



August 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, August 18, 2016  
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  
August 18, 2016 at 9:00 am

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

**Bill Dietz**  
**Committee Chair**

The Audit Committee of the 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 December 10, 2015. |
| Tab 2 | Presentation, Discussion and Possible Approval of the Fiscal Year 2017 Operating Budget.                            |
| Tab 3 | Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.                                   |
| Tab 4 | Presentation and Discussion of the Fiscal Year 2016 Annual Financial Audit.   |

**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.*

*Section 46.035 of the Texas Penal Code prohibits handgun licensees from carrying their handguns at government meetings such as this one. This prohibition applies to both concealed carry and open carry by handgun licensees. Handgun licensees are required by law to refrain from carrying their handguns at this meeting.*

*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.*

Tab 1

**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  
December 10, 2015 at 9:30 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 9:30am on December 10, 2015, 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  
Jerry Romero (Board Member), Alternate Member  
David Long, (President) Ad Hoc Member  
Melinda Smith, (Chief Financial Officer) Ad Hoc Member

**Committee Members Absent**

Gerry Evenwel (Board Member), Member

**Staff Present**

Betsy Aldrich, Senior Accountant  
Liz Bayless, Executive Vice President  
Nick Lawrence, Controller  
Laura Ross, Corporate Secretary

**Special Guests**

Bill Gehrig, Greenberg Traurig  
Dena Jansen, Maxwell, Locke & Ritter  
Katie Van Dyk, Greenberg Traurig

**Public Comment**

There was no public comment.

**Tab 1            Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 20, 2015.**

Mr. Long made a motion to approve the minutes of the Audit Committee Meeting held on August 20, 2015. Mr. Romero seconded the motion. A vote was taken and the motion passed unanimously.

**Tab 2            Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2015.**

Ms. Smith introduced the Corporation's auditor Ms. Jansen, with Maxwell, Locke & Ritter, and noted that Ms. Jansen would be presenting the audit to the Committee today. Ms. Smith thanked Ms. Aldrich and Mr. Lawrence for all their hard work preparing for the audit and answering all the questions the auditors posed during the audit process.

Ms. Jansen introduced herself to the Committee. She referred the Committee Members to the draft of the financial statements that were handed out at the beginning of the meeting. She turned to the Independent Auditor's Report which read on the second page, "In our opinion the financial statements do present fairly, in all material respects, the financial position of the Corporation". She noted that this represented a clean opinion or an unmodified opinion. She added that the audit was conducted in accordance with Government Auditing Standards.

Following the Independent Auditor's Report was the Management's Discussion and Analysis (MD&A) which provided a summary of operations and a comparison to the prior year of activity. Ms. Jansen noted that MD&A was prepared by Corporation management.

Ms. Jansen then turned to the Statement of Net Position. She noted that the Corporation had \$153 million in total assets. She briefly highlighted the redemption of the Series 2005A bonds and activity in preparation for the redemption of the 2005B and 2006A bonds, as being the largest volume of transactions listed. Ms. Jansen then noted that the Corporation had \$125 million in total liabilities. There were no significant changes in the deferred inflows/resources and deferred revenue. The Corporation's net position was \$28 million.

Ms. Jansen then spoke about the Statement of Revenues, Expenses and Change in Net Position. She noted that the Corporation's total Operating Revenues were \$7.5 million. She pointed that there had been a decrease in revenues partially due to the net decrease in fair market value of investments which was market driven. The decrease was also due to a decrease of \$1 million in multifamily income as compared to the previous year. Ms. Jansen explained that the previous year there had been a push to collect past due issuer fees which had raised the total income the previous year. It had fallen back to normal levels in 2015. Mr. Romero asked what all was included in the investment line item and Ms. Jansen explained that it included both the Corporation's investments and the mortgage revenue bonds related to the bond transactions. Ms. Jansen stated that Operating Expenses totaled \$10.7 million and overall, there was a net loss of \$3.1 million. The net position was \$28 million.

Ms. Jansen then turned to the Statement of Cash Flows. She noted that the Corporation's operating activities continued to generate a positive cash flow. There was a net increase of \$9.5 million in cash flow due to the redemption of investments in cash for the 2005B and 2006A transactions.

Ms. Jansen made the Committee aware of the Footnotes to the financial statements that followed. They were consistent with previous years with no significant changes, additions or deletions of notes. She briefly highlighted Note 21 which addressed subsequent events. She explained that it

was a requirement for the auditors to disclose subsequent events the reader. Note 21 listed the redemption of the 2005B and 2006A single family bonds totaling \$11.7 million which had occurred after fiscal year end. Mr. Romero asked about the threshold for disclosure and Ms. Jansen explained that it was a matter of materiality. Ms. Smith noted that staff included anything unusual that happened after the year-end.

Ms. Jansen turned to the Government Auditing Standards section. She noted that on the second page, the first paragraph stated that the auditor didn't identify any significant deficiencies or material weaknesses in internal control. Under compliance and other matters, it stated that the auditor did not disclose any instances of noncompliance that were required to be shared with the Committee or with management.

Mr. Romero asked if this was the standard format for audited financial statements and Ms. Jansen confirmed that it was. He suggested adding a column for comparison to the previous year's numbers. Ms. Jansen stated that traditionally they only did single-year reporting but going forward they could look into having comparative information included. She pointed out that the MD&A did include comparative information.

Ms. Jansen stated that in addition to the report they had just finished reviewing, the auditor was required to issue a separate report related the Corporation's status as a Ginnie Mae issuer. This report included a checklist and a transmittal letter. In the last line of the letter, it stated that "it was the auditor's opinion the information was fairly stated in relation to the financial statements". She noted that the Corporation was in compliance with all requirements for coverage and insurance compliance.

Ms. Jansen turned to the final communication which was a required communication of the auditor. The first page listed any significant changes in accounting policies or practices; there were none to disclose. The next disclosure dealt with whether the financial statements were consistent. She pointed out that estimates were used in preparing the statements, and the auditor found them to be consistent and reasonable. The second page of the communication thanked staff and noted that there weren't any difficulties or disagreements that needed to be addressed. Ms. Smith and Mr. Lawrence had been both prepared and able to go through everything with the auditors in a timely manner. Additionally, it stated that no audit adjustments had been identified. The auditor felt communications were normal in the course of business. She was not aware of any consultations with other accountants or auditors she needed to make the board aware of. She then turned to the attached representation letter which stated the information provided was true, accurate and complete.

Ms. Jansen explained that the auditor also looked at internal controls and processes during the audit process. No deficiencies or material weaknesses were found and so there was no final management letter or internal control letter.

Ms. Jansen stated that the auditing team had remained consistent with last year, except for the manager on the account, who had changed. Mr. Rommell, the new manager, had met with staff and had reviewed all of the statements during the auditing process.

Ms. Jansen noted that there were no best practice recommendations. She added that there could be items staff would bring before the Audit Committee in the future regarding internal policies, but nothing was identified as an issue during the auditing fieldwork.

Mr. Romero made a motion to recommend and present the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2015 to the full board for approval as presented. Mr. Dietz seconded the motion. A vote was taken and the motion passed unanimously.

**Adjournment**

Mr. Dietz adjourned the meeting at 9:45 am.

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

Tab 2

**Texas State Affordable Housing Corporation**  
**Proposed Operating Budget**  
**Fiscal Year 2017**

	<u>2016 Budget</u>	<u>2016 Actual</u>	<u>2017 Budget</u>
<b>Revenues</b>			
Servicing Revenue, Net of Subservicer Fees	\$ 121,000	\$ 189,065	\$ 154,000
Single Family Program Revenue	3,273,000	3,813,280	3,399,000
Multifamily Program Revenue	410,000	434,275	419,000
Lending Program Revenue	289,000	761,481	252,000
ACT Program Revenue	276,000	195,661	368,000
Grants & Donations	740,000	69,648	683,000
Federal & State Grants	192,000	165,383	192,000
Tenant Rent Revenue	357,000	398,512	402,000
Investment Revenue	270,000	295,033	300,000
	<u>\$ 5,928,000</u>	<u>\$ 6,322,338</u>	<u>\$ 6,169,000</u>
<b>Expenditures</b>			
Salaries & Payroll Related Expenditures	\$ 2,371,000	\$ 2,192,695	\$ 2,567,000
Program Expenditures	1,642,000	1,804,155	2,159,000
Professional Services	365,000	250,735	352,000
Foundation Fund Grants	350,000	360,500	302,000
Principal & Interest on Notes Payable	155,000	724,786	154,000
Marketing	115,000	103,044	119,000
Insurance	114,000	113,139	114,000
Travel & Meals	129,000	98,869	112,000
Furniture, Equipment, & Software	37,000	33,547	40,000
Building Maintenance	43,000	43,679	45,000
Professional Dues, Conferences & Training	27,000	26,231	27,500
Bank Fees & Charges	19,000	22,933	23,500
Sponsorships	15,000	19,425	20,000
Communication	18,000	16,898	17,000
Printing & Office Supplies	9,000	11,673	12,000
Publications, Subscriptions & Office Expenditures	8,000	8,206	8,500
Freight, Delivery & Postage	6,000	5,053	5,500
	<u>\$ 5,423,000</u>	<u>\$ 5,835,568</u>	<u>\$ 6,078,000</u>
	<u>\$ 505,000</u>	<u>\$ 486,770</u>	<u>\$ 91,000</u>

**Texas State Affordable Housing Corporation  
Proposed Operating Budget  
Fiscal Year 2017**

## Tab 3

**TEXAS STATE AFFORDABLE HOUSING CORPORATION**  
**AUDIT COMMITTEE GUIDELINES**  
*(Submitted for Approval August 18, 2016)*

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. 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.

Tab 4

## Tab 4

# Presentation and Discussion of the Fiscal Year 2016 Annual Financial Audit.

## Discussion