaluate that BPO,

the Brokers Price Opinion at the end of the year.

What we did was, we selected I don't remember how many, probably about eight or ten properties and looked at the sales price. And the Corporation had enjoyed I guess, somewhere around a half a million dollars gain on the sale of those properties, just those properties for this year. So I am not worried about the $6 million value on your balance sheet.

MR. DIETZ: All right. So that is where that difference, at the end of the day, when you sell the property, that is where you are going to see it?

MR. MIKESKA: That is right. You are selling the property. X amount of it has to be reinvested in the Veterans program, okay. But you are still enjoying a profit over and above that. And your local partner is also getting their share of the profit as well. And that varies, doesn't it.

MR. LAWRENCE: Same percentage.

MR. MIKESKA: Okay. So your local partner is getting reimbursed for a certain amount of profit, a certain amount of general administrative expense, plus they are getting reimbursed for refurbishing costs; there had to be some substantial repairs.

And some of the properties have had substantial repairs. And keep in mind that some of those properties

are on the books like at $500 or $1,000.

MR. LONG: Mr. Dietz, I might also add that as a result of that program, not all 500 properties are part of the ACT program. There are some of them are NSP, which means that those are pass-through transactions where we'd acquired properties under the Land Bank, where NSP requires that any and all profits above our administrative costs go back to the State of Texas so that they can either reimburse the Department of Housing and Urban Development or recycle that program income as they determine revenue to be what's called program income back out to other awardees for programs.

So that 500 is a combination of both our own properties and what I call our pass-through properties, properties that we own as a result of NSP, and the net result on those would be that those properties would eventually be completely released, but we would not see a gain or a loss on it. We would see an administrative fee earned as a result of that.

So some of those properties are not going to have that net gain on them that we would recognize, rather the administrative fee that we would earn under the NSP guidance.

MR. MIKESKA: Right. And I think out of that 9.95 mil that is there, 4.1 million is in the NSP federal

program. The rest of those assets are in the Veterans program and the ACT program.

MR. LONG: Yeah. ACT. I call ACT kind of the umbrella. Because ACT, ACT Vet, and then we have the NSP program.

MR. DIETZ: So if we send funds back to NSP because we made more than what --

MR. LONG: Yes. In other words, if we pick up -- exactly. If we pick up a piece of property under NSP, which we have -- by the way, NSP activity for acquisition is done. That period ended. We will not be adding any more properties.

The program’s timelines are based on federal standards, time requirements, and that had ended. And so we won’t be acquiring any more properties under NSP. If we continue to acquire properties, it will be a result of our ACT program.

But yes, under NSP, if a property is acquired at X, we have sold -- as Mr. Mikeska said, if there's any excess funds beyond expenses, admin and reimbursement to the developer for their work and their guarantee -- not guarantee, but their profit that they are supposed to earn for the program that's allowed by federal standards, that money goes back to the State so that they can either ship it back to the department of HUD or we get -- they keep it

as a way to reimburse for ongoing expenses at the state for the program.

MR. MIKESKA: And that $4.1 million was financed by Texas Department of Housing and Community Affairs; TDHCA actually front-ended that 4.1 million, so your money is not tied up.

MR. LONG: What it is, it is a pass-through. The State of Texas received X number of dollars. We are the subrecipient to -- the program is managed by TDHCA as an overall state agency, and they have several subrecipients. We are one of their largest subrecipients of those funds under NSP.

And so they are the agency responsible for flowing those funds back and forth to all the subrecipients, of which we are one. And then they would also be responsible for managing all the program income as well.

MR. DIETZ: Okay. Thank you.

MR. MIKESKA: Any questions? I know this is your first year to go through the audit.

MR. EVENWEL: I think it is great. Like I said, page 49, where it says no, no. I think the staff did a great job.

MR. MIKESKA: They did. Like I said, we are an interruption when we are in here, asking questions,

requiring documents. So thank you, everybody.

MS. SMITH: Thank you. Thank you very much.

MR. EVENWEL: The earlier pages, when you were using the word "restricted," that means the money is -- what does it mean?

MR. MIKESKA: Restricted means that there is some sort of restriction placed on those monies. Management cannot restrict money. We can designate money for a purpose. But the restriction is either by bond, indenture, some sort of covenant, or the donor can restrict money. So it is saying --

MR. EVENWEL: Tell us what to use it for.

MR. MIKESKA: Telling you exactly what you can or cannot use it for. That is right. So a lot of times, when you get a grant, let’s say, from Wells Fargo and it is for your educational programs, you can only use it for homebuyer education programs. You can’t use it for something else.

Now, when that expenditure occurs for that homebuyer education program, management takes the position -- and it is in the footnotes -- that we are first going to expend those restricted monies. Then we will spend our unrestricted dollars. So those monies get spent first.

MR. DIETZ: And I assume we would have the

opportunity to refuse any donation that was too restrictive.

MR. MIKESKA: Yes, sir. Absolutely. Yes.

MR. LONG: In fact, most of time, when we have been awarded a significant amount of money, you the Board -- the full Board has an opportunity to look at that. And we bring those to you sometimes so that you can give guidance as to whether or not that is too restrictive.

I mean, normally, it is not presented to you that way. But if an award -- the overview of what the program, what the money would be used for, what program and what requirements and or restrictions are attached to it. We don’t bring you every small amount, $15,000. I seem to remember the other day, we received the $150,000 award last month from Wells Fargo for the priority grants.

And you guys, the board, took it upon themselves to have that presentation to accept that award. So that is how that's done, to ensure the board is managing the process of not only receiving the funds, but also acknowledging that that is in line with what your expectations are.

I would like to add one other note. Mr. Mikeska's not going to like me for this, but Mr. Mikeska is not going to be with us next year. He is retiring.

And I would like to thank Mr. Mikeska for his service. Mikeska, Monahan and Peckham through our RFP process has been our auditing firm for several years, and Mr. Mikeska has been our primary individual auditor who comes and does that.

And we appreciate not only his willingness to understand and learn all that we do, because as he will tell you, he has grown as he has been here, in terms of programs and different activities we have acquired.

But I think he has done a phenomenal job of managing the changes and making sure that you the Board understand what it is that we do, and are able to put that in a report such as the audit report we are looking at now, so that we can not only feel comfortable that we are doing our job, but you can feel comfortable doing it as well.

So it is a nice level of communication. Mr. Mikeska has done a very good job of making sure that you understand that every year. So from our stance, we would like to thank Mr. Mikeska for being here and doing what he does. But also, just he is not going to be here.

MS. SMITH: Yes. I would like to echo that, because it has been a real privilege to work with Mr. Mikeska, and we are going to miss him terribly. Terribly.

MR. MIKESKA: I will miss you folks, too.

MR. DIETZ: On behalf of the Audit Committee, thank you for your --

MR. EVENWEL: And you can't leave until I get that letter.

MR. DIETZ: So I guess we will vote to approve for presentation to the Board the Annual Independent Financial Audit two year ending August 31, 2013.

MR. EVENWEL: So moved.

MR. DIETZ: Seconds?

MS. SMITH: Second.

MR. DIETZ: There is a move and a second. All in favor?

(Chorus of ayes.)

MR. DIETZ: Okay. We will move on to the -- the motion passes for the approval of the Annual Independent Financial Audit two year ending August 31, 2013 for presentation to the board of directors. Tab 3 is the presentation, discussion and possible approval of the Audit Committee guidelines.

MS. SMITH: Yes. My name is Melinda Smith. And I am the CFO. And our last Audit Committee meeting, we discussed, the Board suggested that the Audit Committee guidelines did not specifically address the review of the budget, the operating budget, which made a whole lot of sense.

And so we have amended the Audit Committee guidelines to include the annual operating budget, the review and approval of the annual operating budget. And that appears, okay, it is kind of sporadic throughout the document.

But we added budgeting on page 1 under purposes. And then specifically, under review procedures, under responsibilities on page 2, we added the review and approval of the Corporation's proposed fiscal operating budget.

And on page 3, under Item 3, we also clarified that the Board approves the audited financial statements, too. Because it really didn't say it any where, when we started looking at it. It wasn't very specific as to the approval and the submission to the Board.

So those are the only changes to the Audit Committee guidelines. And we are asking the Committee to approve those for submission to the Board for their approval.

MR. EVENWEL: I have a question. In red, like this Committee had to review any and approve any changes to the budget throughout the year, I assume that is not your intent.

That we would just approve it one time, and then look at it again next year. Or every time, if there

are budget changes throughout the year, and we have to meet again as a Committee.

MS. SMITH: And that is what we have done in the past, is we have done that. We haven't had too many instances where we have amended the budget. But when we have, we have brought it back to the Board.

MR. EVENWEL: You want the Committee to meet again for that. Okay. Perfect.

MR. LONG: And I would add, Mr. Evenwel, that if there is a significant materiality in terms of change to a budgeted line item, we would certainly bring that back to the Board and or the Audit Committee at any time. But we have had kind of the discretion to be able to, within a budgeted line item, if we had an expense that was going to either take us beyond somewhere, the Board has, in my opinion, has given us some flexibility there.

Not to bring every nickel and dime, if you will, to the Board for their approval, as long as we are meeting the intent of the original budget as it was proposed. And as long as you are comfortable with that, that would be how we would continue to do so.

MR. EVENWEL: I was just trying it from the other side. Not the whole buck.

MR. LONG: No. I understand.

(Simultaneous discussion.)

MR. EVENWEL: This Committee has to meet first, before the Board meeting.

MR. LONG: Very much so. And that is kind of how we would get it as well. Okay.

MR. EVENWEL: I would approve the amended and changed guidelines.

MR. DIETZ: Approve the Audit Committee guidelines.

MR. EVENWEL: Yes, sir.

MR. DIETZ: And I think that really does help kind of clarify some things that were not there before. Does that change to the Audit Committee require Board approval? It does?

MS. SMITH: Yes.

MR. DIETZ: Okay. So we will bring that to the Board as well. We have a motion to approve the Audit Committee guidelines. And I will second that. All in favor?

(Chorus of ayes.)

MR. DIETZ: The motion to approve the Audit Committee guidelines for presentation to the whole board of directors passes. Do we have any reason to go into closed meeting?

MR. LONG: No, sir.

MR. DIETZ: No. There being no reason to go

into closed meeting, is there any further business at all of the Audit Committee open meeting?

(No response.)

MR. DIETZ: Okay. Then I think that we are adjourned at 9:53 a.m.

(Whereupon, at 9:53 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: December 12, 2013

I do hereby certify that the foregoing pages, numbers 1 through 39, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Joseph M. Schafer before the Texas State Affordable Housing Corporation.

12/16/2013

(Transcriber) (Date)

On the Record Reporting
3636 Executive Ctr Dr., G-22
Austin, Texas 78731