

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,
December 15, 2016
9:13 a.m.

COMMITTEE MEMBERS:

WILLIAM H. DIETZ, JR., Chair
GERRY EVENWEL
DAVID LONG
MELINDA SMITH

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	none
ACTION ITEMS IN OPEN MEETING:	
Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 18, 2016.	3
Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2016.	4
CLOSED SESSION	none
ADJOURN	17

P R O C E E D I N G S

1
2 MR. DIETZ: It is 9:13 a.m. on December 15th.
3 We are opening the Audit Committee meeting of the Texas
4 State Affordable Housing Corporation. So the first thing
5 we will do is call roll.

6 Bill Dietz, I'm here.

7 Gerry Evenwel?

8 MR. EVENWEL: Here.

9 MR. DIETZ: David Long?

10 MR. LONG: Here.

11 MR. DIETZ: And Melinda Smith?

12 MS. SMITH: Here.

13 MR. DIETZ: Okay. We are all here, and present
14 and accounted for. Is there any public comment before we
15 begin?

16 (No response.)

17 MR. DIETZ: Okay. Hearing none, we'll jump
18 straight into our action items. And those are Tab 1, the
19 presentation, discussion and possible approval of the
20 minutes of the Audit Committee, held last on August 18,
21 2016.

22 MR. LONG: Move to approve as presented.

23 MR. EVENWEL: Second.

24 MR. DIETZ: All right. There is a motion and a
25 second. Is there any public comment or further

1 discussion?

2 (No response.)

3 MR. DIETZ: Okay. Hearing none, all in favor
4 of approval of the audits from the August 18, 2016 -- I'm
5 sorry -- approval of the minutes from the August 18, 2016,
6 meeting, please say aye.

7 (A chorus of ayes.)

8 MR. DIETZ: Okay. It's unanimous.

9 On to Tab 2, presentation, discussion and
10 possible approval of the annual independent financial
11 audit for the fiscal year ending August 31, 2016.

12 MS. SMITH: Good morning. My name is Melinda
13 Smith. I'm the Chief Financial Officer. As you just
14 mentioned, we're here at Tab 2 to have the audit presented
15 to you.

16 Dena Jansen, a partner with Maxwell, Locke and
17 Ritter is here to do that. I wanted to say -- before Dena
18 begins, however, I wanted to thank Nick Lawrence and Betsy
19 Aldrich for all the work that they did in the audit.

20 And it is just amazing. I really haven't done
21 anything this year. It has all been -- every question
22 Nick -- all of the questions were presented to Nick by the
23 auditors, and he dealt with everything, and it just went
24 beautifully, so I wanted to thank both of them, before we
25 got started.

1 And, Dena, I am going to turn it over to you.

2 MS. JANSEN: All right. Thank you so much. It
3 is a pleasure to be with you all again. I would echo
4 Melinda's comments, was actually my first bullet point, to
5 thank not only the Corporation for engaging us to perform
6 this work and trusting us with that, but also for Melinda
7 and Nick and Betsy and their preparedness in the audit.
8 These things run smoothly when lines of communication are
9 open and people are ready and available.

10 So things went really smoothly. And I think
11 that is what you are going to hear from the results of the
12 audit as well. So I also want to take my time to thank
13 them.

14 So I am the partner on the engagement. I just
15 also want you to know there's always a lot of other faces
16 that are not here at this meeting. But we did have
17 continuity on the associates that performed the work. So
18 Veronica Day and Ashley Ahlgren performed that work.

19 We did have a new set of eyes in the manager
20 capacity. Jimmy Rommel came in this year and is one of
21 our lead government audit managers with the firm.

22 And he came in and -- came in last year and
23 introduced himself and got to sort of getting to know the
24 Corporation, but came in this year and performed the
25 manager duties.

1 And then just to remind you, once we are done
2 with this, we also have Sean Holcomb and Heather Beliveau
3 who work with the Corporation on any of the related tax
4 filings that must be performed for the Corporation.

5 So I know -- and I don't have the tab numbers.
6 I apologize. I'm imagining you --

7 MS. SMITH: It's Tab 2.

8 MS. JANSEN: Tab 2, when you start there, I'm
9 going to just walk you through. And what I am going to
10 use, if you go in about three pages in, the independent
11 auditor's report, we are issuing -- this is several pages,
12 but on the second page in of our opinion, we do and are
13 issuing what we consider -- what we call an unmodified
14 opinion, or a clean opinion. So we are happy to present
15 that to you.

16 We also -- in the final paragraph of this
17 letter, about another page in, this is an audit that is
18 required to be performed with Government Auditing Standard
19 as well. And there is a report that I will get to in just
20 a moment where we also report the results of our audit in
21 accordance with that.

22 So then on page -- I'm going to use page 4,
23 which is the bottom numeric page of that. I didn't know
24 if you -- okay.

25 MS. SMITH: Yes.

1 MS. JANSEN: They didn't have different page
2 numbers. This is the start of the management's discussion
3 and analysis. And this really is -- it's kind of a one-
4 stop shop for a really nice financial overview of the year
5 ended August 31, 2016, in comparing it back to 2015.

6 So I would highlight -- I would recommend
7 reading through those, because again, on that first page,
8 on page 4, it really comes down to -- and even when I sit
9 back in the financial operations for the year, there
10 weren't any significant changes in the operations or
11 anything new that was entered into.

12 It really came down to just making several debt
13 payments, so you see a reduction in your total assets, as
14 well, then, as a reduction in the liability. So outside
15 of that, there aren't really any large fluctuations that
16 are presenting themselves on the face of the financials.

17 Again, all the way -- management's discussion
18 and analysis goes all the way through page 10 and really
19 is just a nice highlight for you, as you walk through
20 those and want to formalize those in any other way.

21 Page 11 are what -- start what we call the
22 basic financial statement, so your statement of net
23 position. Page 11, you can see, again, you have total
24 assets about 118 million. That was down about 34 some-odd
25 million from the prior year.

1 But again, predominantly again just related
2 to -- and actually correlated to on page 12 --total
3 liabilities decreased by 34 million, down to the 89 --
4 almost 90 million from the prior year.

5 So, you see the reduction in your notes and
6 your bonds payable, and the corresponding reduction in
7 your cash-related investments to make those. And this is
8 a statement of that position. So when you take your
9 assets and your -- sorry -- your assets less your
10 liabilities and your deferred inflows of resources, you
11 get to total net position of 28 million at the end of
12 August 31.

13 Page 13 and 14, page 13 is your statement of
14 revenues, expenses and change in net position. About the
15 middle of the page, total operating revenues of about 8.7.

16 This is up from the prior year of a million two,
17 predominantly related to, even though it is still a loss
18 of 354-some-odd thousand related to your investments, that
19 again is totally market driven. That's actually an
20 increase of about 3 million from the prior year.

21 So if you think back on the prior years, this
22 was really totally driven by market performance, so you
23 see that increase. And then within your expenses, total
24 operating expenses of right about 8.9.

25 But again, your interest expense on your bonds

1 and your notes and your salaries and wages continue to be
2 your consistent drivers. And you are on the expense side
3 of the house where you, in your interest expense, directly
4 correlates to some of your -- again, your bond activity
5 which was all -- which was actually down a little bit. As
6 your notes come down, your bonds come down.

7 And on page 14, statement of cash flow, the
8 only thing -- and this actually continues on to page 15.
9 What I would just highlight here is that the Corporation
10 does continue to have cash being provided by operating
11 activities and generated by its operating activities.

12 It is just an indicator to look at as far as
13 financial health of an organization. But when you look
14 through again, you will see there were, obviously, about
15 the 31, almost 32 million of bond calls and maturities, so
16 you see those amounts paid off.

17 And then down in investing activities, you can
18 again see the proceeds from the sale of investments. And
19 a lot of those then that were used to make those payments.

20 So cash did decrease for the year, but again, related to
21 no new debt issuances and payoffs.

22 So the notes to the financial statements then
23 start on page 16 and run all the way toward the end of the
24 report. There have not been any significant changes in
25 the notes that are required to be disclosed, and no

1 significant changes in the accounting policies adopted by
2 the Corporation. So what I am only really going to
3 highlight then for you is that on page -- I have my flags
4 here.

5 On page 22, you will see a discussion of
6 GASB 72, fair value measurement and application. That was
7 a standard that we had addressed last year as being --
8 that it was going to be implemented this year.

9 It was implemented. It did not have a
10 significant impact on the financial statements as far as
11 numbers. It was only a disclosure item. But so you do
12 see some -- if you were to compare your year-over-year
13 financial statements, these are new disclosures in line
14 with the standard.

15 And so you see that starting there. And then
16 also, on page 24 and to page 25 is where you see that
17 expanded disclosure. At a very high level, what it is
18 requiring an entity to do is to actually categorize their
19 investments under securities that fall under the standard
20 into a Level 1, Level 2, Level 3, which is how did you
21 actually value those.

22 And in the Level 1, 2, 3, is not in any way
23 correlated to a risk. Like the Level 1, Level 2, Level 3,
24 it's -- Level 1 means that it is an active market. We can
25 go and grab a quote offline and so we can get that

1 information there.

2 Level 2 is sometimes -- again, you can find a
3 quoted market, but it may not be as active. So we just
4 want you to know, these were also provided by your broker
5 that we work with, Linda Patterson from Patterson and
6 Associates, who is familiar with the standard; we are as
7 well.

8 But these are new, so they will continue on
9 from now on. But again, they just provide more
10 information, as many of these pages do.

11 You know, page 38, again, just with your bonds,
12 this is just -- I always like to just let you -- you know,
13 you can see the actual activity for your bonds during the
14 year and then the upcoming amounts that will be due next
15 year.

16 And then on page 42, subsequent events, we are
17 required -- we performed the audit in October, wrapping up
18 you know, lingering over a little into November. And so
19 we are required to look at any subsequent events that we
20 might need to consider that happened post August 31.

21 And the only thing here that is included, that
22 was on October 3, the 2006C Revenue bonds were redeemed,
23 so about \$3.3 million came in. So other than that, no
24 other subsequent events that would be required to be
25 disclosed.

1 So then about three pages back from that,
2 there -- we do -- it's not numbered. But this is the
3 report I referred to earlier, as it relates to our
4 reporting under Government Auditing Standards. We are
5 required to look at internal controls over financial
6 reporting.

7 And on the very top of the second page of that,
8 we are letting you know that we did not identify any
9 control deficiencies that we consider to be material
10 weaknesses. That is a negative assurance, but it is the
11 highest negative assurance we can provide in the standard.

12 And then as far as compliance in other matters,
13 the results of our test disclosed no instances of non-
14 compliance that we need to make you be aware of. So it is
15 also -- good reporting all around.

16 And there is one supplemental schedule, which,
17 again, is really just on page 46, information showing just
18 the revenues and expenses by activity. So that is --
19 again, it is a clean unmodified opinion; fairly
20 consistent, as far as no big fluctuations that are
21 highlighting themselves in the financials.

22 Again, it was quiet on the accounting and
23 auditing front, outside of the disclosure additions for
24 72. And we were unable -- on the Corporation side, as far
25 as really no new bonds being issued and really just the

1 activity of paying and making payments.

2 The other required communication we have is a
3 letter following their -- is that a different tab? Or do
4 you know that, Melinda? We'll see if it -- does it follow
5 the financial statements?

6 Either way, we have a required communication
7 that I will just -- I'll walk you through it. It is in
8 writing, but it just lets you know that really everything
9 we have talked about, predominantly, no significant
10 changes in accounting policies or practices outside of 72.

11 We did not have any disagreements or have any
12 difficulties with management that we need to let you be
13 aware of. There were no misstatements identified from the
14 audit, so we did not have any audit adjustments, again,
15 which speaks to the team here being prepared.

16 And when I sit in your role again, then, the
17 numbers that you had been -- seen throughout the year did
18 not require any significant audit adjustment -- any audit
19 adjustments from us. The only attachment to this letter
20 is a management representation letter.

21 So there are several pages of representations
22 that Melinda and David will let us know that everything
23 they provided was true, accurate, and complete, since we
24 based our conclusions on those. And we aren't aware of
25 any consultations with other accountants that we needed to

1 let you be aware of.

2 So those are all of our required reports. But
3 I welcome any questions that you may have from our opinion
4 statements?

5 MR. EVENWEL: I don't really have any
6 questions. I mean, I am always interested in reading the
7 auditor's report. You start out and say, ba-dah, ba-dah,
8 ba-dah, fair.

9 MS. JANSEN: Fairly soon.

10 MR. EVENWEL: And I'm saying, Okay.

11 MS. JANSEN: Yes. As soon as you hear clean
12 and unmodified, normally that's the indicator.

13 MR. DIETZ: And with regard to the financials,
14 if my reading is correct, so we had a net loss. But more
15 than 100 percent of that net loss is attributable to just
16 a decrease in the fair value of --

17 MS. JANSEN: Yes, absolutely.

18 MS. SMITH: Exactly. And the only other thing
19 that I would point out that happened during the year is --
20 and Dena actually already pointed it out, was we've been
21 the last couple of years paying off the bonds as the
22 optional redemption dates come up and then retaining some
23 of the mortgage-backed securities.

24 So, as Dena pointed out, we haven't issued any
25 new bonds, so the activity has just been the paydown of

1 the bonds.

2 MR. DIETZ: Right.

3 MS. SMITH: And that has also resulted in our
4 restricted cash decreasing, too.

5 MR. DIETZ: Right.

6 MS. SMITH: Because when those bonds go away,
7 all the related assets --

8 MR. DIETZ: That is why the roughly \$30 million
9 decrease in the --

10 MS. JANSEN: Exactly. You see both of those
11 things.

12 MR. DIETZ: That answers all of my questions.
13 It sounds like all went well, and we really appreciate all
14 your work.

15 Gerry, you have any comments or questions?

16 MR. EVENWEL: No. You answered my big question
17 earlier.

18 MS. SMITH: Mr. Evenwel had a question about
19 the legal budget -- the adoption of the legal budget. And
20 I explained to him why we didn't have to do that. And as
21 a proprietary entity -- a governmental proprietary entity,
22 we are not required to report a budget in our financial
23 statements.

24 MR. EVENWEL: Right.

25 MR. DIETZ: Okay.

1 MS. SMITH: And I verified that with our
2 auditor.

3 MR. DIETZ: Well, are there any other comments
4 or questions? Any public comment?

5 (No response.)

6 MR. DIETZ: Then at this time, we would accept
7 a motion to approve the annual independent financial audit
8 for fiscal year ending August 31, 2016, for presentation
9 to the board of directors at our meeting later today.

10 MR. EVENWEL: I move to approve.

11 MR. DIETZ: And I will second.

12 MR. DIETZ: All in favor?

13 (A chorus of ayes.)

14 MR. DIETZ: Great. Thank you very much.

15 MS. SMITH: Thank you so much.

16 MR. DIETZ: Well, do we have any reason to go
17 into a closed meeting?

18 MR. LONG: We do not, Mr. Chairman.

19 MR. DIETZ: Then I think that covers everything
20 that we wanted to cover in the Audit Committee meeting
21 today.

22 Any other items that we need to discuss?

23 MR. LONG: No, sir.

24 MR. DIETZ: Great. In that case, we will
25 adjourn the Audit Committee meeting at 9:29 a.m.

1 (Whereupon, at 9:29 a.m., the meeting was
2 adjourned.)

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MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: December 15, 2016

I do hereby certify that the foregoing pages, numbers 1 through 18, 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.

(Transcriber) 12/23/2016
(Date)

On the Record Reporting
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