

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

TSAHC Offices  
6701 Shirley Avenue  
Austin, Texas 78752

Wednesday,  
November 17, 2021  
9:30 a.m.

COMMITTEE MEMBERS:

VALERIE V. CARDENAS, Chair  
ANDY WILLIAMS, Member  
DAVID LONG, 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 September 15, 2021.	3
Tab 2      Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2021.	4
CLOSED MEETING	none
OPEN MEETING	--
ADJOURN	22

P R O C E E D I N G S

MS. CARDENAS: Well, it's 9:30, and I'd like to call the Audit Committee meeting for the Texas State Affordable Housing Corporation to order. Before we begin, we'll go ahead and start with roll call.

Andy Williams?

MR. A. WILLIAMS: Present.

MS. CARDENAS: David Long?

MR. LONG: Present.

MS. CARDENAS: Melinda Smith?

MS. SMITH: Present.

MS. CARDENAS: And Valerie Cardenas, I am present. So, we have a quorum.

Before we move on to any action items, do we have any public comment at this time?

(No response.)

MS. CARDENAS: Seeing that there's none, we'll go ahead and start with Tab Item 1, which is the Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting that was held on September 15, 2021.

Everyone has had an opportunity to look over those minutes. If I can just have a motion?

MR. A. WILLIAMS: So, moved.

MS. CARDENAS: Okay. I have a motion for

1 approval. Second?

2 MS. SMITH: I'll second.

3 MS. CARDENAS: Okay. Are there any public  
4 comments at this time?

5 (No response.)

6 MS. CARDENAS: Seeing that there's none, the  
7 minutes are approved for September 15.

8 MR. LONG: Valerie --

9 MALE VOICE: You've got to vote.

10 MR. LONG: -- hold a vote.

11 MS. CARDENAS: Oh, I'm sorry. I always forget  
12 that part. Okay.

13 We have a motion and a second. There was no  
14 public comment. All those in favor, signify by saying,  
15 aye.

16 (A chorus of ayes.)

17 MS. CARDENAS: Any opposed?

18 (No response.)

19 MS. CARDENAS: Okay. Minutes are approved.  
20 Okay.

21 We'll move on to Tab Item 2, which is the  
22 Presentation, Discussion and Possible Approval of the  
23 Annual Independent Financial Audit for the Fiscal Year  
24 Ending August 31, 2021.

25 MS. SMITH: Good morning. My name is Melinda

1 Smith. I'm the CFO.

2 The Corporation is required by its enabling  
3 legislation to have a full financial audit every year.  
4 We're also required to have a financial audit by some of  
5 our -- some of the entities that we work with like Fannie  
6 Mae and Freddie Mac, the Veterans Administration.

7 We also are required to have a single audit,  
8 which is a compliance type audit for the federal funds  
9 that we receive. And then every other year, we're  
10 required to have a compliance review -- or a review for  
11 compliance with the Public Funds Investment Act, and this  
12 is that second year where we're required to do that.

13 Maxwell Locke & Ritter is our CPA firm, as you  
14 know, and they have performed all of these reviews and  
15 audits, and Jimmy Romell with Maxwell Locke & Ritter is  
16 here. He's a partner with the firm, and he's going to  
17 present the audit for us.

18 MR. ROMELL: Thanks, Melinda. So good morning,  
19 everyone. As Melinda mentioned, today we'll be going  
20 through three sets of documents. We'll be going through  
21 your annual financial report for your fiscal year ended  
22 August 31, 2021.

23 We also have a Government's Communication  
24 Letter that's required at the end of each audit period to  
25 present to the Board. And also, as Melinda mentioned,

1 with this being an every-other-year requirement, we have  
2 an additional letter that we're presenting to the Board in  
3 regards to the Corporation's compliance with the Public  
4 Funds Investment Act.

5 And I'm not sure in your packet what order  
6 they're in? So, I'll try to go in order of what's in the  
7 packet. That way it's easier to flip through. So is --  
8 okay. That's good. So --

9 MS. SMITH: Yeah.

10 MR. ROMMEL: -- the first item in the packet is  
11 actually the Government's Communication Letter. So, this  
12 is the required communication at the end of the audit  
13 process via our professional auditing standards, to just  
14 give some information to the governing body about the  
15 overall audit process.

16 And so, the main areas we like to point out as  
17 part of this document is that during fiscal year '21,  
18 there were actually no new accounting or auditing  
19 standards that were implemented by the Corporation. There  
20 were no difficulties or disagreements with management of  
21 the Corporation as part of our performing our audit.

22 And also, there were no audit adjustments that  
23 were detected as part of our audit. So, a very, very  
24 clean letter.

25 We definitely want to thank Melinda and Nick,

1 Betsy, everyone else here at the Corporation, for all  
2 their assistance. As everyone here knows, it's a very  
3 detailed, thorough process, and we get through it fairly  
4 quickly. If you recall, in the past, we've always come to  
5 y'all in your December Board meeting.

6 This year, we're here in November. So, it  
7 definitely increased the speed of the audit process. We  
8 definitely want to commend them for all their assistance  
9 as part of the audit this year.

10 So, then the next part of the package for you  
11 is the actual independent auditor's report for your fiscal  
12 year ended August 31, 2021. So essentially, there's two  
13 parts of the report. The first part is the financial  
14 section, which will cover your financial statements, your  
15 footnotes and also some other supplemental schedules. And  
16 then the second part of the report is the federal award  
17 section.

18 And there will be two reports that we'll cover  
19 this morning. One is the report under Government Auditing  
20 Standards, and the second one is the report for our  
21 testing of your federal grant program under the single  
22 audit requirements.

23 So, starting off with the financial section,  
24 the independent auditor's report, we are issuing a clean  
25 or unmodified opinion, which is the highest level of

1 assurance we can provide as your external auditor. If you  
2 want to turn to page -- beginning on page 11, this is  
3 going to be the first financial statement, and it will be  
4 your statement of net position as of August 31, 2021.

5 And this will include your assets, liabilities  
6 and net position during the year. So, starting off with  
7 your assets, you had current assets of about 33.4 million  
8 at the end of fiscal year '21, on page --

9 MR. THORNHILL: I have it as 25.

10 MS. SMITH: Yeah.

11 MR. ROMELL: Oh, is it marked differently? Oh,  
12 I'm sorry.

13 MS. SMITH: Yes. Okay.

14 MR. ROMELL: Okay. Sorry. Yeah. I'll -- do  
15 you mind if I flip through this one?

16 MS. SMITH: Sure, absolutely.

17 MR. ROMELL: That way, I'm giving them the  
18 right page.

19 MS. SMITH: Give them the right page numbers.

20 MR. ROMELL: Yeah. Appreciate it. Yeah, yeah.  
21 Page 25 on your packet.

22 Okay. So, as I mentioned, current assets on  
23 this page will show about 33.4 million at the end of  
24 fiscal year '21, which is consistent with what the  
25 Corporation had at the end of the prior fiscal year. Non-



1 current assets were about 219.7 million.

2 This was a pretty significant increase over  
3 last year. That has to do with increased activity for  
4 your second lien program. That began last year, and this  
5 year, it extended, and you know, it was definitely much  
6 more involved.

7 So -- and as a reminder, those notes are three-  
8 year, potentially forgivable loans, and so at the  
9 inception of the notes, it's brought on your balance sheet  
10 for the full value of the note amount, regardless of  
11 whether or not you will know if it will be ultimately  
12 forgiven or not. But that's the main reason why -- of the  
13 increase, was that -- those notes on loan increased that  
14 non-current balance by about 105.3 million from fiscal  
15 year '20.

16 Moving on to page 26, this will show your  
17 liabilities. So total current liabilities of about  
18 11.4 million, a slight increase over fiscal year '20,  
19 primarily due -- you had some revenue bonds that were  
20 going to be early redeemed in September 2021, so right  
21 after the fiscal year end of about \$7 million.

22 So, because it was redeemed within a year of  
23 the balance sheet date, it's shown as a current liability  
24 versus a long term liability. So that \$7 million gets  
25 moved up in your balance sheet. And overall, your non-

1 current liabilities of about 36.3 million, that was  
2 actually a decrease from last year, primarily due to about  
3 \$19.8 million of principal payments that were made under  
4 your bonds during fiscal year '21.

5 And then finally on this page, you'll see at  
6 the bottom, net position of about \$205.3 million, of which  
7 192.7 is considered unrestricted, meaning it's available  
8 for general operations of the Corporation. Continuing on  
9 to page 27 in your packet, this is going to be your  
10 statement of revenue expenses and changes in net position.

11 So, you see total revenue of about  
12 130.9 million, which is an increase of around 82.6 million  
13 from fiscal year '20. Once again, the primary reason for  
14 the increase -- it relates to your second lien program,  
15 because when those -- once again, so those notes are --  
16 you know, when they first are entered into, the revenue  
17 can be recognized immediately. And as we get to the  
18 expense part, you'll see there's not a corresponding  
19 expense until those loans are actually forgiven.

20 So right now, we're in the second year of the  
21 second lien program, so there really hasn't been any  
22 expense or very minimal expense has been incurred on  
23 those. But once they start being forgiven, then it will  
24 kind of shift where the expenses may exceed the revenues  
25 because more of just a timing issue of how those notes are

1 recognized in the financial statements.

2 So, it definitely makes the net position number  
3 look a lot better right now, but just know that, on a go  
4 forward basis, the expense will eventually be hitting the  
5 financials, once those notes are forgiven. Expenses of  
6 about 8.5 million, which is consistent with fiscal year  
7 '20.

8 And then once again, the total increase of net  
9 position of 122.4 million, primarily, as we just discussed  
10 the way the revenue and expenses are going to be  
11 recognized for the second lien note program. So then,  
12 beginning on page 31 in your packet are the notes of the  
13 financial statements.

14 So, I'm just going to cover a few items within  
15 the notes, as I mentioned at the beginning. Because there  
16 were no new accounting standards, a lot of the information  
17 in here is going to be consistent with what's been  
18 presented to the Corporation's Board in prior years.

19 But we'll start off talking about a couple of  
20 standards that are coming up here in the not-too-distant  
21 future. If you turn to page 36 in your packet, at the  
22 bottom of page 36, there's a section for recently issued  
23 accounting announcements.

24 So, the first one that we're mentioning here,  
25 related to leases, we've included this in your audit

1 report for the last two years because this standard was  
2 initially going to be effective for fiscal year '21. But  
3 due to the COVID outbreak last year, a lot of the  
4 standards that were going to be effective got delayed an  
5 additional year. So now this will be effective for your  
6 fiscal year '22 audit.

7 And as a reminder, once again, what this will  
8 do is it will treat certain types of leases that, before,  
9 were not included on your balance sheet. It may require  
10 those to actually be on your balance sheet, instead of  
11 being a disclosure in the footnotes as far as what amounts  
12 are being paid on those leases.

13 So, I don't think, just based on the current  
14 leasing activity, that the Corporation has -- I don't  
15 think it's going to be a significant change to what's  
16 currently being reflected. But we'll definitely make sure  
17 that we work with management of the Corporation to ensure  
18 that proper implementation is done for your fiscal year  
19 '22 audit.

20 The next standard that's listed in here is GASB  
21 91, related to conduit debt. So, the Corporation is  
22 involved with conduit debt, meaning they're not -- it's  
23 not a liability on the Corporation's balance sheet, but  
24 they are involved in the issuance and kind of the  
25 overseeing of that process.

1           There -- in Footnote 19 in the financials,  
2           there's more disclosure about conduit debt. What this  
3           standard is essentially doing is trying to clarify the  
4           requirements of what should be included in your financial  
5           statements. So once again, I don't think this is going  
6           really change too much as far as what's included, but we  
7           are going to definitely look through this and just make  
8           sure there's nothing the Corporation will need to do.

9           But this isn't actually effective until your  
10          fiscal year '23 audit, so we do have a little bit more  
11          time related to this standard.

12          MS. SMITH: I'd like to add too that the  
13          conduit debt relates to our multifamily bond issuances,  
14          and usually, you see those through Dave's program.

15          MR. ROMELL: Okay. If we turn to page 37, the  
16          last standard that's going to be coming here fairly  
17          shortly is related to subscription-based IT arrangements.

18          And what this will do is -- essentially, it's very  
19          similar to the lease standard, except instead of relating  
20          to tangible assets, it's going to relate to non-tangible  
21          assets.

22          Think of, you know, software that's done  
23          through the cloud. Well, a lot of times, you enter into  
24          long-term contracts for the use of that software. Well,  
25          what this standard is going to do is essentially treat

1 that as -- you enter into a commitment for, you know,  
2 greater than a year, then what will happen is, you'll have  
3 to reflect an asset and a liability on your balance sheet  
4 for that. Whereas currently, once again, it's more just  
5 disclosure or things running through your expense, you  
6 know, statement, but not really hitting or showing what  
7 your true liability is for that commitment.

8 And with all these standards, you definitely  
9 have to factor in how significant the impact will be to  
10 the financial statements because, with all standards, if  
11 it's not going to be a significant impact, a lot of times,  
12 you don't necessarily have to change the current practice  
13 of what you're doing.

14 But this one, I think, a lot of entities will  
15 definitely need to do a little homework on to figure out  
16 what types of arrangements do we have that potentially  
17 would fall under the scope of the standard. And then from  
18 there, evaluate whether or not it's significant enough to  
19 require a change to what's currently being presented on  
20 the financial statements.

21 But fortunately, this is also one that is not  
22 quite effective yet. It's fiscal year '23. And just a  
23 reminder, with all standards, we always want to remind our  
24 clients that the fiscal year effective date, you have to  
25 think about the first year of that fiscal year is kind of

1 when you want to be ready to go.

2 So, July 1 -- or sorry, September 1, 2022, is  
3 not that far away. So, we always encourage everyone to,  
4 you know, do the legwork and figure out, you know -- and  
5 of course, we're always available to assist in that  
6 process as well, as best we can, to make sure that once  
7 the first part of the fiscal year is beginning, the  
8 Corporation is ready to implement and make any changes  
9 that are needed to -- during the fiscal year of the  
10 effective date.

11 All right. So then moving on a little bit  
12 further, we'll go ahead and turn to -- it's page 44 in  
13 your packet. And we're looking at Footnote No. 5 related  
14 to capital assets. I just want to point here that, at the  
15 end of fiscal year '21, you had about \$6 million in  
16 capital assets.

17 The main reason for the increase is, the  
18 facility we're in now was in the real estate own  
19 classification before this year, fiscal year '21. But now  
20 that you're being -- it's being used by the Corporation,  
21 it got transferred into capital assets. So that was the  
22 primary reason for the increase from fiscal year '20 to  
23 fiscal year '21.

24 So, the continuing to move forward to -- it's  
25 page 48 in your packet, Footnote No. 11, related to bonded

1 indebtedness. So, this will show the outstanding revenue  
2 bonds as of the end of fiscal year '21. And you'll see,  
3 at the end of fiscal year '21, you had about \$39 million  
4 of outstanding principal on those bonds. And of that  
5 amount, about 8.6 million of principal and interest are  
6 due in fiscal year '22, which included the \$7 million that  
7 we discussed earlier, of the early redemption related to  
8 2009B -- I'm sorry -- 2009 -- 2011B revenue bonds.

9 All right. So now, we'll go ahead and skip  
10 ahead to the federal awards section, which begins on  
11 page 56 of your packet. And so, as I mentioned earlier,  
12 our report includes two items under the federal awards  
13 section, the first report on page 56.

14 This is our report on the Corporation's  
15 internal controls and also compliance under government  
16 auditing standards. And so, we're happy to report that  
17 there were no material weaknesses in internal controls or  
18 financial reporting that were identified, and also no  
19 instances of reportable non-compliance under government  
20 auditing standards.

21 So then moving on to page 58 of your packet,  
22 this is going to be our report on the federal grant  
23 program that we tested under the single audit. So, if you  
24 recall, last year, we tested the Capital Magnet Fund. And  
25 so, this year, we tested the same fund as well for our



1 single audit testing. We are issuing a clean or  
2 unmodified opinion on compliance for that program, and  
3 also noted no material weaknesses in internal control over  
4 compliance related to the program.

5 So then moving a little further along to page  
6 60 in your packet, this is going to be the schedule of  
7 expenditures of federal awards. This will show all the  
8 federal activity during fiscal year '21.

9 The one thing I want to point out for your  
10 Capital Magnet Fund Program is, because it's a revolving  
11 loan program, what's reflected on the schedule factors in  
12 not only activity during fiscal year '21, but any previous  
13 years' activity that is still subject to ongoing  
14 compliance requirements, because, if you recall, the  
15 majority of this fund was actually expended in fiscal year  
16 '20. But the reason why it's still -- it shows the  
17 basically 3-1/2 million this year is because you're  
18 factoring both last year's amount and this year's amount.

19 So, until those continuing compliance  
20 requirements are no longer effective, this amount will  
21 still show essentially the gross of what's been expended  
22 under the program from its inception.

23 And so lastly in the audit report, on packet  
24 page No. 62, this is the Schedule of Findings and  
25 Questioned Costs. So, this just gives kind of a summary

1 of all the information we covered as far as the clean,  
2 unmodified opinion for the financial statements, no  
3 material weaknesses in controls, clean opinions on  
4 compliance for the federal grant program.

5 The one thing I always point out to boards is,  
6 at the very bottom of page 62, you'll see "Auditee  
7 qualified as low-risk auditee?" And it says, "no." And  
8 so, a lot of times, there's questions on why is that no,  
9 if we didn't have any findings or any issues during the  
10 audit process?

11 So, the way that works is, you have to have two  
12 consecutive years of clean single audit program compliance  
13 opinions and no material weaknesses in order to qualify as  
14 a low-risk auditee. So last year was your first year.  
15 Fiscal year '21 is the second year.

16 So now that you've had two years of clean  
17 single audit reports, for your fiscal year '22 audit, you  
18 will be considered a low-risk auditee. And really, the  
19 main difference is, if you're low-risk auditee, assuming  
20 there's no high-risk programs for your federal programs,  
21 we're only required to test 20 percent of the federal  
22 awards. If you're not low risk, that requirement jumps up  
23 to 40 percent.

24 So, it's definitely, you know, other --  
25 obviously, you want to always be a low-risk auditee no

1 matter what, but it definitely reduces the potential scope  
2 of the testing that's required under federal grant  
3 programs. So once again, for next year, you'll be  
4 considered a low-risk auditee. And, you know, that box  
5 will be checked from -- or moved from no to yes, which is,  
6 once again, a very good thing for the Corporation.

7 MS. CARDENAS: And just a question. If, for  
8 whatever reason, something is identified for next year's  
9 audit --

10 MR. ROMELL: Uh-huh?

11 MS. CARDENAS: -- even though you had two  
12 consecutive, would that still allow to be considered?

13 MR. ROMELL: A low risk? So, it would depend  
14 on the type of finding, because you can have a compliance  
15 finding. As long as it doesn't change the opinion or  
16 issuing on compliance, and as long as it doesn't result in  
17 a material weakness of internal controls or a material  
18 instance of non-compliance, then even if you have a  
19 finding, you can still be considered a low-risk auditee.

20 So, the major hurdle for y'all right now is  
21 just getting those two years in a row of single audits  
22 being performed. But yes, there is other criteria that  
23 potentially could still keep you as low risk, even if  
24 there was an issue identified in the future.

25 MS. CARDENAS: The team does a great job. It

1 was just a hypothetical --

2 MR. ROMELL: Oh, yeah, yeah.

3 MS. CARDENAS: -- to see because --

4 MR. ROMELL: I mean, yeah. Because yeah, we --

5 MS. CARDENAS: -- as perfect as you try to  
6 be --

7 MR. ROMELL: -- that's a very good question  
8 because there are things that are -- that have to be  
9 reported. But they don't really change the overall  
10 opinion we're offering, and also, they don't -- it's  
11 not -- it doesn't warrant a material weakness, because a  
12 material weakness is definitely the most severe type of  
13 either internal control issue or a compliance issue.

14 So, you can have something that, yes, is a  
15 compliance thing that was required to be reported, but  
16 doesn't fall into one of those buckets to change your low-  
17 risk auditee status.

18 So then finally, the last page of your packet  
19 is going to be our letter to the Board regarding  
20 compliance under the Public Funds Investment Act. And we  
21 are proud to report that we noted no instances of non-  
22 compliance under the Public Funds Investment Act for your  
23 fiscal year ended August 31, 2021.

24 MS. CARDENAS: Well, great job to everyone  
25 involved in putting this together. I know it takes a lot

1 of work, time and energy and effort, but you know, we're  
2 now going on a second year with, you know, no material  
3 weaknesses and no non-compliance issues. That's to be  
4 commended by everyone. Very detailed report.

5 Are there any questions by anyone, Committee  
6 members?

7 (No response.)

8 MS. CARDENAS: None. So, I guess we need to  
9 take action on this. Okay.

10 So, if I can have a motion for approval of the  
11 annual independent financial audit for the fiscal year  
12 ending August 31, 2021?

13 MR. A. WILLIAMS: So, moved.

14 MS. CARDENAS: Okay. I have a motion.

15 MR. LONG: Second.

16 MS. CARDENAS: Okay. I have a second. Is  
17 there any public comment?

18 (No response.)

19 MS. CARDENAS: Hearing none, all those --  
20 signify by -- all those in favor, signify by saying, aye.

21 (A chorus of ayes.)

22 MS. CARDENAS: Any opposed?

23 (No response.)

24 MS. CARDENAS: Okay. The annual independent  
25 financial audit is approved for fiscal year ending

1 August 31, 2021.

2 MS. SMITH: Thank you. I wanted to take just a  
3 moment and thank Nick Lawrence and Betsy Aldrich for their  
4 work on the audit. I really have to credit them with all  
5 the work that we've done on the audit. I'd like to sit up  
6 here and say it was me, but it wasn't.

7 So, thank you, Nick and Betsy, and really,  
8 really appreciate it. Thank you.

9 MS. CARDENAS: And I'm sure working with the  
10 firm, you know, all that coordination, great job. Okay.  
11 Are there any other items to discuss?

12 (No response.)

13 MS. CARDENAS: Seeing none, it is 9:52 a.m.,  
14 and we will go ahead and adjourn.

15 (Whereupon, at 9:52 a.m., the meeting was  
16 adjourned.)

C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: November 17, 2021

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: November 23, 2021

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

On the Record Reporting  
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