

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,  
August 21, 2014  
9:29 a.m.

COMMITTEE MEMBERS PRESENT:

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

*ON THE RECORD REPORTING  
(512) 450-0342*

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PUBLIC COMMENT	--
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1                   P R O C E E D I N G S

2                   MR. DIETZ: I would like to call the Audit  
3                   Committee of the Texas State Affordable Housing  
4                   Corporation to order at 9:29 a.m. on August 21, 2014.

5                   We'll do our roll call. Bill Dietz, and I'm  
6                   here.

7                   Gerry Evenwel?

8                   MR. EVENWEL: Present.

9                   MR. DIETZ: David Long?

10                  MR. LONG: Here.

11                  MR. DIETZ: Melinda Smith?

12                  MS. SMITH: Here.

13                  MR. DIETZ: Before we begin, is there any  
14                  public comment for the Audit Committee?

15                  (No response.)

16                  MR. DIETZ: Hearing none, we will go into Tab 1  
17                  which is the Presentation, discussion and possible  
18                  approval of minutes of the Audit Committee held on June  
19                  12, 2014.

20                  MR. EVENWEL: I move we approve the minutes of  
21                  June 12.

22                  MR. DIETZ: Is there a second?

23                  MR. LONG: I'll second.

24                  MR. DIETZ: All in favor of approving the  
25                  minutes of the Audit Committee meeting held on June 12,

1       2014 please say aye.

2                     (A chorus of ayes.)

3                     MR. DIETZ: Any opposed?

4                     (No response.)

5                     MR. DIETZ: The minutes are approved.

6                     Tab 2 is the Presentation, discussion and  
7 possible approval of the fiscal year 2015 operating  
8 budget.

9                     MS. SMITH: Good morning. My name is Melinda  
10 Smith. We are presenting the fiscal year 2015 operating  
11 budget. I asked Nick Lawrence to come up here and sit  
12 with me. Nick and I have prepared the budget together for  
13 many, many years now.

14                     Essentially, we are budgeting around \$7 million  
15 in revenue and an equal amount in expenditures, so we're  
16 estimating a profit of \$62,000 cash at the end of the  
17 year.

18                     If you'll turn to page 2 in our schedules, this  
19 is the servicing revenue which is just simply made up  
20 primarily of our small loan portfolio that we have of down  
21 payment assistance loans and some residual funds that we  
22 received as master servicer on three bond issues for  
23 TDHCA.

24                     On page 3 I'd like to point out that I put a  
25 new copy of page 3 at each of your places because when I

1 printed the budget to put in the board book, I cut off the  
2 notes so that you couldn't see what the references were,  
3 so I have added those back so you can see what they are.  
4 This is our single family revenue. It's essentially made  
5 up of our issuer fees from the single family bond  
6 programs, the income that we earn on the mortgage credit  
7 certificates, our TBA program, our single family  
8 compliance program which is the relatively new program  
9 we've had just the last couple of years -- we receive \$200  
10 per loan that we perform compliance work on -- and some  
11 lender contributions. So our total single family income  
12 projected for the year is \$3.5 million.

13 On page 4 is our multifamily oversight and  
14 rental program revenue. Every line item that you see  
15 there represents a different multifamily property that we  
16 have been involved in issuing bonds or loaning money for  
17 different multifamily projects, and we receive issuer fees  
18 and then we do asset oversight and compliance work on all  
19 those properties and receive a fee for that as well.

20 The third item from the bottom where it says  
21 TSAHC Asset Oversight Contracts, those are just a few  
22 residuals that we have from an old contract with TDHCA  
23 where we did their multifamily as well, and these were  
24 contracts that we had. They were multifamily deals done  
25 by TDHCA but we had a contract directly with the borrower

1 to do their asset oversight and compliance.

2                   And the last line item is the single family  
3 rental program. That's the income that we are earning  
4 from rent on the homes that we purchased recently in our  
5 single family rental program. We have nine homes and rent  
6 them out to individuals and families.

7                   MR. EVENWEL: What's that big one, that \$1.2  
8 million, STATC? I should know what that is.

9                   MS. SMITH: Oh, that big one. Yes, that's an  
10 exceptional item. Those were fees that we received  
11 unexpectedly from the refinancing of the South Texas  
12 multifamily project.

13                  MR. LONG: The project actually was sold, and  
14 as a result, we were contractually reimbursed fees that we  
15 were due and owing as a result of the existing contract,  
16 and so that's that large number. It's a kind of  
17 contractual payment that was due us. It's a one-time deal  
18 we'll never see again; it was an exceptional item for this  
19 year.

20                  MR. DIETZ: So is that money that theoretically  
21 would have been received over a long period of time and  
22 it's all going to accelerate in 2014?

23                  MR. LONG: That's correct. It's a windfall.

24                  MS. SMITH: On page 5, this is our direct  
25 lending program cash revenue. Basically these are just

1 notes receivable, money that we have lent out to various  
2 nonprofit organizations to assist them in developing  
3 multifamily or single family projects that assist low  
4 income or moderate income families.

5 MR. DIETZ: That last line item, single family  
6 direct lending lines of credit?

7 MR. LAWRENCE: Nick Lawrence, Controller.

8 So we have these lines of credit with different  
9 partners and so the negative on the 73- just represents  
10 cash out from the beginning to the end of the year. It  
11 just means we've lent out more than we've collected, which  
12 is fine.

13 MR. LONG: It doesn't reflect non-payment or  
14 monies that we didn't collect because of a default, it's  
15 more timing of money going out and not coming back in  
16 during the calendar year that we're reflecting.

17 MR. DIETZ: So the reason that doesn't mesh  
18 with the budget is just because of the timing ended up  
19 being different than expected, and so we don't have a line  
20 item budget for that 2015?

21 MR. LAWRENCE: We're kind of just projecting  
22 the amount of cash out will be even.

23 MS. SMITH: Will be even.

24 MR. LONG: It's basically we're saying it will  
25 be par, whatever we give out will come back in, and that

1 would be the best expectation you would hope versus the  
2 73- variance.

3 MS. SMITH: Page 6, this is primarily the  
4 income from our ACT and Veterans program, and then we also  
5 receive a little oil and gas revenue so royalties for some  
6 leases, some royalty rights from some properties that we  
7 have, but that income is related to the homes that we  
8 receive, the donated homes and the sales of those homes  
9 during the year.

10 Page 7, these are our federal and state grants  
11 and grants and donations. As you can see, our federal  
12 grants are reducing; we really are not expecting to have a  
13 great deal in the upcoming year from any federal money,  
14 it's just the residual from closing out grants that we had  
15 in the prior years. And then grants and donations, these  
16 are literally what they sound like, donations from  
17 foundations, corporations, individuals that we're  
18 expecting in the upcoming year.

19 Moving to page 9, this is the first schedule  
20 related to our expenditures. This is our professional  
21 fees. There are many things that go into this line item:  
22 legal fees, accounting and auditing fees, some fees to  
23 assist us with our retirement plan, preparing that tax  
24 return and then the non-discrimination testing, our  
25 information technology, and then we have a single family

1 compliance maintenance program with the software that we  
2 purchased for that program that we have to renew annually.

3 So there are just a variety of things -- Penny, our  
4 transcription fees -- that go into that line item, and for  
5 the year we're budgeting \$414,000.

6 Page 10, this is the principal and interest on  
7 our notes payable. We have a few notes through the  
8 Federal Home Loan Bank where we have borrowed funds to  
9 assist us in making loans to multi and single family  
10 developers or nonprofit organizations that were doing  
11 developments. And then we also have a note from Wells  
12 Fargo, a PRI note, equity for a million ten that there are  
13 no principal payments due on that loan, it's just the  
14 interest that we pay until it's due in 2016.

15 Page 11 is travel. That's just based on what  
16 we project we're going to be doing in terms of site visits  
17 for various programs and our historical expenditures.

18 Page 12 is our computer hardware and software.  
19 We had to replace some computers this year and we don't  
20 anticipate having to do quite so much in the upcoming  
21 year.

22 Page 13 are utilities, lawn care, janitor  
23 service and repairs and maintenance on our building.

24 And then 14, these are our insurance expenses,  
25 just regular director's and officer's, the property

1 liability on our building here, our errors and omissions  
2 for our compliance work we do for the single family  
3 program, and then the property and liability on all of our  
4 ACT program properties that have been donated to the  
5 Corporation, or acquired in some other manner, as well as  
6 that last item is the rental home insurance for the homes  
7 that are in our single family rental program that are  
8 leased out.

9                 Page 15 is our marketing and website  
10 expenditures. They're pretty straightforward: website  
11 design, single family amortizing, printing for brochures  
12 and our annual report.

13                 And that concludes the schedules that I  
14 prepared. The remainder of the budget are pretty  
15 straightforward items: professional dues and training,  
16 communications, office supplies, rate for delivery. Our  
17 bank charges are up but that's related to the wires that  
18 we prepare for the compliance program.

19                 Do you have any questions about any specific  
20 line item that you'd like to discuss or anything that  
21 happened in the current year that you're interested in?  
22 Otherwise, we would request that the committee approve the  
23 proposed operating budget for 2015.

24                 MR. DIETZ: One line item that just kind of  
25 stood out, the Neighborhood Stabilization Program grants

1 are significantly lower than budgeted.

2                   MR. LONG: That program is essentially winding  
3 down. It had a limited fuse on it, so additional funding  
4 for that will only be carryforward costs for the  
5 properties that we've acquired. And we now have to until  
6 2019 to rehab and sell off the properties that required  
7 using the Neighborhood Stabilization Program, so when we  
8 re-contract with the Department of Housing and Community  
9 Affairs for the go-forward, it will only be for those  
10 expenses incurred to carry those properties and for sale  
11 and cost of maintenance and stuff like that. So it's not  
12 like we have any new monies coming in for new acquisitions  
13 or something, so that number is declining as we go along,  
14 and each year you should see that number decline even  
15 further because we should have fewer properties on the  
16 books. The goal is to sell them all by the end of 2019,  
17 and once that's done that portfolio will be zero so the  
18 dollar point will be zero as well.

19                   Any other of those line items?

20                   MR. EVENWEL: Just an overall type thing on  
21 page 1 there, our income is going down almost a million  
22 dollars in round figures, our expenses track with that.  
23 Is that good or bad?

24                   MS. SMITH: Primarily, we had that one windfall  
25 during the year.

1                   MR. LONG: It was \$1,027,000.

2                   MS. SMITH: It certainly made that 2014 actual  
3 much larger, and in terms of the budget --

4                   MR. EVENWEL: Well, I was just comparing the  
5 budget to the budget, not the actual.

6                   MS. SMITH: Having that federal grant that is  
7 now going away, and also, we're not receiving as many of  
8 the properties donated to the Corporation through the  
9 foreclosures. That's sort of winding down.

10                  MR. LONG: I would also add that while you see  
11 around a million dollars less in revenue, if you will -- I  
12 think Melinda has explained those -- but I also would note  
13 that I think the projected expenditures for what we  
14 budgeted last year to what we're budgeting this year is  
15 significantly lower, about \$800- or \$900,000.

16                  MR. EVENWEL: I noticed that too.

17                  MR. LONG: And what we hope it is is a result  
18 of us being conservative on our projections for income and  
19 very aggressive and not trying to exclude anything that we  
20 think might be an expense. We're trying to give the best  
21 picture of both sides.

22                  MR. EVENWEL: Is the overall reflection good  
23 for the company?

24                  MR. LONG: Yes, in my opinion it's very good  
25 for the company. It shows us being much more efficient

1 and much more capable of utilizing other resources to  
2 generate revenue. In other words, we're not focusing on  
3 one program to make us stable, we are able to diversify  
4 our program stream to give us a broader deal. Now, as we  
5 grow those programs, some will come up and some will go  
6 down, but as you can see on the line item for 2014 for  
7 single family, we budgeted \$3.7 million and we generated  
8 about \$500,000 more than that.

9                 Now, we could probably project the same thing  
10 for this year for this budget, but we would rather be  
11 conservative because we don't know what the market is  
12 going to do. If interest rates change, that program could  
13 slow, we might end up doing bond deals, we don't know what  
14 will happen, but rather than be aggressive with it, we'd  
15 rather be tentative, if you will, be conservative, and  
16 then hope for the best where we would have an excess  
17 surplus.

18                 I don't expect, just as we didn't expect any  
19 additional extraordinary items like the sale of the South  
20 Texas multifamily property transaction, but those things  
21 may or may not happen. We don't, of course, see that in  
22 anything that we've looked and scrubbed from the budget.  
23 We don't envision that but I think the fact that we are  
24 being a nonprofit and we like to see our numbers as close  
25 to the vest as possible, and I think, Mr. Evenwel, what we

1 try to do is present that to you.

2                   To answer your question, I don't think there's  
3 any issue or problem, I think it's more just a fact of  
4 where we're at right now, and I think the fact that we're  
5 showing a positive at the end of the day on 2015, it's a  
6 little lower than what we showed last year, but again,  
7 we're a nonprofit, we're not trying to end up with excess  
8 profits, but at the same time we really don't consider  
9 them profits, they become excess revenues that we can put  
10 back in the programs. So that's our intention and  
11 hopefully that's where we'll be at the end of the day.

12                  Did I answer your question?

13                  MR. EVENWEL: I was just asking a general  
14 question.

15                  MR. LONG: It was a good question.

16                  MR. EVENWEL: When I look at a company that  
17 says it's an \$8 million company and it's now going to be a  
18 \$7 million company, that's a 15 percent reduction, and  
19 does that mean that everything has to go down 15 percent,  
20 or is that okay?

21                  MR. LONG: I think it's okay. Again, I think  
22 we are trying to be more efficient. We've added staff,  
23 over this year we've added staff and we've kind of got  
24 ourselves to the number that we've been holding for the  
25 last nine months or so. Our expenses have leveled, and we

1       are budgeting, quite honestly, if you look at some of  
2       these items, we're budgeting in the line items that we  
3       talked about for some of the excess proceeds that we  
4       generated.

5                    MR. EVENWEL: And the expenses keep up with the  
6       revenue.

7                    MR. LONG: What I was going to say is that one  
8       of the things that I find really nice to look at is that  
9       we're going to budget in our cash flow this year the  
10      expansion that we proposed to you, that we want to expand  
11      the single family loan program. It's nice to be able to  
12      do that with cash flow rather than having to take money  
13      out of reserves.

14                  MR. EVENWEL: Absolutely.

15                  MR. LONG: So these expenses and revenues  
16      really, in my mind, show that we're growing, we're just  
17      using the money in a much more efficient and probably  
18      realistic manner that gives us a better handle on what our  
19      expenses are going to be. So we're generating revenues, I  
20      think, at a good clip for the program.

21                  MR. DIETZ: That's where that higher insurance  
22      budget comes from. Right?

23                  MR. LONG: Certainly. But again, it's not a  
24      small amount of money, we're proposing a million dollars  
25      to go into the single family rental program which will get

1       our portfolio up to, we hope, about 15 properties. But  
2       we're seeing such positive results from that first round  
3       that the Board approved last year. With nine homes we're  
4       able to serve borrowers at 80 or below that are at 60  
5       percent of the fed limits. It's just been a really  
6       positive ability to buy homes and put people in  
7       neighborhoods that they probably wouldn't be able to  
8       afford otherwise, so we want to expand that model and  
9       continue that growth.

10           And I'm not bragging on the program as much as  
11          I'm saying I'm happy to see that that money is allocated  
12          in here and is part of the cash flow for the year, not  
13          that we're having to take it out of reserves to fund it,  
14          and that makes that really, to me, a nicer look. To  
15          answer your question, we're expanding our model, we're  
16          just being more efficient at it.

17           MR. EVENWEL: So that's encouraging to hear  
18          that because who knows what the interest rates are going  
19          to do.

20           MR. LONG: That's correct. And as you know,  
21          with these properties, and like anything else we do, we're  
22          pretty averse to debt around here, so we prefer to stay  
23          rather debt free other than some of the notes we carry in  
24          conjunction with some of our other programs where we have  
25          like blended notes with the Federal Home Loan Bank or

1 something like that where we're risk sharing. But those  
2 properties, those are all collateralized assets,  
3 collateralized loans where we have an asset pledged  
4 against the, the actual property that we're holding that  
5 we funded, so we're not exposed and so those debts are  
6 okay to carry, in my opinion. But we don't owe anything  
7 on this building, we don't owe anything on the homes we  
8 own, and if we expand additionally into additional office  
9 space, which we propose doing, we would do that with cash,  
10 as well, out of this cash flow.

11 MS. SMITH: In fact, just to follow up on  
12 David's comment, we have been very fortunate in that we've  
13 been able to fund all of our programs most years with the  
14 current year's earnings instead of using any sort of  
15 reserves, so it's done very well.

16 MR. LONG: And in fact, as a positive, one of  
17 the things that happens in our process is we go through  
18 the process every year -- I shouldn't say we -- Melinda,  
19 Nick, and maybe Betsy sit down and they develop what they  
20 consider kind of the numbers they need from everybody, the  
21 program areas, and then they send that out and say fill  
22 out what you think your budget should be. Well, this year  
23 we were happy to tell everybody that we were able to fund  
24 their budget requests as presented. We tweaked them a few  
25 here so that numbers flowed within -- some programs

1 overlapped so we made sure that tweaked, but basically I  
2 think Melinda and Nick can tell you that we funded  
3 people's requests pretty close to what they asked for.

4                   So again, I think that that shows the continued  
5 strength of the financial capacity, and again, I think it  
6 also shows the commitment of the staff to work within the  
7 means that we have to do the work we do. I'm very excited  
8 about the opportunity this next year. We did very well  
9 this year and I think we're going to put those resources  
10 back into good use. We continue, as you saw in here, to  
11 fund the Foundations Fund. We've given over \$1.5 million  
12 of grants away in the four and half years that we've had  
13 that program, and I think that's pretty phenomenal.

14                   And I think the Board has done a really good  
15 job of allowing us the opportunity to meet our mission by  
16 allowing us to do these programs and hopefully you see  
17 that those programs resulted in some positive things, and  
18 I will tell you that sitting with those people and the  
19 recipients of the Foundations Fund would very much thank  
20 you for what you've allowed them to have in terms of  
21 resources available to them.

22                   MR. EVENWEL: I'll bet they're pleased as  
23 punch. That's a lot of money going into the economy of  
24 Texas that wouldn't otherwise be there.

25                   MR. LONG: Very much so.

1               Anyway, I didn't mean to ramble on, but if you  
2 have any other questions, Melinda and I are more than  
3 happy to go over them.

4               MR. EVENWEL: I'm good.

5               MR. DIETZ: I guess we would entertain a motion  
6 to approve the fiscal year 2015 operating budget.

7               MR. EVENWEL: I move we approve the budget.

8               MR. DIETZ: Is there a second?

9               MR. LONG: You guys have to do it.

10              MR. DIETZ: Second. All in favor?

11              (A chorus of ayes.)

12              MR. DIETZ: So the fiscal year 2015 operating  
13 budget has been approved for presentation to the full  
14 Board.

15              Let's move on to Tab 3 which is the  
16 Presentation and discussion of the annual financial audit  
17 for the fiscal year ended August 31, 2014.

18              MR. EVENWEL: The blank page.

19              MS. SMITH: We have Dena Jansen and Ashlee  
20 Martin from Maxwell Locke & Ritter, our new auditors, who  
21 are here today, and they wanted to visit with you briefly  
22 about our upcoming audit.

23              MS. JANSEN: Thanks for having us. Again, I'm  
24 Dena Jansen with Maxwell Locke & Ritter. I will be the  
25 partner on the audit engagement, and we're going to do

1 some introductions as well, but I want to just thank you  
2 for having us, we're excited to be here. We are the new  
3 auditors in town. We have been very fortunate to work  
4 with Don Mikeska, the prior auditor. He has been a friend  
5 of ours at the firm for years, and this is going to be  
6 very smooth transition, I think. He's been very helpful  
7 in the process.

8 Ashlee, do you want to introduce yourself to  
9 everybody?

10 MS. MARTIN: Sure. I'm Ashlee Martin. I'm  
11 going to be the manager of your audit engagement.

12 I graduated from Southwestern in Georgetown and  
13 started my career at Deloitte in San Antonio, and after a  
14 few years there wanted to get back to the Central Texas  
15 area, so I started working for Maxwell Locke & Ritter over  
16 ten years ago and I primarily focus on government  
17 entities, not for profits, and a few for profits.

18 MS. JANSEN: And just a brief introduction of  
19 myself, I am a Texas Tech graduate and then I worked in  
20 Lubbock for a year and then also went to Deloitte & Touche  
here in Austin for eight years. While I was there, I  
21 served predominantly government clients, nonprofits and  
22 higher education. And as I was mentioning prior to the  
23 meeting I was even, for eight years, the auditor at Texas  
24 Department of Housing and Community Affairs, so have some

1       familiarity with the operations of TSAHC and really  
2       excited to bring that back, so excited to be here.

3           I left Deloitte and moved over to Maxwell Locke  
4       & Ritter about three and a half years ago, and my time at  
5       Maxwell Locke & Ritter, again, predominantly served --  
6       well, actually my only niche is the nonprofit niche but  
7       still serving as the current interviewer for our  
8       government clients as well. So when I became a partner in  
9       January, this is just one of the few engagements that I'm  
10      excited to bring my prior experience and then also my  
11      experience in the nonprofit sector that we have at Maxwell  
12      Locke & Ritter.

13           For those of you that don't know about Maxwell  
14      Locke & Ritter, we obviously appreciate being selected as  
15      your auditors and you did see our proposal, we are the  
16      largest local firm here in town. We do have about 100  
17      folks; we have offices downtown in the Frost Bank Building  
18      and then another up in Round Rock since Williamson County  
19      is such a hot spot as well.

20           Again, we focus on niche focused groups, and so  
21      within that our staff then really operate within one or  
22      two so that they can really then bring you best practices  
23      across the clients they serve within that niche. So  
24      Ashlee and I, again, both focus in nonprofit and  
25      government. We'll be able to hopefully bring you insights

1 and bring Melinda and the team here, as well, anything  
2 else that we might see that they could use as a best  
3 practice or anything else.

4                   So we'll just walk you through on just what to  
5 expect in the audit. An audit is an audit, I will say  
6 that, so there isn't too much that is definitely  
7 different, but I want to walk you through the steps that  
8 we have and the things that we're required to communicate  
9 to you as a Board, and especially to this committee.

10                  So we will be auditing the financial statements  
11 as of August 31, 2014. Along with that, there are many  
12 things that will be either supplemental schedules or a  
13 part of the financial statements that we will provide an  
14 opinion on, either directly or provide an opinion in  
15 relation to the financial statements. Items that are  
16 included in that will be the management discussion and  
17 analysis that precede the financial statements, and then  
18 the schedule of expenditures of federal awards that are  
19 required because of the federal grants that they have,  
20 that is also an item that would be in relation to the  
21 financial statements. There are a couple that we will not  
22 necessarily provide an opinion on. There's a schedule of  
23 revenues and expenses by individual activity but that's  
24 really the only one.

25                  So as you step back from that, really the

1 reminder is that the objective of our audit is to express  
2 an opinion on that information and to let you know that  
3 that information is fairly presented in all material  
4 respects. We will look at internal controls. It is not a  
5 requirement and we will not be providing an opinion on  
6 internal controls, but what we are required to do is gain  
7 an understanding of internal controls and we use that  
8 understanding to basically help us with our risk  
9 assessment. And then with that risk assessment we then  
10 decide what procedures we actually will apply during the  
11 audit.

12 We will be looking at internal controls for the  
13 financial statements of the institution as a whole, but we  
14 will also then specifically be looking at the internal  
15 controls as it relates to the programs, the federally  
16 funded programs that we'll be testing as well.

17 Any questions on those? So at the end of the  
18 day we actually will issue an auditor's report and then we  
19 will issue another report on internal controls over  
20 compliance over the entire financial statements and that  
21 will be because of the Generally Accepted Government  
22 Auditing Standards requirement, and then there will be a  
23 third opinion specifically related to the federal program  
24 that we test. We'll let you know that when we actually  
25 bring the drafts of the financial statements, but we do

1 issue those.

2                   So the other thing that we always are required  
3 to make sure you know that management is responsible for  
4 preparing the financial statements, providing that  
5 information to us for audit, being available and ready  
6 throughout for inquiry -- which is the fun part when we're  
7 onsite -- and then just at the end of the day to have  
8 qualified and competent folks who then can walk us through  
9 the financial statements and answer our questions.

10                  Our responsibilities then, as I pretty much  
11 mentioned, is to audit that information and to understand  
12 the internal controls as it relates to that as well.  
13 Those are pretty much the items there.

14                  What I thought I would let you know, as well,  
15 is what we've already done and what we'll continue to do.

16                  So in the proposal we had a timeline and that did  
17 include, and they were very gracious to host us for what  
18 we would call interim test work. Especially in a year of  
19 transition, as we were gaining and an understanding of the  
20 actual operations and how things work here, we did come  
21 out the week of July 21 and we were able to get through a  
22 good majority of our planning documentation. So we  
23 appreciate the staff being prepared and ready for us and  
24 welcoming us to go ahead and get that ball rolling, if you  
25 will.

1           We will be out then for final field work for  
2 the actual audit in November. We are aware that we'll  
3 meet the deadlines for the draft by the November 20  
4 deadline which is standard, with the final issuance then  
5 in December. We also then throughout the entire  
6 engagement, as we're looking into internal controls and as  
7 we perform the audit procedures, we're firm believers in  
8 communication, so what we can guarantee to you that if  
9 there are items that would be required to be communicated,  
10 we would do so in a timely manner, but if there were any  
11 other items that we felt could go to management first, we  
12 will always offer if you have questions of their  
13 communications with you, we're ready and willing and  
14 available to discuss those as we can.

15           So any questions on the financial statements or  
16 the audit itself before Ashlee is going to just walk you  
17 through one of the new accounting standards that's  
18 actually going to impact the Corporation this year.

19           MR. DIETZ: When is it due?

20           MS. JANSEN: So the draft is due to the state  
21 November 20 as a draft, which basically means that we will  
22 have all field work we can done other adjustments that  
23 would happen after that, and then the final is December  
24 20, but we plan to have it to you before then for your  
25 approval, so it will be here before we know it, the

1           holidays.

2           Any other questions on that?

3           (No response.)

4           MS. MARTIN: And as you all may recall, and I'm  
5       sure it was brought up to you last year in the audit  
6       report, there's a new pronouncement that's come out, GASB  
7       65, and what it does, the main effect it's going to have  
8       on you all is how we would account for bond issuance  
9       costs. Prior to GASB 65 those bond issuance costs went to  
10      the balance sheet and you amortized those over the life of  
11      the bond, but post-implementation of GASB 65 -- which is  
12      required to be implemented this year -- you have to  
13      immediately expense those bond issuance costs. And so  
14      this year, and only this year, you'll see a prior period  
15      adjustment related to those bond issuance costs and it  
16      will bring down your net position balance by approximately  
17      \$3 million which is based on your prior year balance sheet  
18      item.

19           So as far as pronouncements coming downstream  
20      that would have an effect on your financials, that's all  
21      that we're currently aware of.

22           MR. DIETZ: GASB 65, that's for all government-  
23      related entities?

24           MS. MARTIN: Exactly.

25           MS. JANSEN: Yes, absolutely. And it's one

1       thing that makes TSAHC interesting because you are  
2       established as a nonprofit entity but as a component unit  
3       of the State, your Generally Accepted Accounting  
4       Principles are then prescribed by GASB or the Governmental  
5       Accounting Standards Board. So we will follow that, and  
6       fortunately, just because of other relationships, we've  
7       already reached out to make that we have personal  
8       connections with TSAHC's representative at the  
9       Comptroller's Office, as well as at the State Auditor's  
10      Office, just so they know and we know who we can reach out  
11      to, and they always have questions, so we'll be available  
12      and ready to have those communications with them.

13           And I guess I forgot to mention that the only  
14       other guidance that is out there that could and would  
15       impact the Corporation is there is new uniform grant  
16       guidance for federal grants. It sounds like, though, the  
17       amount of funding is declining here, and what's  
18       interesting about that guidance is that even as it relates  
19       to the requirement for a single audit, that threshold for  
20       a single audit will be going up to \$750,000 from \$500,000,  
21       it's not going to actually impact us for a couple of years  
22       until about probably fiscal '16 or '17, but that's on the  
23       table, and we'll provide that information for them to  
24       consider. But there's not any necessary specific changes  
25       that would impact you too much with the programs you have

1 here, but we'll see how that impacts you in a couple of  
2 years.

3 Any other questions we can answer for you as  
4 the auditors?

5 MR. DIETZ: I don't think so. Thank you. We  
6 look forward to working with you, and we've got a good  
7 financial team here so hopefully we're one of your least  
8 stressful audits.

9 MS. JANSEN: Along with the kudos that we  
10 heard, we do appreciate the interim work. It really will  
11 make things smoother so we appreciate them being ready and  
12 welcoming us. Thank you.

13 MR. DIETZ: Thank you.

14 So that doesn't require a vote or anything.

15 MR. LONG: It's more for informational purposes  
16 for the Audit Committee members.

17 MR. DIETZ: Good. Do we have any need to go  
18 into a closed meeting during our Audit Committee meeting?

19 MR. LONG: No, sir.

20 MR. DIETZ: Are there any items to be discussed  
21 during the Audit Committee meeting?

22 MR. LONG: No, sir.

23 MR. DIETZ: All right. Any other public  
24 comments?

25 (No response.)

1                   MR. DIETZ: Then the Audit Committee meeting  
2 will adjourn at 10:06 a.m. on August 21.

3                   (Whereupon, at 10:06 a.m., the meeting was  
4 concluded.)

## C E R T I F I C A T E

3 MEETING OF: TSAHC Board Audit Committee

4 || LOCATION: Austin, Texas

5 DATE: August 21, 2014

I do hereby certify that the foregoing pages,  
numbers 1 through 30, inclusive, are the true, accurate,  
and complete transcript prepared from the verbal recording  
made by electronic recording by Penny Bynum before the  
Texas State Affordable Housing Corporation.

8 / 26 / 2014

( Transcriber )

( Date )

On the Record Reporting  
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