



**December Audit Committee Meeting**

To be held at the offices of  
Texas State Affordable Housing Corporation  
2200 East Martin Luther King Jr. Blvd.  
Austin, TX 78702

Thursday, December 12, 2013  
9:00 a.m.

**AUDIT COMMITTEE MEETING  
TEXAS STATE AFFORDABLE HOUSING CORPORATION  
To be held at the offices of  
Texas State Affordable Housing Corporation  
2200 East Martin Luther King Jr. Blvd  
Austin, Texas 78702  
December 12, 2013 at 9:00 am**

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

Bill Dietz  
Chair

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

**PUBLIC COMMENT**

**ACTION ITEMS IN OPEN MEETING:**

- |       |  |
|-------|--|
| Tab 1 | Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 15, 2013.                    |
| Tab 2 | Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2013. |
| Tab 3 | Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.  |

**CLOSED MEETING**

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

**OPEN MEETING**

Action in Open Meeting on Items Discussed in Closed Meeting

**ADJOURN**

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

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

**AUDIT COMMITTEE MEETING  
TEXAS STATE AFFORDABLE HOUSING CORPORATION  
Held at the offices of  
Texas State Affordable Housing Corporation  
2200 E. Martin Luther King Jr. Blvd.  
Austin, TX 78702  
August 15, 2013 at 9:00 am**

**Summary of Minutes**

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

The Audit Committee Meeting of the Texas State Affordable Housing Corporation (the “Corporation”) was called to order by Bill Dietz, Audit Committee Chair, at 9:15 am on August 15, 2013, at the offices of Texas State Affordable Housing Corporation, 2200 E. Martin Luther King Jr. Blvd, Austin, TX 78702. Roll Call certified that a quorum was present.

**Committee Members Present**

Bill Dietz, (Board Vice Chair), Chair  
Gerry Evenwel (Board Member), Member  
David Long, (President) Ad Hoc Member  
Melinda Smith, (Chief Financial Officer) Ad Hoc Member

**Staff Present**

Nick Lawrence, Controller  
Betsy Aldrich, Senior Accountant  
Laura Ross, Corporate Secretary

**Special Guests**

Katy Livingston, Greenberg Traurig, LLP  
Don Mikeska, Mikeska, Monahan & Peckham  
Chris Spelbring, Morgan Keegan

**Public Comment**

There was no public comment.

**Tab 1            Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on September 13, 2012.**

Mr. Long made a motion to approve the minutes of the Audit Committee Meeting held on September 13, 2012. Ms. Smith seconded the motion. A vote was taken and the minutes were approved unanimously.

**Tab 2            Presentation, Discussion and Possible Approval of the Fiscal Year 2014 Operating Budget.**

Mr. Evenwel asked about the Audit Committee's authority to approve the budget for presentation to the full board. He pointed out that this specific duty was not outlined in the Audit Committee Guidelines. Mr. Long explained that while it was not listed as a duty, the scope of the Audit Committee was to provide review of all fiscal actions and reports of the Corporation, including annual audit review. It was the general assumption that those reports would be presented to the Committee and the Committee would make recommendations to the full board for approval. Mr. Evenwel asked if the Guidelines should be modified to include the specific duty of approving the budget for presentation to the full board. After more discussion on the matter, Mr. Dietz suggested that given precedent of previous years, the Committee should proceed with review of the budget and then for clarity sake, the Audit Committee Guidelines should be modified to include this duty. Mr. Long concurred and suggested that changes to the Guidelines be addressed at the full board meeting. The Committee members agreed.

Ms. Smith introduced herself to the board and noted that staff was presenting the fiscal year 2014 operating budget today for their approval. Ms. Smith provided the Members with a copy of the budget and supporting schedules for each line item. She pointed out that the budget contained revenues of \$8,081,000 and expenditures of \$7,900,000. She then went through the budget in detail, highlighting at Mr. Dietz's request the items that differed significantly from the FY 2013 budget.

Starting with servicing income, Ms. Smith noted it had not changed significantly from the previous year and explained that it represented the Corporation's small loan portfolio of second lien loans as well as reflected our agreement with TDHCA to act as master servicer on three of their bond programs.

Ms. Smith then discussed Single Family Bond Program income which included single family bond issuer fees and fees associated with the Mortgage Credit Certificate (MCC) Program. It also included fees associated with the TBA program and the single family compliance program. She noted that this line item had fluctuated significantly over the previous few years. Staff projected income for the fiscal year 2014 for the program as \$3.7 million.

Ms. Smith discussed Multifamily Oversight and Rental program revenue line item, which represented issuer fees and asset oversight fees related to multifamily bond programs that were issued over the years. It also included exclusive asset oversight contracts, as well as fees from the Corporation's Single Family Rental Program.

Ms. Smith explained that the Notes Receivable line item represented cash, principal and interest the Corporation received from various lending programs.

The Affordable Communities of Texas (ACT) program revenue incorporated income from the sale of properties purchased or received as donations through the ACT program, as well as associated fees for the ACT and Veterans Program.

Ms. Smith explained that Federal and State Grant Programs revenue included funds from the Neighborhood Stabilization Program (NSP). She explained that this grant was winding down and in the New Year, the only funding we would be receiving under it would be reimbursements for holding costs and the costs associated with upkeep on the properties until they were sold. Also included in this revenue line item were funds associated with the National Foreclosure Mitigation Counseling (NFMC) Program.

The next revenue line item was Grant funding which was made up of grants from foundations and various banks. The line item totaled \$790,000 and Mr. Evenwel noted the increase compared to the previous year's budget. Mr. Long explained that the Corporation currently had a grant that staff anticipated would be extended. The increase in the line item reflected that extension as new funds coming in.

Ms. Smith turned to the last two revenue line items which covered income associated with the Corporation's investments and also income associated with tenant income for the office space we leased to the Texas Association of Community Development Corporations (TACDC).

Ms. Smith then addressed the expenditures, starting with Salary. She stated that staff had budgeted for 20 full time employees (FTEs) which incorporated the addition of one FTE for the Single Family Loan Compliance department and one FTE in case potential growth required it. Ms. Smith added that this final FTE was only budgeted for half a year.

Ms. Smith spoke about professional fees which included legal and accounting fees in addition to fees paid to the Corporation's Investment Advisor, Patterson & Associates and financial advisory firm, First Southwest Company. The line item also included the software maintenance contracts associated with the loan servicing program and loan compliance program. Additional funds were also budgeted under this line item to allow staff to overhaul the online reporting system for the asset oversight program. The current system was difficult to use and staff wanted to streamline the reporting system with the newly developed website.

Ms. Smith stated that notes payable was associated with funds borrowed from the Federal Home Loan Bank to be loaned out under the Corporation's lending programs. She noted that these funds were collateralized by the corresponding receivable. Also under this line item, she pointed out that the Corporation had paid off the mortgage on the office building so we no longer had a mortgage loan. In addition, the Corporation had a note from the Meadows Foundation that would come due in December totaling \$500,000.

Ms. Smith briefly explained the travel and meals expenditure line item, noting that it was budgeted based on historical experience and staff's knowledge about what was planned for the year.

Ms. Smith turned to the insurance expense and noted the significant increase related to the number of donated properties we've received. She informed the board that the Corporation had 500 properties and the general liability and property and casualty insurance expense related to those properties was significant.

Ms. Smith then spoke about the Single Family and Multifamily program expenditures. She explained that this line item included expenditures related to the sale of the ACT properties and as well as the costs associated with holding the properties. It also included funds to cover additional lines of credit under the multifamily rental programs. Ms. Smith briefly spoke about the Single Family Rental Program where the Corporation had purchased homes in the Austin area and were renting them out. Mr. Long refreshed the Committee's memory that the Board had approved the Corporation expending funds to acquire single family rental properties to create affordable properties in the Austin MSA and surrounding area. So far the Corporation had acquired properties in Round Rock and Pflugerville and had recently had an offer accepted on a property in south Austin.

Ms. Smith then talked about the Federal and State Grant Expenditure line item. She explained that this included NFMC and NSP expenses. She reminded the Committee that the NSP program was winding down and staff only expected to be reimbursed for property maintenance until they were sold.

Ms. Smith stated that the Single Family Homeownership program line item included expenses related to the Texas Statewide Homebuyer Education Program (TSHEP) and the trainings that it provided, as well as fees paid to the Bond Review Board (BRB) for the Mortgage Credit Certificate Program.

Mr. Dietz summarized that the biggest expense differences in the budget as being the principle and interest on the notes payable due to the mortgage being paid off, the insurance expense due to us acquiring more properties under the ACT program and the Single Family/Multifamily program expenses because of the expansion of the programs. Mr. Long followed that the expansion of the programs achieved our mission of providing affordable housing. He noted that associated expenses would be offset by revenues for the programs.

Mr. Evenwel asked staff if they felt all could be accomplished without creating too many new programs and areas that we couldn't cover comfortably under our mission. Mr. Long stated that staff was able to manage the new programs and the Corporation's exposure in new areas was secure. Nothing was ever done without prior analysis by staff. Mr. Evenwel expressed his comfort that the Corporation was still well focused on our mission. Mr. Long spoke further about ways our programs have stretched to make a better program or product for the end user through partnerships.

Mr. Evenwel made a motion to approve the fiscal year 2014 operating budget for presentation to the full Board of Directors. Mr. Long seconded the motion. A vote was taken and the motion passed unanimously.

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

Ms. Smith stated that the Audit Committee Guidelines were typically presented for approval on an annual basis. She noted one minor change on the first page which was an expansion of item 4 under purposes regarding the Audit Committee's primary duties and responsibilities. The language was expanded to read the Committee would monitor compliance by the Corporation and its directors, officers and employees with *all applicable laws, regulations, contracts, agreements and grants*, and the Corporation's code of ethics and conflict of interest policies (added language in *italics*). She noted that this change was recommended by the Corporation's auditor.

The Committee again discussed adding preliminary approval of the budget to the Audit Committee's list of responsibilities. Mr. Dietz suggested that the Committee and staff confer with counsel before the board meeting to put together the specific language to address the issue.

Turning back to the change included in the board packet, Mr. Dietz asked if it was specifically in reference to the annual financial audit. Mr. Evenwel asked how the Committee could ensure it was done. Mr. Mikeska explained that during the annual financial audit, he would audit for compliance by the Corporation with laws, regulations, grants and other agreements. He noted that this was a requirement under Government Auditing Standards (GASB). He explained that

this duty was also specifically laid out in the Audit Engagement Letter. He noted that he reviewed everything for compliance that could potentially have a direct and material effect on the financial statements. This was determined by whether the inclusion or exclusion of the information would impact the financial statement user's opinion. He further explained that the Single Audit, which was a test for compliance with OMB A-33 and dealt specifically with federal dollars, would test 14 potential compliance requirements.

Mr. Evenwel asked if there was a threshold dollar amount used to determine material or direct affect and Mr. Mikeska explained that it was in the eye of the financial statement user, that it could be a dollar amount or a financial statement disclosure. He explained that it was usually based on dollar amount and when auditing federal dollars, the limit was usually 5% of your federal expenditures.

Mr. Mikeska stated that the Committee delegated the responsibility of compliance to management, but the Committee and Board who were charged with governance of the process were ultimately responsible.

Mr. Evenwel asked if lawsuits were disclosed in the audit, and Mr. Mikeska said they were if it was from a failure to comply with terms of a contract. He noted that he communicated directly with counsel in writing and requested they inform him of any legal items. He added that management was also required to disclose any contingencies, commitments, contracts and other agreements that could have a material effect on the financial statement user/reader.

Discussion turned back to adding additional language giving the Audit Committee the responsibility to review the budget for recommendation to the board. Mr. Evenwel suggested they address the issue at the next Audit Committee meeting. Mr. Dietz pointed out that under purposes of the Committee, it listed to monitor the integrity of the Corporation's financial reporting process and system. He thought their role in reviewing the budget was included in that item however for clarity, he suggested under paragraph 3, Responsibilities and Duties, another numeral should be added to specify the Committee's role in approving the budget.

Mr. Evenwel also asked if Tab item 4, approving Investment Officers, fell within the Committee's duties since it wasn't specifically laid out in the Guidelines. Mr. Long informed the Committee that staff planned to pull that item from both the Committee and Board agendas. He added that the item had been placed on the agenda to allow the Committee to consider and talk through what the adding of additional Investment officers and its impact of the Investment activities of the Corporation.

Discussion also occurred on the requirement for the Committee to meet a minimum of two times a year and it was noted that the last meeting occurred in September which fell at the very beginning of the current fiscal year.

Mr. Dietz and Mr. Evenwel concluded that updating the Guidelines to include the specific duty of reviewing the budget should be done and presented at the next Audit Committee meeting, with the Committee only approving today the suggested change from staff that was included in the board packet.

Mr. Dietz called for public comment on the item. None was given. Mr. Long made the motion to approve the amended Audit Committee Guidelines as presented in the board packet. Mr. Evenwel seconded the motion. A vote was taken and the motion passed unanimously.

**Tab 4            Presentation and Discussion of a Resolution to Restate, Ratify, and Affirm the Officers of the Corporation, Including Ratification of Mr. Nick Lawrence and Ms. Elizabeth Bayless as Investment Officers of the Corporation, and to Designate and Restate the Signature and Approval Authority of Officers and Certain Staff for the Corporation.**

This item was not discussed.

**Tab 5            Presentation and Discussion of the Annual Financial and OMB Circular A-133 Audits for the Fiscal Year Ended August 31, 2013.**

Mr. Mikeska introduced himself to the Committee and thanked them for the opportunity to speak at the meeting regarding the audit engagement as it was currently planned. He noted that professional standards required the Auditor to communicate with the Committee. He stated that the audit of the financial statements would be conducted in accordance with Government Auditing Standards(GASB). An audit of federal dollars in accordance with OMB Circular A-133 would also be conducted and was commonly known as the Single Audit. A Single Audit would be performed because the Corporation had expended more than \$500,000 in federal awards during the fiscal year. He noted that this would be the last year for the Single Audit based on the projected budget, because revenues from federal funds were expected to be less than \$500,000 in the upcoming fiscal year.

Mr. Mikeska noted that the Committee was responsible for signing off on the financial statements. The Corporation's financial statements were then presented in the State of Texas combined financial statements under a separate column. Because of this inclusion, his firm was considered a subset auditor of the State Auditor's office. Mr. Mikeska's firm would communicate directly with the State Auditor's office regarding planning and materiality levels in order to gain approval for the audit plan.

Referring to the engagement letter, he noted that it specifically stated that the work papers would be made available to the State Auditor if they deemed to review the firm's work. He explained that a change to auditing standards now dictated that when there was a combined report and the lead auditor didn't audit all entities, that auditor (in this case, the State Auditor) was responsible for all work done.

Mr. Mikeska referred the Committee Members to the audit engagement letter, noting it was a required communication prior to the commencement of fieldwork. He noted that fieldwork would begin in mid-October. A draft of the audited financial statements was due to the State Auditor's office by November 20<sup>th</sup> and the final audited financial statements would be due by December 20<sup>th</sup>.

Mr. Mikeska noted that the Audit Committee would meet again prior to the December deadline at which time the audit would be presented and items on the audit would be discussed. He noted that there would be another required communication between the auditor and Committee at that time that would relay in writing, exactly what was found during the audit and if there were any items needing to be reported as conditions or material weaknesses.

Referring to the engagement letter, he said the first page stated exactly what their auditing responsibilities were and page two addressed management's responsibilities. He noted that the

auditor was responsible for providing the Committee with reasonable assurance that the financial statements were free of misstatement. He would use predictive analysis in order to audit a selection of transactions. Management's responsibilities included being responsible for the financial statements, making decisions relating to them, establishing and maintaining internal controls, adjusting to correct any material misstatements, and designing and implementing programs and controls to prevent and detect fraud. He added that another responsibility of the auditor was to detect material fraud, though if it was immaterial it would still be reported to the Committee. Turning to page 3, Mr. Mikeska noted that he would conduct 2 tests in accordance with Government Auditing Standards – one for fraud and one for abuse. He explained what each entailed. He added that the auditor was required to communicate any deficiencies and material weaknesses. Management was responsible for implementing Government Accounting Standards Board opinions. This year there were three and the Committee would only really see one of those – going forward “net assets” would be referred to as “net position”. He added that the fiscal year would see significant changes in implementing GASB-65.

Mr. Mikeska stated that staff prepared the financial statements, and he issued three opinions on them: an opinion on the financial statements, an opinion on compliance with laws, regulations, contracts and other agreements, and an opinion on compliance with the Single Audit Requirements of the Corporation's federal awards. He added that the footnotes would disclose subsequent events that may have an impact on the financials, all of which occurred after fiscal year end.

Mr. Dietz asked if anything was substantially different from years past, and Mr. Mikeska stated that there wasn't. He added that he would attend the board meetings while he was conducting the field work for the audit and would give an update to the board on the progress of the audit at the November board meeting.

### **Adjournment**

Mr. Dietz adjourned the meeting at 10:17 am.

Respectfully submitted by \_\_\_\_\_  
Laura Ross, Corporate Secretary

## **Tab 2**

### **Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2013.**

The Audit will be provided separately.

**TEXAS STATE AFFORDABLE HOUSING CORPORATION**  
**AUDIT COMMITTEE GUIDELINES**  
*(Submitted for Approval December 12, 2013)*

These guidelines are intended to define the purposes, membership and responsibilities of the Audit Committee of the Texas State Affordable Housing Corporation (“the Corporation”).

**I. PURPOSES**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

1. Monitor the integrity of the Corporation’s **budgeting process**, financial reporting process and systems of internal controls regarding finance, accounting, legal and ethics compliance.
2. Monitor the independence and performance of the Corporation’s independent financial auditors who shall report directly to the Audit Committee.
3. Facilitate communication among the independent auditors, management, the CFO and the Board of Directors.
4. Monitor compliance by the Corporation and its directors, officers and employees with all applicable laws, regulations, contracts, agreements, and grants and the Corporation’s code of ethics and conflict of interest policies.
5. Establish procedures for the receipt, retention and treatment of financial matters complaints and the confidential anonymous submission by employees regarding questionable accounting, fraud or abuse.
6. Report on its activities to the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the independent auditors as well as anyone at the Corporation. The Audit Committee has the ability to retain, at the Corporation’s expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties. However, it is not the duty or responsibility of the Audit Committee or its members to conduct auditing or accounting review or procedures, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations.

## **II. COMPOSITON AND MEETINGS**

The Audit Committee shall be comprised of four members, as determined by the Board of Directors, two of whom shall be directors of the Corporation. Any other board member will be eligible to serve as an alternate member of the Audit Committee and will serve if one of the other member Board directors is absent from the meeting. The Corporation's President and Chief Financial Officer will serve as Ad Hoc members of the Committee. The two member board directors shall be free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Audit Committee shall have accounting or related financial management expertise.

Audit Committee members shall be appointed on recommendation by the full Board of Directors. If a Chair of the Audit Committee is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee.

A quorum for a meeting of the Audit Committee shall consist of at least three committee members, two of which must be Board members.

Audit Committee members will be reimbursed for travel and other actual and reasonable expenses incurred in the conduct of official Audit Committee business. No member of the Audit Committee may accept any additional consulting, advisory or other compensatory fee from the Corporation or other organization.

The Audit Committee shall meet a minimum of two times annually or more frequently if circumstances dictate.

## **III. RESPONSIBILITIES AND DUTIES**

To carry out its purposes, the Audit Committee shall have the following duties and responsibilities:

### **Review Procedures**

1. Review and assess the adequacy of these guidelines at least annually and submit any proposed changes to the Board of Directors for approval.
2. Review and approve the Corporation's proposed fiscal year operating budget and any amendments thereto for the submission to the Board of Directors for approval.

3. Review **and approve** the audited financial statements **and any amendments thereto for submission to the Board of Directors for approval.**~~with management, prior to distribution.~~ The review should include discussion with management and independent auditors of significant issues regarding accounting and auditing principles, practices and judgments.
4. In consultation with the management, the CFO and independent auditors, consider the integrity of the company's financial reporting processes and controls. Discuss significant financial and non-financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
5. Consider and approve, if appropriate, major changes to the Corporation's accounting principles as suggested by the independent auditors, management or CFO and any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 115.

### **Independent Auditors**

1. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence, qualifications and performance of the auditors and annually appoint the independent auditors or approve any discharge of auditors when circumstances warrant.
2. On an annual basis, the Audit Committee should review and discuss with the independent auditors all significant relationships they have the Corporation that could impair the auditors' independence.
3. Prior to releasing the audit report, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to the Audit Committee in accordance with Statement on Auditing Standards No. 114 and No. 115, OMB Circular A-133, and any other standards required by applicable federal or state law or regulation.
4. Review with the independent auditor any management letter provided by the auditor and the Corporation's response to that letter.

While the Audit Committee has the responsibilities and powers set forth in these guidelines, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.