

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Wednesday,
December 18, 2019
9:34 a.m.

COMMITTEE MEMBERS:

VALERIE CARDENAS, Chair
COURTNEY JOHNSON-ROSE, Member
DAVID LONG, Ad Hoc Member
MELINDA SMITH, Ad Hoc Member

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL	3
CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	none
ACTION ITEMS IN OPEN MEETING:	
Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 14, 2019.	3
Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Audit of the Fiscal Year Ending August 31, 2019.	4
CLOSED SESSION	none
OPEN SESSION	--
ADJOURN	19

P R O C E E D I N G S

MS. CARDENAS: Okay. Good morning. We're going to go ahead and call our Audit Committee meeting to order, and it is now 9:34 a.m. So, before we get started, I'd like to take roll call. Courtney Johnson-Rose?

MS. JOHNSON-ROSE: Present.

MS. CARDENAS: David Long?

MR. LONG: Here.

MS. CARDENAS: Melinda Smith?

MS. SMITH: Here.

MS. CARDENAS: And Valerie Cardenas, present.

Okay.

So, before we move forward with any action items, are there any public comments at this time?

(No response.)

MS. CARDENAS: If there is none, we'll go ahead and move into the first action item, which is the presentation, discussion and possible approval of the minutes of Audit Committee that was held on August 14 of 2019.

MR. LONG: I'll make a motion to approve the minutes as presented.

MS. JOHNSON-ROSE: Second.

MS. CARDENAS: Okay. Before we take a motion for approval, is there any public comment at this time?

1 (No response.)

2 MS. CARDENAS: If there is none, motion for
3 approval moves forward.

4 Anyone opposed?

5 (No response.)

6 MS. CARDENAS: If not, the minutes are
7 approved. Okay.

8 The next item for discussion is the
9 presentation, discussion and possible approval of the
10 annual independent financial audit for the fiscal year
11 ending August 31, 2019.

12 MS. SMITH: My name is Melinda Smith, and I'm
13 the CFO. Good morning.

14 MS. JOHNSON-ROSE: Good morning.

15 MS. SMITH: The Corporation is required to have
16 a financial audit, per our enabling legislation, and
17 additionally, we're also, per the Public Funds Investment
18 Act, required to have a review of our investment policy
19 and procedures every other year, and this happens to be
20 the year that that's required.

21 And additionally, we have a HUD audit done to
22 determine whether we have the appropriate net worth and
23 insurance. And so, Jimmy Romell and Veronica Lomas-Day
24 are here with Maxwell Locke & Ritter. They did our audit,
25 and I'm going to let them take over and present it to you.

1 MS. LOMAS-DAY: Thank you, Melinda.

2 MR. ROMELL: So good morning. I'm Jimmy
3 Romell. I serve as lead audit partner on the engagement
4 for you. And this is for your fiscal year ended August
5 31, 2019, and then Veronica Day was the manager on your
6 engagement, as well.

7 And just to kind of let y'all know who the team
8 was -- so we do have a concurring partner. His name is
9 A.J. Zimmerhanzel. And the role of the concurring partner
10 is, once the report is kind of prepped and reviewed, then
11 they go in and kind of do an independent review on our end
12 as part of our quality control standards.

13 And then the two associates who did a majority
14 of the field work were Ashley Ahlgren and Rachel Lee. So,
15 as you can see, we had a fairly robust team that was
16 serving on the audit this year. And do you have the copy
17 of the draft --

18 MS. JOHNSON-ROSE: Yes.

19 MR. ROMELL: -- reports? That way I can work
20 through all this before. So, we're going to start off
21 with the main things you state in a report to go through,
22 and I'll cover that, and then I'll turn it over to
23 Veronica, and she'll go through the -- so this should be
24 the right page.

25 MS. LOMAS-DAY: Yes.

1 MR. ROMELL: So as I mentioned, we'll go
2 through this first, and then Ron will go through -- as
3 Melinda mentioned, there is a report to y'all as far as
4 our review of the Public Funds Investment Act compliance,
5 and also there's a supplemental report that's prepared,
6 and then additionally there is a governance letter, which
7 is a required communication to the governing body that's
8 at the end of the audit.

9 So those are the items we'll be going through
10 today, and we'll touch on some of the key points of each
11 document, and if you have questions for us as we're going
12 through, just let us know.

13 So far as the audit report, we are issuing a
14 clean, unmodified opinion, which is the highest level of
15 assurance that we can provide as your external auditor.

16 There were no new accounting or auditing
17 standards that were implemented during fiscal year '19, so
18 you'll see the audit report and related footnotes look
19 very similar to what's been presented to the Board in
20 prior years.

21 And so, kind of moving through -- and then the
22 one additional thing -- so our audit is performed under
23 Government Auditing Standards, which require some
24 additional review of various compliance items as part of
25 the audit.

1 And so, in the audit report, the main opinion
2 references to a second report, which we'll go through this
3 morning as well. So, if you want to turn to page 4 of the
4 audit report -- the pages before that was that opinion
5 itself, which we just discussed.

6 On page 4 is the management discussion and
7 analysis. So, this is kind of a high-level summary of the
8 information in the audit report, as required by Government
9 Auditing Standards for -- to be included, and it's -- once
10 again, its kind of summarizes the information in the audit
11 report. I just wanted to point that out, and we'll look
12 at that in a ton of detail this morning.

13 So, if you want to turn to page 11, this is
14 your statement of net position for your year ended August
15 31, 2019, and the first section is your assets through the
16 year.

17 So, focusing on your cash and cash equivalents
18 and short-term investments -- so the second and third
19 lines under your current assets, you'll see that cash and
20 cash equivalents and your short-term investments increased
21 from fiscal year '18.

22 The primary reason for that is you issued bonds
23 in May of 2019, so there was proceeds that came in
24 relation to that, as well as there was some grant funding
25 that came in early. Even though the underlying

1 expenditures haven't been incurred yet, the money was
2 received, so that's why it showed as restricted. But it
3 was 3.75 million of funds that came in related to that
4 grant.

5 So that's why, overall, you have an increase in
6 those balances during the year. And then moving down to
7 your non-current assets, you'll see you have owned real
8 estate of about \$11.6 million.

9 The main change in that was the purchase of a
10 building during fiscal year '19 of about \$2.2 million. So
11 that's why that balance increased. And then the very last
12 line, in restricted investments held by law trustee --
13 once again, due to the bond proceeds, that's why that
14 balance went up as well. So overall, your increase --
15 your assets increased about 44.3 million, which the
16 primary reason for that being the bond proceeds received
17 during the year.

18 On page 12, this will detail out your
19 liabilities and your net position as of the end of the
20 year. On the liability side, the main increase, once
21 again, has to do with the bonds that were issued, which
22 bumped your total liabilities to just under \$77 million,
23 and the \$40 million bonds comprised the majority of that
24 increase from the prior year.

25 And then below, your net position. So, this is

1 just the -- basically the excess of your assets over your
2 liabilities. The unrestricted amount is really the amount
3 to focus on, because that's the amount that's available
4 for actual general operations of your entity.

5 So, at the end of fiscal year '19, you had
6 about \$33.2 million of unrestricted net position. On page
7 13, this will be your statement of revenues, expenses and
8 changes in that position for your fiscal year '19.

9 On the revenue side, your operating revenues
10 actually increased by about \$2.6 million, and that was
11 primarily due to your single-family income program
12 actually had an increase during the current year.
13 Expenses were about \$8.5 million, actually bumped up a
14 little bit, primarily due to [indiscernible], because
15 there's fees that you pay in conjunction -- any time you
16 issue a bond, there's related fees that go along with it.
17 But overall, you still have a positive net income of about
18 \$4.6 million to, once again, arrive at your ending net
19 position for the year of \$43.4 million.

20 And then page 14 is your statement of cash
21 flows, and really the only thing to point out here is that
22 the first kind of section -- these are cash flows from
23 operating activities, so you generally want this to be
24 positive. That's usually a good indicator of the overall
25 financial health, and you can see you actually brought in

1 about \$7.7 million of operating cash flow.

2 So, beginning on page 16 are the notes of the
3 financial statements. So, this just kind of gives
4 additional information about the financial numbers we just
5 covered. It's very, very critical to understand the notes
6 as well, because there's lot of information here that
7 doesn't always jump out at you on the actual, you know,
8 face of the financial statements, so it's very important
9 to have a full understanding of these as well.

10 As I mentioned before, because there were no
11 new standards this year, the information in here is very
12 similar to what's been presented in prior years, so I'm
13 just going to kind of touch on a couple of items within
14 the footnotes.

15 If you want to turn to page 22, and at the top
16 of page 22 is a recently issued accounting pronouncement.

17 So anytime there's an accounting pronouncement that will
18 have a fairly significant impact on, you know, a client's
19 financial statements going forward, we definitely want to
20 point that out prior to the implementation, so that way,
21 the Board is aware of the potential impact.

22 So, this is a standard that I know we've
23 included, I think, the last two years in your audit
24 report. But it has to do with leasing transactions, and
25 the primary focus is going to change how certain leasing

1 transactions ended up on your financial statements.

2 Currently, there is essentially two types of
3 leases. There's a capital lease, which will actually end
4 up on your balance sheet as an asset and a liability, and
5 then there's an operating lease, which doesn't end up on
6 your balance sheet, but it actually does disclose your
7 commitment as far as what you have to pay going forward.

8 Under this new guidance, unless it's considered
9 to be a short-term lease, pretty much everything will end
10 up on your statement of net position, in some form or
11 fashion. You have a corresponding asset and liability.

12 So there -- depending on the volume of leasing
13 transactions and the significance of those, there are
14 certain clients of ours in certain industries that there
15 could be a significant shift. But we're definitely
16 working with the management team here, and they're aware
17 of the potential implications of this standard.

18 So, we're kind of still working through it.
19 It's not effective until your fiscal year '21, so we're a
20 little ways out, but I always want to remind people when
21 we talk about effective dates. So even though it's for
22 fiscal '21, it becomes effective the first day of that
23 fiscal year, which in your case would be September 1,
24 2020, which is not that long away.

25 So anytime you have a standard, especially one

1 that potentially could have a significant impact, you want
2 to prepare and analyze and gather as much data as you can
3 prior to implementation, so that way, once again, on the
4 effective day of that fiscal year, you're ready to kind of
5 move forward with that standard.

6 So now if you want to turn to page 33, this is
7 your bonded indebtedness footnote. And as I mentioned
8 before, there's language in here that talks about the
9 \$40 million single-family mortgage revenue bond that was
10 issued in May 2019.

11 So, I just want to point out that that's in
12 addition to the previous bonds that were outstanding at
13 the beginning of the fiscal year. And then on page 34,
14 you'll your maturity schedule for your outstanding bonds
15 that shows the first five years individually of principal
16 and interest that's due and then five-year increments
17 after that, just to kind of see the total commitment of
18 your outstanding bonds as of the beginning of the fiscal
19 year.

20 So, with that, if you want to turn to -- this
21 would be the first page -- page 38 is the last page of the
22 footnotes, and then after page 38 is our report under
23 Government Auditing Standards, which I'll cover next.

24 And so, as I mentioned, your audit is performed
25 under Government Auditing Standards. And so, what this

1 report is noting is that we did not find any material
2 weaknesses in internal control over your financial
3 reporting, and there were no reportable instances of
4 noncompliance that were noted. So that's -- even though
5 we're not issuing an opinion under Government Auditing
6 Standards, that's essentially a clean report. I just
7 wanted to make you aware of that.

8 And with that, if there's any questions, I
9 guess I'll pause right now, if you have any questions on
10 the financial report, before we move on to the other
11 documents that we discussed.

12 (No response.)

13 MR. ROMELL: Okay. So, Veronica, do you want
14 to take the --

15 MS. LOMAS-DAY: Sure.

16 MR. ROMELL: -- rest of the documents?

17 MS. LOMAS-DAY: And so, I don't know what is
18 showing as maybe the next document --

19 MS. CARDENAS: Government Auditing Standards.

20 MS. LOMAS-DAY: Okay.

21 MS. CARDENAS: For the next --

22 MR. ROMELL: So, it would be after whatever's
23 after our --

24 MS. CARDENAS: What are we --

25 MS. LOMAS-DAY: The letter?

1 MS. CARDENAS: Oh. Independent auditor's
2 report or --

3 MS. LOMAS-DAY: So, it's --

4 MS. CARDENAS: Oh.

5 MS. LOMAS-DAY: -- just a letter.

6 (Pause.)

7 MS. LOMAS-DAY: So, there is -- so we have a
8 multi-page letter here. This is what Jimmy had talked
9 about before; this is the required communication, which is
10 basically providing a summary of the audit. So, on the
11 first page here, it talks about, as Jimmy had mentioned,
12 that there were no new policies and standards that were
13 adopted during the current year.

14 It also includes your most significant
15 estimates as well, which related to your allowances for
16 your accounts receivable, your loans, your notes
17 receivable, and then also the calculation of your
18 depreciation.

19 On the next page, so here, it talks about that
20 there were no difficulties or disagreements with
21 management during the audit process. There were also no
22 adjustments that were identified during the audit, and we
23 are not aware of any other consultations with other
24 accountants, and all of our discussions occurred during
25 the normal course of our professional relationship.

1 On the third page, which is the last page of
2 this letter, there is an "Other Matters" section.

3 (Pause.)

4 MS. LOMAS-DAY: Sorry. Okay. So, on the third
5 page, which is the Other Matters -- so the reason that you
6 have this is -- included in here, is because you have
7 management and discussion and analysis section that's
8 within your audit report, as well as the HUD report has
9 some supplementary information included in the schedules.

10 And so that is addressed here on that -- the
11 limited procedures that were performed. And then right
12 behind the next six pages are the management
13 representation letter. So, this is a standard letter that
14 management signs when we're ready to issue the report,
15 that is basically stating that the information that they
16 provided to us is true and accurate, because we use that
17 as part of our audit, and we base on conclusions on that
18 information.

19 Okay. So, then we have the HUD audit, which I
20 think is right after the audit report. And so, it's
21 got -- yes.

22 MS. CARDENAS: Okay. That's after the audit
23 report.

24 MS. LOMAS-DAY: And so, the HUD report, as
25 Melinda and Jimmy had said, is just -- it is a required

1 report based on HUD audit guide, and so there are
2 supplemental schedules that are required to be, you
3 know -- be performed, audit procedures on the schedules.

4 And we've issued a clean opinion in relation to
5 the basic financial statements. And so, then this same
6 thing, the audit guide has not changed in, I think -- in
7 the past like three years, and so as a result, these
8 schedules to what you've seen in the past.

9 And then the last item that we have is one
10 page. It's a one-page letter. And that is basically our
11 letter stating that, you know, we have performed certain
12 procedures of compliance relating to the Public Funds
13 Investment Act, and there weren't -- we didn't have any
14 instances of noncompliance that needed to be reported to
15 the Corporation.

16 And so as a result, this is the letter that
17 y'all are able to submit to the State Auditor's Office
18 that there are no issues.

19 MS. CARDENAS: Okay.

20 MS. LOMAS-DAY: So, any questions on any of
21 those?

22 (No response.)

23 MS. CARDENAS: No? It's great news.

24 MR. ROMELL: Yes. And we definitely want to
25 thank Melinda and Nick, Betsy, everyone else here at the

1 Corporation for all their assistance, because it does take
2 a lot of work on their end. I mean, we come in and we
3 kind of disrupt their normal routine, so we definitely
4 want to thank them for all their assistance this year
5 again.

6 MS. CARDENAS: What was the period of time that
7 it took to do this entire audit?

8 MR. ROMELL: So, we started to work in --

9 MS. LOMAS-DAY: So, at the end of October --

10 MR. ROMELL: -- October.

11 MS. CARDENAS: Okay.

12 MS. LOMAS-DAY: So, we started at the end of
13 October, and then we're here through, you know -- right up
14 to Thanksgiving, and then after that, we worked with Nick.
15 Nick drops the report, and then we go through that on the
16 final information, you know, sort of like the first week
17 in December.

18 So, it's quite an amount of time for them to,
19 you know, kind of be doing both the prior year and the
20 current year.

21 MS. CARDENAS: Uh-huh. Well, great job to the
22 team.

23 MS. LOMAS-DAY: Yes.

24 MS. CARDENAS: Okay.

25 MS. SMITH: I'd like to thank Nick and Betsy,

1 because they really did a wonderful job, and they --
2 basically Nick coordinates the audit and spends all that
3 time with the auditors.

4 MS. CARDENAS: Yes. Again, great job to
5 everyone. So -- okay. That's it. Thank you.

6 MS. LOMAS-DAY: Thank you.

7 MS. JOHNSON-ROSE: I make a motion to approve
8 the audit for fiscal year ending August 31, 2019.

9 MS. SMITH: I second.

10 MS. CARDENAS: Okay. Do we have any public
11 comment at this time?

12 (No response.)

13 MS. CARDENAS: If none, I have a motion on the
14 floor and a second. All those in favor?

15 (A chorus of ayes.)

16 MS. CARDENAS: Any opposed?

17 (No response.)

18 MS. CARDENAS: Okay. The presentation of the
19 annual independent financial audit is approved and will be
20 placed into the Board agenda.

21 MS. SMITH: Thank you.

22 MS. CARDENAS: Thank you. Okay. I don't
23 believe we have any other items at this time, so I will
24 adjourn the Audit Committee meeting at 9:53 a.m. Thank
25 you.

1 (Whereupon, at 9:53 a.m., the Audit Committee
2 of the Board of the Texas State Affordable Housing
3 Corporation meeting was adjourned.)

C E R T I F I C A T E

MEETING OF: TSAHC Board Audit Committee

LOCATION: Austin, Texas

DATE: December 18, 2019

I do hereby certify that the foregoing pages,
numbers 1 through 20, inclusive, are the true, accurate,
and complete transcript prepared from the verbal recording
made by electronic recording by Nancy H. King before the
Texas State Affordable Housing Corporation.

DATE: December 22, 2019

(Transcriber)

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