

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,  
December 13, 2018  
9:00 a.m.

COMMITTEE MEMBERS:

JERRY ROMERO, Chair  
LORI COBOS  
DAVID LONG  
MELINDA SMITH

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P R O C E E D I N G S

1  
2 MR. ROMERO: The Texas State Affordable Housing  
3 Corporation Audit Committee meeting. Today is December  
4 13th. It is now 9:05. Doing roll call for the Committee  
5 members here. Jerry Romero, present.

6 Lori Cobos?

7 MS. COBOS: Present.

8 MR. ROMERO: David Long?

9 MR. LONG: Present.

10 MR. ROMERO: Melinda Smith?

11 MS. SMITH: Present.

12 MR. ROMERO: We do have all four members  
13 present. Let's go ahead and certify the roll. And is  
14 there any public comment at this point?

15 (No response.)

16 MR. ROMERO: Moving on to the action items.  
17 Action Item Tab 1 is the presentation, discussion and  
18 possible approval of the minutes of the Audit Committee  
19 meeting that was held on August 16, 2018. Questions,  
20 comments?

21 (No response.)

22 MR. ROMERO: Corrections?

23 MS. COBOS: I don't have any corrections. But  
24 I was just wondering if you could spell out what TBA  
25 means.

1 MR. LONG: Okay.

2 MS. COBOS: And that is it. I was not sure  
3 what that meant.

4 MR. LONG: I will. And it stands for To Be  
5 Announced.

6 MS. COBOS: Okay. Usually, that is what it  
7 stands for.

8 MR. LONG: It is just a background for the  
9 explanation, what it is, is under the single family  
10 program, because we price it daily. So it is to be  
11 announced, every day, the rate we're going to offer.

12 MS. COBOS: Okay.

13 MR. LONG: Across the country, everybody calls  
14 it TBA.

15 MS. COBOS: Okay. In a world of acronyms,  
16 sometimes you are not sure.

17 MR. LONG: No problem. We will spell that out,  
18 before we post it.

19 MS. COBOS: Okay. That is the only minor  
20 correction or question I have.

21 MR. ROMERO: Any other comments?

22 (No response.)

23 MR. ROMERO: I will entertain a motion to  
24 approve the minutes as presented, with the changes  
25 recommended.

1 MS. COBOS: So moved.

2 MR. LONG: Second.

3 MR. ROMERO: We have a motion and a second. Is  
4 there any further discussion on the item?

5 (No response.)

6 MR. ROMERO: All in favor, aye.

7 (A chorus of ayes.)

8 MR. ROMERO: Any opposed?

9 (No response.)

10 MR. ROMERO: The motion carries. Tab Item 2 is  
11 the presentation, discussion and possible approval of the  
12 Audit Committee guidelines.

13 MS. SMITH: My name is Melinda Smith. I am the  
14 Chief Financial Officer. Annually, we bring in the Audit  
15 Committee guidelines to the Audit Committee and Board for  
16 approval. We had asked our auditors to review the  
17 Committee guidelines for us. And I believe Jimmy Romell  
18 and Veronica -- they may not have any comments.

19 And I made three changes that I wanted to  
20 suggest. On page 2, I just removed the word, the.  
21 Because the sentence just didn't sound correct with that  
22 word in there. I did the same thing on page 3, on Item 4  
23 at the top.

24 And then the substantive change was on page 3,  
25 under independent auditors. Number 1, it originally

1 stated that the Audit Committee shall review and appoint  
2 the auditors annually. And we RFP every three years for  
3 our auditors. And they were approved for three years.

4 So while obviously, the Audit Committee can,  
5 you know, dismiss the auditors at any time that they  
6 desire, it just seemed like it would read better if we  
7 said that the Audit Committee shall approve the  
8 appointment of auditor, review their independent  
9 qualifications, and performance, and approve of any  
10 discharge of auditors when circumstances warrant. So I  
11 was just trying to clarify that.

12 MS. COBOS: So the selection of the auditor is  
13 done on a three-year basis?

14 MS. SMITH: Yes, ma'am. We -- I guess --

15 MS. COBOS: I wonder if, and I kind of see what  
16 you are saying, because at the very end, you have the  
17 statement of approving, that the Committee can approve any  
18 discharge of the auditors when circumstances warrant. I  
19 wonder if it would be good to kind of say, the Audit  
20 Committee shall approve the appointment of the auditors on  
21 a three-year basis, review their independence  
22 qualifications, performance.

23 However, the Audit Committee can approve the  
24 discharge of auditors when circumstances warrant at any  
25 time. Just to say, you know, clearly, it is done on a

1 three-year basis, but also throw in that caveat that at  
2 any time, we can --

3 MS. SMITH: Okay. That makes sense to me.

4 MR. LONG: If I might, I would add, if you are  
5 going to mention the three, I would state that it is done  
6 under the process of selection, which is the RFP. Not  
7 just the three-year basis.

8 Because I think she included the fact that we  
9 go through the Request for Proposal process to make that  
10 selection. Now, at any time, the Board could also select  
11 to extend their existing firm's contract as well.

12 MR. ROMERO: Or prior to discharge those  
13 officers and look for new ones.

14 MR. LONG: But we don't need that in here.  
15 That is a given, at any time.

16 MR. ROMERO: Right.

17 MS. SMITH: Uh-huh.

18 MR. LONG: But I agree with what you are saying  
19 Ms. Cobos. But I would just suggest you add the RFP  
20 process, so that it recognizes that we are going through a  
21 process for our selection.

22 Are you okay with all that, Melinda?

23 MS. SMITH: Yes.

24 MR. LONG: Okay, so then --

25 MR. ROMERO: You will make the changes to the

1 number 1?

2 MR. LONG: Yes. To page 3, and then  
3 independent auditor under section 1, as Ms. Cobos  
4 recommended.

5 MR. ROMERO: Okay. Any other comments?

6 MR. LONG: And with those changes, I will make  
7 a motion to approve them as presented, with the changes  
8 recommended by Ms. Cobos.

9 MR. ROMERO: We have a motion. Is there a  
10 second?

11 MS. COBOS: A second.

12 MR. ROMERO: A second. Is there any further  
13 discussion on the item?

14 (No response.)

15 MR. ROMERO: All in favor, aye.

16 (A chorus of ayes.)

17 MR. ROMERO: Any opposed?

18 (No response.)

19 MR. ROMERO: The motion carries.

20 MS. SMITH: Thank you.

21 MR. ROMERO: Moving on to Tab Item 3, which is  
22 the review of the audit for 2017, 2018?

23 MS. SMITH: August 31, 2018.

24 MR. ROMERO: Right. You would think I would --  
25 go back '17, '18. It will be '18, '19 next year.

1 MS. SMITH: The Corporation -- pardon me.  
2 Again, my name is Melinda Smith. I am the Chief Financial  
3 Officer.

4 We are required by statute to have an annual  
5 audit. And because we are a component unit of the State  
6 of Texas, that audit has to be completed and submitted to  
7 the Comptrollers Office by December 20th of each year.

8 Maxwell Locke and Ritter performed our audit.  
9 And one of their partners, the partner that was on our  
10 job, Jimmy Romell, is here to present it to you today.  
11 Thank you for coming, Jimmy. And I am going to turn it  
12 over to him. Let him.

13 MR. ROMELL: So good morning. I am Jimmy  
14 Romell, the lead partner on you all's engagement for  
15 fiscal year ended August 31, 2018. And so this morning,  
16 we will be going through two documents.

17 The first document we will be going through is  
18 a required communication to the governing body at the  
19 conclusion of the audit. And the second item we will go  
20 through will be the actual financial statements for the  
21 year ending August 31, 2018.

22 I just want to give you a kind of brief  
23 discussion as far as our team this year. So with me today  
24 is Veronica Day. She served as the manager on the audit  
25 for the fiscal year '18. Also, AJ Zimmerhanel was the

1 concurring partner on the engagement.

2           And then the three associates who did the field  
3 work was Ashley Ahlgren, Michelle Kopplow and Brittany  
4 Brown. So we had a pretty extensive team that came out  
5 here to perform you all's work this year.

6           So the first item, as I mentioned, I am going  
7 to go through is the required communication to the  
8 governing body of the audit. So we just want to point out  
9 that in this letter, it kind of summarizes some of the  
10 high points of the audit.

11           There were no new accounting policies or  
12 auditing standards that were implemented during this  
13 year's audit. The main estimates that we considered as  
14 part of the audit process had to do with your allowances  
15 over your accounts receivable, your loan losses, your  
16 notes. Then also, your estimate lies for your depreciable  
17 assets.

18           We also wanted to point out that we had no  
19 difficulties or disagreements with the management while  
20 performing our audit. We want to thank Melinda, Nick and  
21 everyone else here at the Corporation for providing  
22 assistance with the audit this year.

23           We also want to note we had new audit  
24 adjustments that we identified. So once again, that is a  
25 thanks to staff here for their good job during the year.

1 And then we didn't have any outside consultations with any  
2 other external parties during the audit engagement.

3 And then also, the performance of limit  
4 procedures in regards to what is called required  
5 supplemental information. So that is your management  
6 discussions and analysis.

7 And then also, there is a final requirement  
8 with HUD that also has to be completed as well. So that  
9 was done in conjunction with our overall financial  
10 statement audit this year. And then attached to this  
11 letter is a representation letter that is provided to us,  
12 that indicates that we were provided everything that we  
13 needed to perform and complete the audit this year.

14 So moving on, we actually now go through the  
15 Audit report for your fiscal year ended August 31, 2018.  
16 So we are going to be issuing an unmodified or clean  
17 opinion, which is the highest level of assurance we can  
18 provide as an external auditor. As I mentioned before,  
19 there were no new statements or standards that were  
20 implemented during fiscal year '18.

21 So as I mentioned before, the only required  
22 supplemental information in the audit report is the  
23 management discussion and analysis. And that's covered in  
24 our audit report, that we are including it. We are also  
25 not providing any assurance on that, because that is a

1 management document.

2           The other point I wanted to note is, our audit  
3 is performed under Government Auditing Standards. So  
4 included in the audit report is a separate report that  
5 discusses our requirements for governmental auditing  
6 standards and what was noted there under the audit, and  
7 we'll cover that here in a little bit.

8           So if you want to go ahead and move forward to  
9 your statement of net position. So you will see that your  
10 total current assets, we are about \$22.2 million in fiscal  
11 year '18.

12           One of the more significant changes is your  
13 investments. Current investments increased by about \$8.3  
14 million. That was primarily due to the DPA program, and  
15 not fronting those payments as have been done in prior  
16 years.

17           And then your non-current assets actually  
18 increased from the prior year. Most of that related to  
19 investments, because you pay down, early retired some of  
20 your debt. So some of the assets that are required to be  
21 held in conjunction with that debt also were lowered.

22           That is why the overall balance for your non-  
23 current assets decreased. And then overall, had about a  
24 \$76 million balance for total assets during the year.

25           And moving on to your liabilities, as I

1 mentioned, were about \$16-1/2 million of bonds that were  
2 redeemed early during fiscal year '18, which brought down  
3 your overall liabilities by roughly \$20 million from the  
4 prior year. And overall, you had about \$37.1 million of  
5 liabilities at the end of fiscal year '18.

6 And at the bottom of your statement, that  
7 position, this is your -- it kind of just goes through  
8 what is left, just for you to use for your general  
9 operations. We normally just focus on the unrestricted  
10 amount, because that is the amount that can actually be  
11 used for operations of the district. And at the end of  
12 fiscal year '18, you had a balance of about \$35 million  
13 related to unrestricted net position.

14 So the next statement is your statement of  
15 revenues, expenditures and changes in net position.  
16 Overall, you had about a \$5.7 million increase in revenue,  
17 primarily due to your single family income this year, as  
18 compared to the prior year.

19 On the expense side, it was relatively  
20 consistent. We had a slight decrease in interest expense,  
21 which was primarily due to the early retirement of your  
22 debt. So overall, you have a net income of about \$8.4  
23 million in fiscal year '18.

24 The next statement is your statement of cash  
25 flows. So there's different components, obviously, of

1 this statement. The main thing that you obviously want to  
2 be focusing on is your operating cash flow, because that  
3 is a good indicator of the overall health of the  
4 Corporation.

5 So at the end of fiscal year '18, you have  
6 about \$16.1 million positive cash flow related to your  
7 operating activities. And then overall, had about a \$4.3  
8 million increase in cash and cash equivalents from the  
9 prior year.

10 And beginning on page 16 are the notes to the  
11 financial statements, which, are just important to know.  
12 They are very useful in getting the full understanding of  
13 what was covered in the actual financial statements. As  
14 we mentioned before, there were no new accounting policies  
15 or procedures this year.

16 So the information in the footnotes is pretty  
17 consistent with what has been included in prior years. We  
18 won't go over these in a lot of detail, but I just want to  
19 point out little things within the footnotes.

20 So if you turn to page 21, you will see there  
21 is a statement for recently issued accounting  
22 pronouncements. So last year, we covered this statement  
23 as well. So it has to do with lease agreements.

24 And this is a statement that will be effective  
25 for fiscal year '21. So we are still a couple of years

1 out. But we just wanted to bring this up again, because  
2 it will be a pretty significant shift on how leases are  
3 accounted for on your financial statements.

4 And we are currently working with Nick and  
5 Melinda on the implementation to make sure that, once it  
6 is effective, will be ready to go, as far as implementing  
7 that new standard. But once again, it was covered in last  
8 year's communication to the Board as well.

9 And the only other thing in the footnotes I  
10 wanted to point out is if you turn to page 36, footnote  
11 21. We are required to review any subsequent events that  
12 are done after the balance sheet date to determine if they  
13 would be required to disclosed in your financial  
14 statements.

15 You did purchase an office building in October  
16 of 2018. So that is disclosed here as a subsequent event  
17 to your financial statements.

18 And then after that, as I mentioned earlier, is  
19 our report on our audit, performed under governmental  
20 auditing standards. I just want to point out here that we  
21 identified no material weaknesses in internal controls.  
22 And there were no instances of reported non-compliance  
23 that were noted during the audits.

24 And then the final page on the audit report as  
25 a reminder, this just breaks out the changes in the

1 expenses and revenues by activity. Just kind of gives a  
2 little more detail as far as what is included on the main  
3 statement, on the audit report.

4 And everything ties back to the statement of  
5 supplemental information. That gives you, once again,  
6 some more information about a program as far as how each  
7 program operated during the year. With that, I will open  
8 it up to questions you guys may have for me.

9 MR. ROMERO: I had a question for you on the  
10 notes.

11 MR. ROMELL: Sure.

12 MR. ROMERO: I lost it. This is in regards to  
13 the liability on leave. I just lost it.

14 MS. SMITH: Is that on page 21?

15 MR. ROMERO: Is that where it is? Okay. Thank  
16 you, yes. Compensated absences. So this, the \$206,000,  
17 this is through the end of the audit period.

18 MR. ROMELL: As of August 31, 2018, that's what  
19 was --

20 MR. ROMERO: Okay. So basically, that is  
21 \$206,000 that would be owed based on --

22 MR. ROMELL: Right. Had been earned, but  
23 not --

24 MR. ROMERO: Used.

25 MR. ROMELL: Used at that time.

1 MR. ROMERO: Okay. And I have had a  
2 conversation with Melinda on this.

3 But the number here is just basically the  
4 allowance to the employees based on their time with the  
5 Company. But there is a cap that you can only carry  
6 forward so much. Is that correct?

7 MS. SMITH: Right.

8 MR. ROMERO: Okay. Of this \$206,000, if an  
9 employee was to leave, they would be eligible to receive  
10 that as a payout, whatever they have accrued, that didn't  
11 exceed the amounts? Okay.

12 MS. COBOS: Can you elaborate more? I think it  
13 is generally pretty clear. But just so I could make sure  
14 I understand.

15 It seems to me that the single family bond  
16 activity in each program had a significant impact in 2017  
17 and 2018 with respect to total assets, decreased by about  
18 \$11 million due to a reduction in single family bond  
19 activity. We paid off some of the bond debt, which led to  
20 a decrease in liabilities. So can you just give a little  
21 more flavor on what was going on there? And talk a little  
22 bit about --

23 MS. SMITH: Sure. We began issuing bonds here  
24 at the Corporation back at least 2001. And issued for  
25 several years, until the market was such that it was not

1 favorable to do so anymore. And at that point, we started  
2 the TBA program that he mentioned earlier.

3 MS. COBOS: The to be announced program.

4 MS. SMITH: Right. Sounds like a great plan.

5 MS. COBOS: That was odd to me, too.

6 MR. ROMERO: Such a good program, we couldn't  
7 name it.

8 MS. COBOS: I know, right. We are all in  
9 suspense still.

10 MS. SMITH: And all of the bond programs had an  
11 optional redemption date, where we could redeem the bonds  
12 early if we wanted to. And so over the last several  
13 years, with the help of financial advisors, we have  
14 determined that it was more beneficial to the Company to  
15 go ahead and do that; economically, and for other reasons.

16 And so those bonds have been redeemed. And so  
17 whereas we used to have a really large asset, which was  
18 the mortgage-backed securities, and then on the liability  
19 side we had the bonds payable. And those mortgage-backed  
20 securities are made up of loans that we made with those  
21 bond proceeds.

22 And so when we redeemed the bonds, we paid off  
23 the bonds. Sold the mortgage-backed securities, paid off  
24 the bonds. And in some cases, we actually retained some  
25 of those mortgage-backed securities ourselves, as

1 investments. And so each year for the last what, four  
2 years, we have exercised that option to redeem those bonds  
3 early.

4 MR. ROMERO: And if I am not mistaken, it is in  
5 the report, too. Isn't it? The interest that we have  
6 earned on those bonds, that was in part -- was it a thing  
7 here? I thought it was.

8 MS. SMITH: I am sorry. Say that again, Jerry?

9 MR. ROMERO: The money that we were earning on  
10 the investment side, it reflects the ones that we kept off  
11 of those bond sales?

12 MS. SMITH: The ones that we kept --

13 MR. ROMERO: I thought I saw it in here.

14 MS. SMITH: Show up in, go back to the balance  
15 sheet.

16 MR. ROMERO: Okay.

17 MS. SMITH: If you look at, under non-current  
18 assets.

19 MR. ROMERO: What page are you looking at,  
20 Melinda?

21 MS. SMITH: Page 11. I am sorry.

22 MR. ROMERO: Eleven? That is okay.

23 MS. SMITH: The third item under non-current  
24 assets, there is \$6.8 million in investments at fair  
25 value. That is where the majority of the ones are that we

1 have retained.

2 The restricted investments, such as the very  
3 last item for \$32 million, those represent the mortgage-  
4 backed securities that are still held in trust to repay  
5 the debt, the bond debt that we have. There is also  
6 another \$1.5 million in cash and cash equivalents, in  
7 current assets that is also available to repay the bond  
8 debt, too. So altogether, it equals out.

9 MR. ROMERO: We basically made some money and  
10 we lost the assets. But we also lost the corresponding  
11 liabilities with them.

12 MS. SMITH: But we also lost --

13 MR. ROMERO: The corresponding liability.

14 MS. SMITH: Right.

15 MS. COBOS: Okay.

16 MS. SMITH: Does that make sense? Did that  
17 help?

18 MS. COBOS: Yes, it does. I just wanted to  
19 kind of see if I had missed anything. But it made sense  
20 to me, I think. The financial hard line is pretty  
21 straightforward and I appreciate that.

22 MR. ROMERO: Page 23 is what I was referring  
23 to.

24 MS. COBOS: Okay.

25 MR. ROMERO: That breaks out the interest we

1 are earning on the different investment categories that we  
2 have. And it shows on there, fairly high rate of return.

3 MS. SMITH: That is right.

4 MS. COBOS: I don't have any further questions.

5 MR. ROMERO: Anything else to add?

6 (No response.)

7 MR. ROMERO: If not, then what we will do is  
8 entertain a motion to recommend approval to the full Board  
9 from this Committee. I will entertain a motion.

10 MS. SMITH: I will move.

11 MR. ROMERO: You make a motion to recommend  
12 approval to the full Board. Is there a second?

13 MS. COBOS: I second.

14 MR. ROMERO: We have a motion and a second.

15 Any further discussion?

16 (No response.)

17 MR. ROMERO: All in favor, aye.

18 (A chorus of ayes.)

19 MR. ROMERO: Any opposed?

20 (No response.)

21 MR. ROMERO: The motion carries. I think that  
22 is it. Thank you very much. We appreciate your work.

23 MS. SMITH: Thank you.

24 MR. ROMERO: And we are adjourned from the  
25 Audit Committee.

1 (Pause.)

2 MR. ROMERO: Sorry. Motion to adjourn.

3 MR. LONG: Moved.

4 MS. COBOS: Is that going to be on the  
5 transcript.

6 MR. ROMERO: Yes. Motion to adjourn. Is there  
7 a second?

8 MS. COBOS: Second.

9 MR. ROMERO: All in favor, aye.

10 (A chorus of ayes.)

11 MR. ROMERO: Okay. It is now 9:00 -- let me go  
12 to iPhone, 9:27. We are adjourned from the Audit  
13 Committee. Thank you all.

14 MS. SMITH: Thank you.

15 (Whereupon, at 9:27 a.m., the meeting was  
16 concluded.)

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C E R T I F I C A T E

MEETING OF:        Audit Committee of TSAHC Board  
LOCATION:            Austin, Texas  
DATE:                December 13, 2018

I do hereby certify that the foregoing pages,  
numbers 1 through 2323, inclusive, are the true, accurate,  
and complete transcript prepared from the verbal recording  
made by electronic recording by Elizabeth Stoddard before  
the Texas State Affordable Housing Corporation.

DATE: December 17, 2018

\_\_\_\_\_  
(Transcriber)

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