

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

VIA RINGCENTRAL

Wednesday,
December 16, 2020
9:00 a.m.

COMMITTEE MEMBERS:

VALERIE V. CARDENAS, Chair
COURTNEY JOHNSON ROSE, Member (absent)
DAVID LONG, Member
LALI SHIPLEY, Member
MELINDA SMITH, Member

ON THE RECORD REPORTING
(512) 450-0342

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 12, 2020. | 3 |
| Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2020. | 4 |
| CLOSED MEETING | none |
| OPEN MEETING | -- |
| ADJOURN | 15 |

P R O C E E D I N G S

1
2 MS. CARDENAS: As it was mentioned, it is now
3 9:00 a.m., and I would like to call the Audit Committee
4 meeting, held today on December 16, 2020, to order. And
5 so, before we begin, I'd like to take roll call. We'll
6 start out with Lali Shipley.

7 MS. SHIPLEY: Present.

8 MS. CARDENAS: David Long?

9 MR. LONG: Present.

10 MS. CARDENAS: Melinda Smith?

11 MS. SMITH: Present.

12 MS. CARDENAS: And myself, Valerie Cardenas,
13 present. Okay. Good. We have a quorum. Before we
14 begin, do we have any public comments at this time?

15 (No response.)

16 MS. CARDENAS: Seeing that there are no public
17 comments, we'll go into move into action items. We will
18 start out with Tab Item No. 1, which is the Presentation,
19 Discussion and Possible Approval of Minutes of the Audit
20 Committee Meeting held on August 12, 2020.

21 Hopefully, everyone has had the opportunity to
22 review those minutes. If there are no comments to be
23 made, if I can have a motion for approval?

24 MS. SMITH: I make a motion.

25 MR. LONG: This is David Long. I'll second.

1 MS. CARDENAS: Okay. I have a first and a
2 second. Are there any comments at this time?

3 (No response.)

4 MS. CARDENAS: Seeing none, minutes are
5 approved.

6 MR. LONG: Valerie, could you go back --

7 MS. CARDENAS: I'm sorry --

8 MR. LONG: Valerie, could you go back and take
9 a vote, please?

10 MS. CARDENAS: Yes. I'm sorry. All those in
11 favor say aye, by name.

12 MR. LONG: David Long, yes.

13 MS. CARDENAS: Melinda Smith?

14 MS. SMITH: Melinda Smith, yes.

15 MS. CARDENAS: Lali Shipley?

16 MS. SHIPLEY: Yes.

17 MS. CARDENAS: And myself, yes. Okay.

18 Minutes are approved.

19 Moving on to Tab Item 2, we have the
20 Presentation, Discussion and Possible Approval of the
21 Annual Independent Financial Audit for the Fiscal Year
22 Ending August 31, 2020.

23 MS. SMITH: Good morning. My name is Melinda
24 Smith. I'm the Chief Financial Officer. As we've
25 mentioned in previous meetings, the Corporation is

1 required by statute to have an audit, and that audit is
2 to be submitted on December 20 to the Comptroller.

3 Maxwell Locke & Ritter performs the audit, and
4 they are here to present it for you. Before they do
5 that, I would like to take a moment to thank Betsy
6 Aldrich for all the work that she did preparing the work
7 papers for the auditors and the countless confirmations
8 that they send out.

9 And then I'd like to thank Nick Lawrence for
10 coordinating the audit. He really handled the entire
11 thing, from beginning to end, and did a fabulous job.
12 And with that, I'll turn it over to Jimmy Romell and
13 Veronica Lomas Day with Maxwell Locke & Ritter, and they
14 will present the audit for you.

15 Thank you.

16 MR. ROMELL: So, thank you, Melinda. So good
17 morning, everyone. So as Melinda mentioned, we are going
18 through the audit report for your fiscal year ended
19 August 31, 2020. We prepared a summary presentation of
20 the audit report we'll be walking through this morning,
21 and Veronica will actually be leading us through that
22 presentation.

23 So, at this point, I will turn it over to her.

24 MS. LOMAS DAY: Thanks, Jimmy. So here, we
25 wanted to show you that this is really a summary of

1 what's included within your audit report. So, there are
2 two main sections.

3 You have your first one, which is your
4 financial section, which includes the independent
5 auditors' report, management's discussion and analysis,
6 which is really a section that talks about the
7 fluctuations that happened between the current year and
8 the prior year. There is also the basic financial
9 statements and the corresponding notes, as well as the
10 schedule of other supplemental information.

11 Now, what looks -- what might look a little
12 new is the Federal Awards section. So that's something
13 that, when you have -- when you've spent over 750,000 of
14 federal funds during the fiscal year, you are required to
15 have a single audit performed.

16 Now, you've had federal funds for the past few
17 years, but you haven't gone over that threshold. So,
18 this year you did spend more than that amount. So, you
19 will see the Federal Awards section, which has two
20 reports included, as well as a schedule of all of your
21 federal expenditures during the year, and we'll talk a
22 little bit more about that towards the end of the
23 presentation.

24 So next slide, we're going to be talking
25 about -- this is the independent auditors' report. So

1 here, we would like to state that the Corporation
2 received an unmodified opinion, which is a clean opinion,
3 and it's the highest level of assurance that we can
4 provide. So that's really the best opinion that you can
5 receive. So, when you're looking at your report, it's
6 located on page 2.

7 Next, in looking at the financial statements,
8 something that we basically wanted to highlight at the
9 beginning is that there were no new standards that were
10 adopted during fiscal year '20. So, what that means is
11 that your financial statements are consistent. Your
12 notes are consistent with what you've had in the prior
13 years.

14 And then also during the year you did have a
15 new second lien program that was started, and so this is
16 reflected as a significant increase within your
17 receivables and your revenues. So, you'll see that as we
18 go throughout these financial statements.

19 But also, there is a forgiveness component
20 that takes three years for it actually to take effect, is
21 that when the home buyer meets that criteria, after the
22 three years, then you will see that reflected on the
23 financial statements.

24 So, in looking at this statement of net
25 position. If you'll go back one slide, please?

1 FEMALE VOICE: Oh, sorry.

2 MS. SMITH: No problem. So, when you're
3 looking at the statement of financial position, you can
4 see your total assets was around 152 million, and that
5 increased -- from the prior year, it was around 32
6 million, which directly relates to that new second lien
7 program that I was talking about.

8 Your total liabilities was around 69.5
9 million, and that had a decrease of around 7 million from
10 the prior year, which is -- a majority of that is related
11 to your bonds payments that you had. And then you're
12 ending that position with 82.9 million at the end of the
13 year.

14 And so that breakout of net position is
15 included in your report. You'll see that there is around
16 71.7 million that is considered to be unrestricted. The
17 remaining portion of it is either invested in capital
18 asset or restricted for debt service or other purposes.

19 So then moving on, here we have our statement
20 of revenue expenses and changes in net position. So,
21 your total revenues increased around 35.1 million from
22 the prior year to end the year at 48.3 million.

23 And so, the main increase that you'll see is
24 in that line, that second line, which is the single
25 family income. There was an increase of around 29.7

1 million related to that second lien program.

2 And then you'll also see public support
3 increased 2.8 million. And that was directly related to
4 your Capital Magnet Fund grants, which you know,
5 corresponds to that federal section that we have listed
6 at the top when we were looking at that, the breakout of
7 the report.

8 So, we'll discuss a little bit more about that
9 later on. Your expenses remained consistent, and then as
10 we said previously, you ended the year with net income of
11 39.4 million.

12 Next, we'll go to the other financial
13 highlights that we have, which are included within your
14 notes to your financial statements. So, the
15 Corporation's investments were in compliance with the
16 investment policy, which is also in compliance with the
17 Public Funds Investment Act. The second bullet here
18 really discusses that program that we had talked about,
19 the second lien program, which will be forgiven after
20 three years.

21 The Corporation had capital assets totaling
22 1.2 million at the end of the fiscal year. And then for
23 outstanding single family mortgage revenue bonds, there
24 was a total of 57.7 million outstanding at the end of the
25 fiscal year, of which 3.2 million is due in principal and

1 interest payments in fiscal year '21.

2 Also, there were no significant changes to
3 operations due to COVID-19, but a general disclosure was
4 included in Note 21, which is on page 34 of your report,
5 that discusses that there is still uncertainties that
6 could arise in the future.

7 Now we also include a section that is related
8 to recently included issued accounting pronouncements.
9 So, the one that would impact the Corporation would be
10 GASB 87, which is related to leases.

11 This won't be effective until fiscal year '22,
12 but the standard really discusses that leases are
13 financing the right to use an underlying asset, and so
14 leases that were previously classified as operating
15 leases are going to be included as an asset and have a
16 corresponding liability. And so, you know, we will
17 continue to work with management on identifying what
18 leases need to be reviewed to ensure that they are
19 properly recorded when it's time for implementation.

20 So, the next few slides are really going over
21 the Federal Awards section. So, the two reports -- this
22 is the first report. So, this is the report on internal
23 control over financial reporting and compliance in
24 accordance with government auditing standards.

25 And so, for this, we did -- during our audit,

1 we did not identify any deficiencies in internal control,
2 and there were no instances of noncompliance that were
3 required to be reported under government auditing
4 standards.

5 The second report, which is on the next page,
6 is the report on compliance for the major federal program
7 and internal control compliance required by Uniform
8 Guidance. So, this directly relates to the program that
9 we selected for your federal funds for testing.

10 And so, the opinion on that federal program
11 was a clean opinion. So, it says that the Corporation is
12 in compliance with the requirements that could have a
13 direct and material effect on its major federal program.

14 And also, we did not identify any deficiencies in
15 internal control over compliance.

16 So, the schedule that is associated with this
17 is the schedule of expenditures of federal awards. And
18 so, this schedule in your report lists out all the
19 different federal awards that you have. You had a total
20 of 2.9 million that was spent during fiscal year '20.

21 And the major program that we ended up
22 selecting was the Capital Magnet Fund, which is around
23 2.8 million. And so here, it just also states that this
24 was the program that we selected, and you did receive
25 that unmodified opinion, which is a clean opinion.

1 Also included in your packet was the
2 management letter, which is the required reporting for
3 those charged with governance. It really provides a
4 summary of the audit process.

5 And so, the key highlights were that there
6 were no difficulties encountered in performing the audit.

7 There were no misstatements that were detected as a
8 result of our audit procedures, and there were no
9 disagreements with management that arose during the
10 course of the audit.

11 And we wanted to take a minute to really thank
12 Melinda and Nick and Betsy and all the other members of
13 the Corporation's team that assisted in the audit. You
14 know, it does require a lot of work to go through an
15 audit process, but then also going through that during a
16 pandemic, as well as also moving locations, there were a
17 lot of things that were going on.

18 We definitely appreciate everybody's help in
19 this process, to be able to get us the information that
20 we needed to work through this. And so, if there are any
21 questions, please let me know. But thank you so much for
22 your time.

23 MS. CARDENAS: Thank you.

24 MS. SMITH: Thank you.

25 MS. CARDENAS: Are there --

1 MS. SMITH: So, we're --

2 MS. CARDENAS: -- oh --

3 MS. SMITH: -- go ahead. I'm sorry.

4 MS. CARDENAS: No, no, no. Go ahead.

5 MS. SMITH: I was just going to say that we
6 are asking the Audit Committee to approve the audit for
7 referral up to the Board so that we can have it approved
8 in time for our December 20 deadline.

9 MS. CARDENAS: Okay. Are there any questions
10 from the Audit Committee?

11 (No response.)

12 MS. CARDENAS: Okay. Just to reiterate what
13 was already said, you know, yes, certainly, thank you so
14 much to Melinda, Nick and Betsy and the rest of the team.

15 You know, this was a great presentation,
16 obviously a very favorable audit, very well explained.
17 And so, I do know that in order to receive and achieve
18 these results, you know, it does take a lot of time and
19 effort, you know, and just really keeping things in
20 order, right, throughout the year. So again, thank you
21 to those that were involved in this audit process.

22 If there are no questions at this time, if I
23 can have a motion for approval of the annual independent
24 financial audit for fiscal year ending August 31, 2020?

25 MR. LONG: This is David, and Valerie, if

1 might ask if one of the Board members could make that?
2 Since Melinda and I serve as staff members, it might be
3 better for -- maybe if you or Lali made that motion? And
4 I'm not trying to force your hand.

5 I just think it might look more appropriate
6 for us to not make the motion and the second on the
7 Audit -- from the Audit Committee standpoint.

8 MS. CARDENAS: Okay. Then let me rephrase
9 that. I make a motion for approval of the annual
10 independent financial audit for fiscal year ending
11 August 31, 2020. I need a second.

12 MS. SHIPLEY: And this is Lali. I'll second.

13 MS. CARDENAS: Okay. All those -- I'm sorry.
14 Is there any public comment at this time?

15 (No response.)

16 MS. CARDENAS: If there is none, can I have
17 a -- all those in favor, say aye, by name. Melinda
18 Smith?

19 MS. SMITH: Aye.

20 MS. CARDENAS: David Long?

21 MR. LONG: Aye.

22 MS. CARDENAS: Lali Shipley?

23 MS. SHIPLEY: Aye.

24 MS. CARDENAS: And myself, Valerie. So, the
25 approval of the financial audit is approved, and we can

1 certainly see this agenda item at the Board level.

2 MS. SMITH: Thank you so much.

3 MR. LONG: Yes. Thank you very much for that.
4 Appreciate it.

5 MS. CARDENAS: Thank you. There seems to be
6 no other items for discussion in an open meeting. Are
7 there any closed items at this time?

8 MR. LONG: No.

9 MS. CARDENAS: Okay. So, it seems that that
10 comes to conclude our Audit Committee meeting, and so
11 with that, I will make a motion to adjourn.

12 MR. LONG: Can you state the time for us,
13 Valerie?

14 MS. CARDENAS: Yes. It is now 9:16, and we
15 will adjourn our Audit Committee meeting held today on
16 the 16th, 2020.

17 MR. LONG: Thank you so much.

18 (Whereupon, at 9:16 a.m., the meeting was
19 adjourned.)

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MEETING OF: TSAHC Audit Committee

LOCATION: via RingCentral

DATE: December 16, 2020

I do hereby certify that the foregoing pages,
numbers 1 through 1616, 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 19, 2020

(Transcriber)

On the Record Reporting
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