

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

TSAHC Offices  
6701 Shirley Avenue  
Austin, Texas 78752

Tuesday,  
December 6, 2022  
9:45 a.m.

COMMITTEE MEMBERS:

VALERIE V. CARDENAS, Chair  
COURTNEY JOHNSON-ROSE, Member (absent)  
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 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 26, 2022.	3
Tab 2      Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2022.	4
CLOSED MEETING	none
OPEN MEETING	--
ADJOURN	22

P R O C E E D I N G S

MS. CARDENAS: Good morning to everyone. We'll go ahead and get started and call the Audit Committee meeting for Texas State Affordable Housing Corporation for December 6, 2022 meeting.

With that being said, I'll go ahead and call roll call in order to secure a quorum.

Andy Williams?

MR. A. WILLIAMS: Present.

MS. CARDENAS: David Long?

MR. LONG: Present.

MS. CARDENAS: Melinda Smith?

MS. SMITH: Present.

MS. CARDENAS: Courtney Johnson-Rose is absent, and Valerie Cardenas, I am present, so we do have a quorum.

Okay. Before we move on, do we have any public comment at this time pertaining to any of the items we'll be discussing today?

(No response.)

MS. CARDENAS: Seeing that there are 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 August 26 of 2022.

1                   Hopefully everyone has had an opportunity to  
2                   review. If so, are there any questions, comments?

3                   MR. LONG: Madam Chair, this is David Long. I  
4                   make a motion to approve the minutes as submitted.

5                   MS. CARDENAS: Okay. I have a motion. Do I  
6                   have a second?

7                   MR. A. WILLIAMS: This is Andy. I'll second.

8                   MS. CARDENAS: Okay. I have a motion and a  
9                   second. Is there any public comment on the minutes?

10                  (No response.)

11                  MS. CARDENAS: Seeing that there is none, all  
12                  those in favor signify by saying aye.

13                  (A chorus of ayes.)

14                  MS. CARDENAS: None opposed. Tab item 1 is  
15                  approved as presented.

16                  Okay. We'll move on to tab item 2, which is  
17                  the presentation, discussion, and possible approval of the  
18                  annual independent financial audit for the fiscal year  
19                  ending August 31 of 2022.

20                  MR. LAWRENCE: Hello. Nick Lawrence,  
21                  controller.

22                  We are here to look at the audit. We are  
23                  required by state statute to have an annual audit, and  
24                  you'll see there's an updated draft copy right in front of  
25                  you. There were a few clerical errors which we had

1 corrected, and if you want me to go through them, I can,  
2 but they are very small.

3 And we have Jimmy Romell from Maxwell, Locke &  
4 Ritter here to present the 2022 annual audit.

5 MR. ROMELL: Good morning. Jimmy Romell,  
6 Maxwell, Locke & Ritter.

7 This morning we'll be going through, as Nick  
8 mentioned, the audit report for your fiscal year ended  
9 August 31, 2022.

10 Just one thing to point out at the very  
11 beginning, there were a couple of changes to our  
12 professional auditing standards that were in effect for  
13 this audit period. It really didn't change the overall  
14 audit process, but you'll notice there are a couple of  
15 sections in the report that may look a little different,  
16 including how the independent auditors' opinion looks, so  
17 I'll point out anything, like I said, that looks maybe a  
18 little different than maybe what y'all have seen  
19 historically.

20 So, we'll go ahead and turn in your audit  
21 report to the independent auditors' report section. And  
22 so, the first page, this is one of the changes. Before  
23 the actual opinion language was on the second page of the  
24 independent auditors' report, so the change in auditing  
25 standards actually moves that up to the very first

1 paragraph. So, we are issuing an unmodified or clean  
2 opinion, which is the highest level of assurance we can  
3 provide as your external auditor for your year ended  
4 August 31, 2022.

5 Now we'll go ahead and skip ahead a few pages  
6 to page 13. This is going to be where your financial  
7 statements begin. So, beginning on page 13 is going to be  
8 your statement of net position. Page 13 shows your total  
9 assets which were \$327.9 million. That's actually an  
10 increase of about \$74.8 million from fiscal year '21, and  
11 it's primarily due to an increase in your notes receivable  
12 balances in relation to your Texas Housing Impact Fund  
13 Program.

14 Turning the page to page 14, this will be your  
15 liabilities and net position as part of the statement of  
16 net position. So, at the end of the fiscal year '22 you  
17 had total liabilities of about \$24 million. It's a  
18 decrease of about \$23.7 million from fiscal year '21, and  
19 that decrease is primarily due to paying down your  
20 outstanding notes and bonds.

21 And then, one thing to point out, halfway down,  
22 you'll see a section for deferred revenue. So, another  
23 thing that was different as part of the audit process this  
24 year was there was a new accounting standard that was  
25 implemented related to leasing transactions, and it

1 impacts leases where an entity is either the lessor or the  
2 lessee. So, for the Corporation there actually weren't a  
3 lot of significant changes in relation to any kind of  
4 lessee agreements, but there were a few related to lessor  
5 agreements.

6 And, we'll actually take you back real quickly  
7 back to page 13; I didn't point this out initially.  
8 There's actually now -- because any time you're a lessor  
9 you actually record a receivable for the future payments  
10 you're going to receive and then offsetting deferred  
11 revenue for the revenue you'll recognize in those future  
12 periods.

13 So, the overall net impact on your statement of  
14 net position is actually pretty minimal, but there are  
15 some new lines that maybe you haven't seen in prior years,  
16 so there's about \$220,000 of these receivables both  
17 between current and non-current assets on your statement  
18 of net position, and then included in the deferred revenue  
19 section on page 14 is about \$216,000 of deferred revenue  
20 related to those lessor agreements that were implemented  
21 during fiscal year '22 in relation to the new standard.

22 And then, moving on to the bottom of page 14,  
23 your net position at the end of fiscal year '22 was about  
24 \$303.6 million, with \$292 million being unrestricted,  
25 meaning available for general operations of the

1 Corporation. This was an increase of about \$98.2 million  
2 overall, and then the unrestricted portion increased about  
3 \$99.2 million for fiscal year '21.

4 So, moving on to page 15, this is going to be  
5 your statement of revenues, expenses and changes in net  
6 position. Revenues for fiscal year '22 were \$107.6  
7 million. It's a decrease of about \$23.3 million from  
8 fiscal year '21, and that's primarily due to Single Family  
9 income decreasing because the amount of loans that were  
10 transacted decreased because of the increase in overall  
11 mortgage rates during fiscal year '22. Total expenses of  
12 about \$9.3 million. It's an increase of about \$830,000  
13 from fiscal year '21. Primarily the increase was due to  
14 some state grant expenses for a grant that was actually  
15 received prior to the fiscal year but the amount hadn't  
16 been expended until fiscal year '22.

17 And, I just want to point out, and I know  
18 you've briefly discussed this in some of the previous  
19 audits that we've done. So, the second lien notes  
20 receivable for the Texas Housing Impact Fund Program, the  
21 accounting treatment for that is a little unique because  
22 those are typically three-year note agreements. And so,  
23 the way the accounting is done is the year those notes are  
24 entered into, you actually record a notes receivable for  
25 the amount that could be due back to the Corporation and



1 then a corresponding revenue.

2 So, that started in fiscal year '20, I believe.  
3 And so, every year you've had revenues that have come in  
4 but you actually don't recognize any related expenditures  
5 until the actual forgiveness on those loans, the criteria  
6 has been met, which is typically at the end of that three-  
7 year period.

8 So, that's why the net position the last few  
9 years has been steadily going up because you've been  
10 having revenues that have been recognized to increase your  
11 net position but no corresponding expenses.

12 So, beginning in fiscal year '23 will be the  
13 first year where some of those notes will meet the  
14 forgiveness criteria and you'll have expenses, so  
15 basically now you're reversing that receivable that had  
16 been booked on your statement of net position and  
17 reflecting that expense for that forgiveness.

18 So, it's more of a timing issue, so ultimately,  
19 at the end of the day there's not really a lot of impact  
20 on your statement of net position; it's just the revenues  
21 come on early and then three years later the expenses  
22 come. So, I just wanted to let y'all know.

23 So, next year you're more than likely going to  
24 see a net loss on your statement of changes in net  
25 position in relation to those expenses, and then,

1 subsequent years, because now every year you'll have  
2 forgiveness happening, you may see net losses depending on  
3 if that loss for the forgiveness is higher than the actual  
4 new notes that are entered into during that same fiscal  
5 year period.

6 So, I just wanted to point that out, because  
7 historically you haven't had this much net position but  
8 that's kind of why; it's because it's more of a timing  
9 issue in relation to how those revenues and expenses are  
10 reflected on the financial statements.

11 So now, I want to turn to pages 16 and 17 are  
12 going to be your statement of cash flows. I just want to  
13 point out here, the very first section on page 16, the  
14 Corporation did have positive operating cash flows during  
15 fiscal year '22 of about \$18.3 million.

16 So now, we'll turn to the notes to the  
17 financial statements which begin on page 18, and so on  
18 page 18 about four paragraphs down there's some discussion  
19 about new legal entities that have been created in  
20 relation to development projects that are going to begin  
21 in 2023.

22 So, there was actually no activity related to  
23 these new legal entities during fiscal year '22, so no  
24 impact to the financial statements in relation to those  
25 new entities, but on a go-forward basis, once these

1 entities have actual activity, then the reporting for the  
2 audit will be more on a consolidated basis.

3 We'll have to kind of roll those into the  
4 overall corporation's financial statement presentation, so  
5 definitely next year you'll probably see a little bit --  
6 it may not change the overall presentation of the  
7 financials that much but definitely some disclosures will  
8 be a little bit different than what you've historically  
9 seen because of the creation of those new entities.

10 And then, moving on to page 23, just to  
11 reiterate, at the very bottom of page 23, there is  
12 discussion about the new lease standard that was  
13 implemented during the fiscal year '22 audit, basically  
14 indicating that actually had no impact on your beginning  
15 net position as of the beginning of fiscal year '22 but  
16 just notes that it was implemented during the current  
17 year.

18 And then, on page 24, there are going to be two  
19 new accounting standards that will be effective for your  
20 fiscal year '23 audit. We had included this disclosure in  
21 at least last year's audit report, maybe even two years  
22 ago, but basically, we'll work with management here at the  
23 Corporation to determine the overall impact in relation to  
24 the implementation of those two standards for your fiscal  
25 year '23 audit.

1           The footnote number 2 with cash equivalents and  
2     investments, I just want to point out, so every other year  
3     we're required to actually provide a separate report for  
4     our work that we do in relation to evaluating the  
5     Corporation's compliance with the Public Funds Investment  
6     Act. So, last year, we actually had a separate report in  
7     relation to that. Because we're in kind of that off year,  
8     there's no actual formal reporting requirement for the  
9     fiscal year '22 cycle but we still do review overall  
10    compliance as part of our audit procedures for the Public  
11    Funds Investment Act. So, we didn't note any kind of  
12    reporting issues or compliance issues in relation to that  
13    for fiscal year '22. So, just wanted to point that out,  
14    so fiscal year '23 you will once again have that separate  
15    reporting requirement to note that.

16           And then, if you want to turn two pages forward  
17    to the bottom of page 31, you'll see note number 7  
18    relating to leases. So, this is the new disclosure  
19    requirement for those lessor agreements that we previously  
20    discussed.

21           Basically, you just have to disclose the  
22    revenue that was recognized, the terms, any kind of  
23    termination or renewal clauses that are included in the  
24    contracts. So, it's not a very robust disclosure but it  
25    does have to be included now on a go-forward basis for the

1 lessor. And, in the future if there's any type of lessee  
2 agreements that the Corporation were to enter into that  
3 would fall under this standard, there would also be some  
4 disclosures in relation to that as well on a go-forward  
5 basis.

6 And then, on pages 33 and 34, this will show  
7 your notes payable and your bonds payable, and it will  
8 show the activity that occurred during the year. You'll  
9 notice on page 34 for your notes payable you have about  
10 \$2.1 million in outstanding principal, of which about  
11 \$65,000 is going to be due in fiscal year '23.

12 And then, turning a couple of pages to actually  
13 the beginning of top of page 35, this will show your  
14 outstanding maturity schedule for your bonds payable. So,  
15 \$18.2 million of principal was due. Of that amount,  
16 \$385,000 of principal is going to be due in fiscal year  
17 '23.

18 And then, the last item on the notes I just  
19 want to point out, if you turn to page 38, there's a net  
20 working calculation that's always good to kind of review,  
21 because that just shows your current assets versus your  
22 current liabilities, just to make sure you have the  
23 resources to pay for current operations. So, at the end  
24 of fiscal year '22, you had about \$49.7 million of working  
25 capital, which is a very healthy number.

1           So now, we're going to skip ahead a few pages  
2 under the federal and state awards section, which is about  
3 three pages forward from what we just discussed. And so,  
4 there's going to be two reports in this section.

5           The first report is we are performing our audit  
6 under Government Auditing Standards. So, what this report  
7 notes is that we actually did not identify any material  
8 weaknesses in internal control over financial reporting,  
9 and also noting no reportable instances of noncompliance  
10 under Government Auditing Standards. So, no opinion on  
11 those controls but this is a very clean report in relation  
12 to our audit under Government Auditing Standards. So  
13 that's the first two pages under the federal awards  
14 section.

15           MS. CARDENAS: So, you said no material  
16 weaknesses.

17           MR. ROMELL: No material weaknesses in internal  
18 control.

19           MS. CARDENAS: But I guess you did find some  
20 that were provided?

21           MR. ROMELL: Actually, we didn't find -- we  
22 didn't have any recommendations as part of audit process  
23 this year.

24           MS. CARDENAS: So, will that be written in the  
25 report? Because when I hear no material weaknesses, then

1 it implies, well, maybe you had some, but they weren't  
2 material enough, but if we didn't have any, it always  
3 sounds better in the report.

4 MR. ROMELL: Right. From a reporting  
5 requirement we're actually not -- we can't provide that  
6 level of information in the report. But yeah. So,  
7 normally, if you don't have any, because there's  
8 essentially three levels of control deficiencies you can  
9 have.

10 Material weaknesses are by far the worst, so  
11 that is required to be communicated in the audit report.  
12 The kind of middle level is what's known as a significant  
13 deficiency so that also requires a formal notification in  
14 the report.

15 So, if you don't have either of the top two, if  
16 you have anything that falls below that, that is not  
17 communicated in this letter, that is something that is  
18 communicated directly to management. And of course, we  
19 always recommend they share that with the board if there  
20 is any kind of best practice recommendations that we  
21 identify as part of the audit.

22 MS. CARDENAS: They should just have one: No  
23 weaknesses found.

24 MR. ROMELL: Yeah. Well, I mean, there's a lot  
25 of language that I'm sure for some reason they can

1 misconstrue. So, that's probably why it's not really  
2 allowed to kind of got there. But once again, no items  
3 that we found as part of our overall process this year.

4 So, moving on to the second report under  
5 federal awards and state section is going to be our  
6 report, also known as the single audit report for both  
7 federal and state. So, historically, we've only had to do  
8 a single audit or a grant audit for the federal awards  
9 that the Corporation has received. This year, because  
10 there was state awards received where expenditures  
11 exceeded \$750,000, we actually had to do a federal grant  
12 audit as well as a state grant audit.

13 So, what this report notes is that we are  
14 actually issuing unmodified or clean opinions on  
15 compliance for both programs that we tested, and then also  
16 we noted no material weaknesses in internal control over  
17 compliance in relation to those two programs.

18 So, the two programs we tested on the federal  
19 is the Capital Magnet Fund, which we tested in both fiscal  
20 year '20 and '21, and then on the state side it was the  
21 Affordable Housing Partnership Grant which was provided by  
22 the Texas Health and Human Services Commission.

23 So, we'll skip ahead to page 45. This is going  
24 to be your schedule of expenditures of federal and state  
25 awards. This just lists out all the federal and state



1 expenditures that were incurred by the Corporation during  
2 fiscal year '22.

3           So, you'll see on the federal side the program  
4 we tested had just under \$3.6 million, and because it's a  
5 revolving loan fund, the \$3.5 million of that is actually  
6 just a revolving number because those monies have been  
7 dispersed out. So, it's not really true expenditures of  
8 \$3.5 million every year, but that reporting requirement is  
9 to include the outstanding balance on this schedule. And  
10 then you'll see at the bottom on the state program there  
11 was about \$1.1 million of expenditures in fiscal year '22.

12           So lastly, if you turn to page 47, this is  
13 going to be schedule of findings and questioned costs.  
14 This is just kind of a very kind of summary document of  
15 everything we just discussed as far as issuing unmodified  
16 opinions, having no control items and notes being  
17 disclosed, lists out the one federal and the one state  
18 program we tested.

19           You will notice at the very bottom there's two  
20 lines where it talks about whether or not the auditee  
21 qualifies as a low-risk auditee, so you'll see on the  
22 federal side it's marked yes, on the state side it's  
23 marked no.

24           The reason why on the state side it's marked no  
25 is you have to have two years of prior grant audits to

1 actually meet the criteria to be considered a low-risk  
2 auditee. So, it's merely a timing issue; it doesn't really  
3 change any of our procedures in relation to what we did.

4 And, if you remember, historically the federal  
5 side was also considered to be not low risk, because now  
6 we're in year three. So, that's why that now shifted this  
7 year from being not low risk to now being a low-risk  
8 auditee. And unless you have findings or material  
9 weaknesses in those programs when we do our audit  
10 procedures, then as long as you meet that time requirement  
11 the state level will once again clear. You have to have  
12 two consecutive years of grant audits to meet that low-  
13 risk auditee status.

14 So, that's all I was going to cover on the  
15 audit report. I know the other document -- which I don't  
16 know if you have a copy of our governance letter.

17 MR. LAWRENCE: No.

18 MR. ROMELL: Okay. Well, so I guess before I  
19 move on to our governance letter, do y'all have any  
20 questions for me as far as what we went through on the  
21 financial statements?

22 MS. CARDENAS: Do you have any questions, any  
23 committee members?

24 MR. A. WILLIAMS: No.

25 MS. CARDENAS: Very comprehensive report.

1           MR. ROMELL: And so, the other document that  
2 we'll present both to y'all and also to the full Board  
3 later on today is what's known as a governance letter, and  
4 it, basically, just kind of summarizes the overall audit  
5 process. Because we did have a new accounting standard  
6 that was implemented during the year, it's discussed in  
7 here.

8           We also just want to point out that we had no  
9 difficulties or disagreements while performing the audit.

10          We definitely want to thank Nick and Melinda and everyone  
11 else here at the Corporation. It always seems like that,  
12 you know, we start and then you blink, and the Board  
13 meeting is here. So, we definitely want to give them  
14 credit for all the assistance that they provided, not only  
15 during the process but ultimately to get a clean report  
16 that we can present to y'all today.

17          And then, also, we want to note we actually had  
18 no auditing adjustments as part of our process, which is  
19 another good indication of the way the books are being  
20 kept here at the Corporation.

21          And then also attached to this letter will be a  
22 representation letter that David and Melinda and Nick will  
23 all sign that will indicate that they provided us with  
24 everything that we needed to perform and complete the  
25 audit this year.

1 MS. CARDENAS: Great. So again, the overall  
2 summary, no material weaknesses. You said you were going  
3 to give the opinion, I guess overall, of a healthy audit,  
4 for lack of a better word. Really nothing -- I guess a  
5 high level risk of assurance -- a high level of assurance.

6 MR. ROMELL: Yes, the highest level we can  
7 provide.

8 MS. CARDENAS: Okay. Perfect. Well, I know  
9 we've got a great team, Melinda and Nick and the rest. So,  
10 I'm glad, you know, that it obviously resulted in a  
11 positive outcome here.

12 Does anyone else have any questions?

13 (No response.)

14 MS. CARDENAS: Are we needing, I guess, an  
15 approval on this report?

16 MR. LAWRENCE: Yes.

17 MS. CARDENAS: Okay. So, we need an approval  
18 for the annual independent financial audit for the fiscal  
19 year ending August 31, 2022. Do I have a motion?

20 MR. A. WILLIAMS: I motion to approve.

21 MS. CARDENAS: Okay. Do I have a second?

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

23 MS. CARDENAS: Okay. Before we take a vote, is  
24 there any public comment on this item?

25 (No response.)

1 MS. CARDENAS: Seeing that there's none, I have  
2 a motion and a second. All in favor signify by saying  
3 aye.

4 (A chorus of ayes.)

5 MS. CARDENAS: Since there's none opposed, tab  
6 item 2 is approved as presented.

7 MR. ROMELL: Thank you.

8 MS. CARDENAS: Thank you.

9 Do we have any other items for discussion?

10 MR. LONG: Madam Chair, we do not. I do like  
11 to add at the end of this, we don't do the Audit Committee  
12 very often, normally it's because we're bringing to you  
13 rather large items, this one in this case is the annual  
14 audit.

15 I would like to recognize Melinda and Nick and  
16 Betsy for their work. I know everybody provides them  
17 information throughout the year, but it's their ability to  
18 contain, control and manage that information that allows  
19 us to have these audits. I've been doing this with  
20 Melinda over 20 years now and in the process of doing  
21 that, we've never had an audit where there were any  
22 findings or concerns. So, a big pat on the back to them  
23 and the team for doing that.

24 I know Nick manages quite a bit of this  
25 process, so herding cats is probably a term you hear a

1 lot, but it is a lot of information for us. And, we've  
2 grown from what we were 20 years ago, as you can see from  
3 our financials, we've done some pretty positive things and  
4 been able to help a lot of people with what we do. I pat  
5 the team on the back, and I just wanted to recognize them  
6 for their work. So, thank you, team.

7 MS. CARDENAS: Thank you.

8 MR. LONG: With that, we don't have any other  
9 things to go over.

10 MS. CARDENAS: Okay. Seeing that there are no  
11 other items for discussion, I adjourn the Audit Committee  
12 meeting at 10:08 a.m.

13 (Whereupon, at 10:08 a.m., the meeting was  
14 adjourned.)

C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: December 6, 2022

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 Nancy H. King before the  
Texas State Affordable Housing Corporation.

DATE: December 12, 2022

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

On the Record Reporting  
7703 N. Lamar Blvd., #515  
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