

**TEXAS STATE  
AFFORDABLE HOUSING  
CORPORATION**

**Financial Statements  
and Supplemental Information  
as of and for the Year Ended  
August 31, 2017 and  
Independent Auditors' Report**

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

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**INDEPENDENT  
AUDITORS' REPORT**



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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors of  
Texas State Affordable Housing Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Texas State Affordable Housing Corporation (the "Corporation") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of August 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The schedule of revenues and expenses by activity is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of revenues and expenses by activity has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*Maxwell Locke + Ritter LLP*

Austin, Texas  
December 14, 2017

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# TEXAS STATE AFFORDABLE HOUSING CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2017

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This discussion and analysis of Texas State Affordable Housing Corporation's (the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal year ended August 31, 2017. Please read it in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

## FINANCIAL HIGHLIGHTS

- The Corporations total assets were \$87.3 million; of this amount \$51 million represent assets associated with the single family bond program, \$7.8 million represents unrestricted cash equivalents and investments and \$10.3 million represents real estate held under the Neighborhood Stabilization Program ("NSP"), the Affordable Communities of Texas ("ACT") Program, and the Rental Program. Total assets decreased approximately \$30.9 million during 2017 primarily due to the repayment of the Corporation's bond debt.
- The Corporation's liabilities totaled \$56.8 million of which \$48.1 million related to the single family bond program, \$5.6 million consisted of notes payable and \$2.4 million represented NSP funds owed to the Texas Department of Housing and Community Affairs. Total liabilities decreased approximately \$33.2 million in 2017 resulting primarily from the repayment of the Corporation's bond debt.
- At the close of the fiscal year ending August 31, 2017 the Corporation's assets exceeded it liabilities by \$30.4 million. Of this amount, \$26.2 million may be used to meet the Corporation's ongoing obligations to the public and creditors and \$1.3 million is invested in capital assets.
- The Corporation's operating revenues for 2017 totaled \$10 million and operating revenue exceeded operating expense by approximately \$2.3 million. The major revenue sources were interest and investment income of \$3.1 million, single family program income of \$4.9 million, and other operating revenue of \$0.5 million. Revenue increased in 2017 by approximately \$1.2 million due to an increase in income from Single Family programs. The Corporation follows the provisions of Government Accounting Standards Board ("GASB") Statements No. 31 and 72, which require that certain types of investments be reported at fair value on the balance sheet.
- Operating expenses for fiscal year 2017 consisted primarily of interest expense on bonds and notes payable of \$2.4 million, salary related expenses of \$2.5 million, and program and loan administration expense of \$0.8 million.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the Corporation as prescribed by GASB Statement No. 34.

The Corporation's activities are accounted for as a special purpose government, or single enterprise fund; therefore the basic financial statements presented are the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. As with all proprietary funds, the financials are presented using the economic resources measurement focus.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Corporation as a whole. These statements include all assets, liabilities, and deferred inflows of resources of the Corporation using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the Corporation's net position and changes in it. Net position is the difference between assets, liabilities, and deferred inflows of resources, which is one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

## THE FINANCIAL STATEMENTS

### Statement of Net Position

	2017	2016	Increase (Decrease)	
			Amount	Percentage
<b>ASSETS:</b>				
Current Assets	\$ 15,684,055	\$ 12,589,103	\$ 3,094,952	24.58%
Noncurrent Assets	<u>71,647,354</u>	<u>105,646,917</u>	<u>(33,999,563)</u>	<u>(32.18%)</u>
Total Assets	<u>87,331,409</u>	<u>118,236,020</u>	<u>(30,904,611)</u>	<u>(26.14%)</u>
<b>LIABILITIES:</b>				
Current Liabilities	10,864,618	6,576,465	4,288,153	65.20%
Noncurrent Liabilities	<u>45,909,144</u>	<u>83,406,972</u>	<u>(37,497,828)</u>	<u>(44.96%)</u>
Total Liabilities	<u>\$ 56,773,762</u>	<u>\$ 89,983,437</u>	<u>\$ (33,209,675)</u>	<u>(36.91%)</u>
<b>DEFERRED INFLOWS OF RESOURCES-</b>				
Deferred Revenue	<u>\$ 202,623</u>	<u>\$ 213,003</u>	<u>\$ (10,380)</u>	<u>(4.87%)</u>
<b>NET POSITION:</b>				
Invested in Capital Assets	1,281,180	1,375,572	(94,392)	(6.86%)
Restricted for Debt Service	2,879,883	4,185,165	(1,305,282)	(31.19%)
Restricted for Other Purposes	10,030	50,311	(40,281)	(80.06%)
Unrestricted	<u>26,183,931</u>	<u>22,428,532</u>	<u>3,755,399</u>	<u>16.74%</u>
Total Net Position	<u>\$ 30,355,024</u>	<u>\$ 28,039,580</u>	<u>\$ 2,315,444</u>	<u>8.26%</u>

Net position increased from \$28.0 million to \$30.4 million in fiscal year 2017. Of total net position, \$1,281,180 is invested in capital assets. Restricted assets totaled \$2,889,913, and the remaining balance of \$26,183,931 is unrestricted and available for corporate programs, payment of obligations, and fulfillment of the Corporation's public purpose.

The Corporation's total assets decreased from \$118 million to \$87 million during fiscal year 2017. The largest single factor contributing to this decrease was the repayment of principal on the Corporation's bond debt.

As of August 31, 2017, the Corporation's current assets totaled \$15.7 million and current liabilities equaled \$10.9 million resulting in available net working capital of \$4.8 million.

Noncurrent assets consist of restricted investments held by the bond trustee of \$48,507,221; owned real estate totaling \$10,326,748; noncurrent investments of \$4,754,888; notes receivable of \$5,685,824; down payment assistance of \$273,148; the Corporation's loan portfolio equaling \$546,192; and purchased mortgage servicing rights totaling \$272,153. The Corporation's capital assets consist of furniture, land, and equipment used in operations totaling \$1,281,180, net of accumulated depreciation.

Noncurrent liabilities consisted of bonds payable totaling \$38,913,671; notes payable of \$4,488,026; due to federal programs of \$2,385,632 and unearned revenue of \$121,815.

## Statement Revenues, Expenses and Changes in Net Position

	2017	2016	Increase (Decrease)	
			Amount	Percentage
<b>REVENUES:</b>				
Interest and Investment Income	\$ 3,140,885	\$ 4,320,661	\$ (1,179,776)	(27.31%)
Net Increase (Decrease) in Fair Value of Investment	325,112	(354,453)	679,565	191.72%
Single Family Income	4,919,971	2,623,323	2,296,648	87.55%
Land Bank Income	218,720	352,280	(133,560)	(37.91%)
Public Support	262,205	748,159	(485,954)	(64.95%)
Other	1,128,906	1,057,747	71,159	6.73%
<b>Total Income</b>	<b>\$ 9,995,799</b>	<b>\$ 8,747,717</b>	<b>\$ 1,248,082</b>	<b>14.27%</b>
<b>EXPENSES:</b>				
Interest Expense on Bonds & Notes Payable	2,415,809	3,795,189	(1,379,380)	(36.35%)
Salaries, Wages & Payroll Related Costs	2,479,801	2,288,482	191,319	8.36%
Program and Loan Administration	788,631	836,523	(47,892)	(5.73%)
Texas Foundation Fund Grant Expenditures	302,500	360,500	(58,000)	(16.09%)
Other	1,693,614	1,679,757	13,857	0.82%
<b>Total Expenses</b>	<b>\$ 7,680,355</b>	<b>\$ 8,960,451</b>	<b>\$ (1,280,096)</b>	<b>(14.29%)</b>
Operating Gain (Loss)	2,315,444	(212,734)	2,528,178	1188.42%
Beginning Net Position	28,039,580	28,252,314	(212,734)	(0.75%)
Ending Net Position	\$ 30,355,024	\$ 28,039,580	\$ 2,315,444	8.26%

Interest and investment income decreased \$1.2 million from the previous year. This resulted primarily from the decrease in single family bond activity. No new single family bonds were issued during fiscal year 2017. All of the existing bond programs, however, continued to pay down resulting in decreased cash and mortgage-backed security balances and a corresponding decrease in interest income.

The Corporation experienced an increase in revenue during fiscal year 2017 compared to fiscal year 2016 resulting from an increase in the fair value of investments totaling \$0.7 million. The Corporation's investments consist primarily of mortgage-backed securities. The increases and decreases associated with mortgage-backed securities represent unrealized gains and losses and are required to be recorded in compliance with the provisions of GASB Statements No. 31 and 72. Single family income increased approximately \$2.3 million from 2016 due to a change in the Corporation's downpayment assistance program.

Land Bank income decreased approximately \$134,000 from the previous year resulting primarily from a decrease in activity related to the ACT Program.

Public Support decreased approximately \$486,000 from the previous fiscal year. This was due to a decrease in donated property.

Interest expense on bonds and notes payable decreased \$1.4 million from the previous year. This is a direct result of the decrease in single family bond activity.

Other expenses are comprised of professional fees, amortization, office and equipment rental and maintenance, travel, depreciation and grant expenditures. The increase of \$13,857 from 2016 to 2017 is related primarily to an increase in depreciation.

## **BUSINESS TYPE ACTIVITIES**

For the purposes of financial reporting, the Corporation is a special purpose government operating as a single enterprise fund. All activities of the Corporation are categorized as business type activities and are accounted for in the financial statements.

## **BUDGETARY HIGHLIGHTS**

The Corporation is not required to adopt a legal budget and has not done so, therefore, no budgetary highlights or comparison are required.

## **RELEVANT DECISIONS AND ECONOMIC FACTORS**

Public Purpose - The Corporation is organized, operated and administered exclusively for the promotion of social welfare, and is a section 115 and 501(c)(3) nonprofit corporation under the Internal Revenue Code of 1986, as amended. The Corporation's mission is to serve the housing needs of moderate and lower income Texans who are not afforded housing finance options through conventional lending channels.

## LEGISLATIVE REPORTING REQUIREMENTS

The number and amount of private grants, donations, or other funds applied for and received by the Corporation during fiscal year 2017, as well as the use of these funds, were as follows:

<u>FY 2017 Grant Applications Submitted</u>	<u>Status</u>	<u>Amount Requested</u>	<u>Amount Received</u>	<u>Program/Activity</u>
Insperty	Received	\$ 5,000	\$ 5,000	Texas Statewide Homebuyer Education Program
Frost Bank	Received	\$ 5,000	\$ 2,500	Texas Statewide Homebuyer Education Program
Wells Fargo Housing Foundation	Received	\$ 10,000	\$ 7,500	Texas Statewide Homebuyer Education Program
JPMorgan Chase	Received	\$ 10,000	\$ 10,000	Texas Statewide Homebuyer Education Program
BBVA Compass	Received	\$ 10,000	\$ 5,000	Texas Statewide Homebuyer Education Program
Google Grants	Received	In-kind (Google Ad Marketing)	\$ 3,261	Homeownership Programs/ Texas Financial Toolbox
Texas Financial Education Foundation	Received	\$ 40,000	\$ 32,000	Texas Statewide Homebuyer Education Program
Bank of America	Received	\$ 30,000	\$ 3,200	Texas Statewide Homebuyer Education Program
Texas Capital Bank	Received	\$ 7,500	\$ 7,500	Texas Housing Impact Fund

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2017 were as follows:

- Loan in the amount of \$351,404 was provided to a non-profit developer for the purpose of acquiring & financing interim construction on single family homes.
- Loan in the amount of \$64,056 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of \$112,839 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of \$70,677 was provided to a for-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of \$1,704,784 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.

The amount and source of funds deposited into a fund created by the Corporation for the purpose of providing grants and the number, amount and purpose of any grants provided during fiscal year 2017 were as follows:

- \$302,500 was set aside in the Texas Foundations Fund for the purpose of making grants to nonprofit organizations and rural government entities for the costs associated with the construction, rehabilitation, and/or critical repair of single family homes, as well as, the provision of supportive housing services within multifamily housing. During the year, thirty-one (31) such grants were made in the aggregate amount of \$302,500.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled \$2,315,444 for fiscal year 2017.

## **CONTINUANCE SUBJECT TO REVIEW**

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2023 unless continued in existence as provided by the Act.

## **CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Texas State Affordable Housing Corporation at 2200 E. Martin Luther King Jr. Blvd., Austin, Texas 78702, phone 512-477-3555.

**BASIC  
FINANCIAL STATEMENTS**

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## STATEMENT OF NET POSITION AS OF AUGUST 31, 2017

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### ASSETS

#### Current Assets

Cash and Cash Equivalents	\$ 1,445,475
Restricted Assets Held by Bond Trustee:	
Cash and Cash Equivalents	2,023,992
Accrued Interest	74,996
Custodial Cash and Cash Equivalents	99,412
Investments, at Fair Value	1,641,612
Accounts Receivable and Accrued Revenue	1,606,401
Accrued Interest Receivable	88,601
Loans Receivable, Current Portion	66,552
Notes Receivable, Current Portion	626,467
Down Payment Assistance, Current Portion	7,908,071
Prepaid Expenses	102,476
	<hr/>
Total Current Assets	15,684,055

#### Noncurrent Assets

Loans Receivable, Net of Uncollectible Amounts of \$26,923	546,192
Notes Receivable	5,685,824
Investments, at Fair Value	4,754,888
Mortgage Servicing Rights, Net of Accumulated Amortization of \$2,455,908	272,153
Capital Assets, Net of Accumulated Depreciation of \$714,545	1,281,180
Owned Real Estate, Net of Accumulated Depreciation of \$375,994	10,326,748
Down Payment Assistance	273,148
Restricted Investments Held by Bond Trustee, at Fair Value	48,507,221
	<hr/>
Total Noncurrent Assets	71,647,354

### **TOTAL ASSETS**

**\$ 87,331,409**

*(continued)*

The notes to the financial statements are an integral part of this statement.

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## STATEMENT OF NET POSITION (Continued) AS OF AUGUST 31, 2017

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### LIABILITIES

#### Current Liabilities

Accounts Payable and Accrued Expenses	\$ 378,631
Notes Payable, Current Portion	1,100,307
Custodial Reserve Funds	99,412
Other Current Liabilities	90,227
Payable from Restricted Assets Held by Bond Trustee:	
Bonds Payable, Current Portion	8,535,000
Accrued Interest on Bonds	661,041
	<hr/>
Total Current Liabilities	10,864,618

#### Noncurrent Liabilities

Notes Payable	4,488,026
Revenue Bonds Payable	38,913,671
Due to Federal Programs	2,385,632
Unearned Revenue	121,815
	<hr/>
Total Noncurrent Liabilities	45,909,144
	<hr/>
Total Liabilities	56,773,762

### DEFERRED INFLOWS OF RESOURCES

Deferred Revenue	<hr/>
	202,623
	<hr/>
Total Deferred Inflows of Resources	202,623

### NET POSITION

Invested in Capital Assets	1,281,180
Restricted for:	
Debt Service	2,879,883
Other Purposes	10,030
Unrestricted	<hr/>
	26,183,931
	<hr/>
Total Net Position	\$ 30,355,024

The notes to the financial statements are an integral part of this statement.

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED AUGUST 31, 2017

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Operating Revenues	
Interest and Investment Income	\$ 3,140,885
Net Increase (Decrease) in Fair Value of Investments	325,112
Single Family Income	4,919,971
Asset Oversight and Compliance Fees	224,041
Loan Servicing Fees	90,639
Multifamily Income	282,521
Land Bank Income	218,720
Public Support:	
Federal and State Grants	216,470
Contributions	45,735
Other Operating Revenue	531,705
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Total Operating Revenues	\$ 9,995,799
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Operating Expenses	
Interest Expense on Bonds and Notes Payable	\$ 2,415,809
Salaries, Wages and Payroll Related Costs	2,479,801
Professional Fees and Services	352,649
Amortization	248,153
Office and Equipment Rental and Maintenance	97,276
Travel and Meals	88,351
Depreciation	278,007
Program and Loan Administration	788,631
Grant Expenditures	272,074
Texas Foundation Fund Grants	302,500
Other Operating Expenses	357,104
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Total Operating Expenses	\$ 7,680,355
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Net Income	2,315,444
Total Net Position, Beginning	28,039,580
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<b>Total Net Position, Ending</b>	<b>\$ 30,355,024</b>
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The notes to the financial statements are an integral part of this statement.

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AUGUST 31, 2017

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Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 4,432,471
Payments to Employees	(1,888,221)
Payments of Benefits and Other Payroll Related Costs	(557,521)
Payments to Suppliers of Goods and Services	<u>(6,300,038)</u>
Net Cash Used For Operating Activities	<u>(4,313,309)</u>
Cash Flows from Non-Capital Financing Activities	
Payments of Principal on Notes Payable	(2,297,888)
Proceeds from Notes Payable	4,750,000
Payments of Principal related to Bond Maturities and Calls	<u>(30,723,916)</u>
Net Cash Used For Non-Capital Financing Activities	<u>(28,271,804)</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Additions to Capital Assets	(13,365)
Purchase and Rehabilitation of Single Family Homes	(1,026,517)
Proceeds from Sale of Single Family Homes Under ACT Program	796,312
Rehabilitation of Multifamily Rental Property	(27,474)
Rehabilitation of Office Building	<u>(19,687)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(290,731)</u>
Cash Flows from Investing Activities	
Proceeds from Sale and Maturities of Investments Held by Bond Trustee	29,279,006
Proceeds from Sale of Unrestricted Investments	7,646,673
Purchase of Unrestricted Investments	<u>(5,016,344)</u>
Net Cash Provided By Investing Activities	<u>31,909,335</u>
Net Decrease in Cash and Cash Equivalents	(966,509)
Cash and Cash Equivalents at Beginning of Year	<u>4,535,388</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,568,879</u>

*(continued)*

The notes to the financial statements are an integral part of this statement.

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED AUGUST 31, 2017

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Reconciliation of Operating Income to Net Cash  
Used For Operating Activities

Net Income from Operations	\$ 2,315,444
Adjustments To Reconcile to Net Cash Used For Operations:	
Depreciation and Amortization Expense	526,160
Unrealized Loss on Investments	4,294,254
Amortization of Down Payment Assistance	1,007,475
Amortization of Bond Premium	(3,976,987)
Provision for Estimated Losses	101,272
Securities Received from Bond Redemptions	(1,612,544)
Loss on Sale of Donated Properties	227,069
Loss on Redemption of Bonds	467,527
In-kind Grants	(3,261)
Changes in Current Assets and Liabilities:	
Increase in Accounts Receivable and Accrued Revenue	(1,078,257)
Decrease in Accrued Interest Receivable	23,527
Decrease in Loans Receivable	71,373
Increase in Notes Receivable	(1,141,208)
Increase in Prepaid Expenses	(15,303)
Increase in Down Payment Assistance Loans	(5,153,922)
Decrease in Accounts Payable and Accrued Expenses	(151,473)
Decrease in Accrued Interest Payable on Bonds	(227,651)
Increase in Deferred Revenue and Other Liabilities	13,196
Net Cash Used For Operating Activities	<u>\$ (4,313,309)</u>

### SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Debt Forgiven - Affordable Communities of Texas Veterans' Program	<u>\$ 200,033</u>
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The notes to the financial statements are an integral part of this statement.

**NOTES TO THE  
FINANCIAL STATEMENTS**

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2017

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### 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

**Reporting Entity** - Texas State Affordable Housing Corporation (the "Corporation") was incorporated on May 6, 1994 under the Texas Non-Profit Corporation Act, Article 1396.1.01 et seq., Vernon's Annotated Texas Civil Statutes as amended, and is legally separate from the State of Texas and does not receive State appropriated funding. Under Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, the Corporation is a special purpose government and a component unit of the State of Texas for financial reporting purposes. In addition, there are no component units included within the reporting entity of the Corporation.

The Governing Board consists of five directors, all of which are appointed by the Governor of the State of Texas. The public purpose of the Corporation is to perform such activities and services that the Corporation's Board of Directors determines will promote public health, safety, and welfare through the provision of adequate, safe and sanitary housing primarily for individuals and families of low, very low and extremely low income, and to perform activities and services related to this purpose and for other purposes as set forth in Chapter 2306, Subchapter Y, of the Government Code, as amended.

The Corporation is organized, operated and administered as a non-profit organization in accordance with Section 501(c)(3) of the Internal Revenue Code.

**Dissolution of Entity** - The Corporation is subject to Chapter 325 of the *Texas Government Code* (the "Texas Sunset Act"). Unless continued in existence as provided by the Texas Sunset Act, the Corporation will be abolished effective September 1, 2023.

Upon dissolution of the Corporation, title to or other interest in real or personal property or rights thereto owned by the Corporation shall be transferred pursuant to Chapter 2306, Subchapter Y of the Government Code.

**Basis of Presentation** - The accompanying financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles as prescribed by GASB. The Corporation presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. For financial reporting purposes, the Corporation is considered a special purpose government.

## **Corporate Lines of Business**

### ***Servicing Operations***

Servicing Operations account for the Corporation's activities as Master Servicer for the Texas Department of Housing and Community Affairs' (the "Department" or "TDHCA") single-family mortgage revenue bond program issues 52, 53, and 54, and servicer of the Corporation's own portfolio of single and multifamily loans. The Corporation subcontracts the servicing related to the Department's single-family mortgage revenue bond programs.

### ***Asset Oversight and Compliance***

**Asset Oversight and Compliance** - These operations are used to account for asset oversight and compliance monitoring activities performed by the Corporation for multifamily bond properties for which the Corporation acted as conduit issuer.

### ***Single Family Programs***

**Single Family Bond Program** - Through the Single Family Bond Program (the "SFB Program"), the Corporation provides below market 30-year fixed rate mortgage loans to eligible first-time homebuyers through the issuance of tax exempt single family mortgage revenue bonds. The Corporation's SFB Programs provide down payment and closing cost assistance to the borrower in the form of a grant in an amount up to 5% of the loan amount.

The Corporation also offers a single family Mortgage Credit Certificate Program (the "MCC Program"). Under the MCC Program, qualified homebuyers are eligible to take a portion of the annual interest paid on their mortgage as a special tax credit, up to \$2,000, each year that they occupy the home as their principal residence.

**TBA Program** - Under the To Be Announced Program (the "TBA Program"), the Corporation finances first-lien mortgage loans to enable qualified mortgagors to purchase single family residences in the State of Texas. The TBA program is a non-bond financing program which utilizes the conventional loan market through a third-party provider (the "TBA provider"). The TBA provider agrees to purchase mortgage loans (which have been pooled and securitized into mortgage-backed securities) from the Corporation for a period of approximately 90 to 120 days, at a specified price based on the interest rate of the mortgage loan. The TBA provider provides pricing each day based on market fluctuations in interest rates. The program is referred to as TBA (to be announced) because the specific mortgage-backed security to be delivered is not known at the time the trade is initially made but is "to be announced" at a later date before the trade is settled.

**Affordable Communities of Texas** - Using its statutory authority to own property tax-free, the Corporation has created the Affordable Communities of Texas Program (the "ACT Program") which is the first statewide land bank and land trust program in Texas. The land bank provides for the acquisition and temporary holding (up to ten years) of land or buildings for the purpose of redeveloping the properties for affordable housing. The land trust provides for the acquisition and long-term holding of land or buildings for the purpose of redevelopment for affordable housing. A property held by the land bank will be owned in perpetuity by the Corporation and leased for residential housing that benefits low-income households. The ACT Program is financed by the Corporation utilizing federal and private funding along with property donations from financial institutions.

**Texas Housing Impact Fund** - The Texas Housing Impact Fund (“THIF”) provides financing for the acquisition, construction, and redevelopment of single family homes for low-income families in rural communities and high need areas. See Note 4.

**Rental Program** - The Corporation’s Single Family Rental Program (the “SFR Program”) provides affordable, below-market rental homes in high opportunity neighborhoods in the Austin Metropolitan Statistical Area (the “MSA”) to eligible low income families. The Corporation’s Multifamily Rental Program (“the “MFR Program”) consists of a 15 unit apartment complex, Rollins Martin Apartments in Austin, TX.

### ***Multifamily Programs***

**Multifamily 501(c)(3) Bond Program** - The Corporation acts as a conduit issuer of multifamily mortgage revenue bonds for qualified 501(c)(3) owners of multifamily housing developments. Each multifamily property owner must agree to restrict a certain number of the units so that they are affordable in their market place. Additionally, each property must provide significant resident and/or community services with excess revenues.

**Multifamily Private Activity Bond Program** - Under the Multifamily Private Activity Bond Program (the “MPAB Program”), the Corporation administers 10 percent of the State’s volume cap allocation of private activity bonds for multifamily residential rental housing each year. For the 2017 program year, the amount available for issuance was approximately \$61 million. The Corporation’s MPAB Program provides financing for new construction, or acquisition and rehabilitation of existing multifamily rental properties. The Corporation is required by statute to target areas, such as cities and counties, and to issue requests for proposals to developers to provide the type of housing requested by the target area. In exchange for receiving the lower tax-exempt revenue bond interest rate, multifamily complexes financed through the MPAB Program must provide a minimum number of affordable units.

**Multifamily Direct Lending** - The Multifamily Direct Lending Program (the “MDL Program”) provides financing for the purpose of increasing and preserving the stock of affordable multifamily housing units provided in Texas. Lending efforts are targeted to all reputable entities engaged in affordable housing development that focus on rural Texas and small cities, as well as other underserved and difficult to develop areas. See Note 4.

### **Significant Accounting Policies**

**Basis of Accounting** - The Corporation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flows. GASB Statement No. 62, which was adopted in 2013, codifies all FASB and AICPA pronouncements issued before November 30, 1989 that do not conflict with GASB pronouncements. As a result, the Corporation no longer has to consider pre-1989 FASB or AICPA pronouncements nor will it be permitted to apply “new” FASB pronouncements issued after November 30, 1989.

**Cash and Cash Equivalents** - For the purpose of reporting cash flows, cash and cash equivalents consist of cash and short-term investments with a maturity at the date of purchase of three months or less, which are highly liquid, and can be readily exchanged for cash at amounts equal to their stated value.

**Investments** - The Corporation's investment policies and types of investments are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act"). The Corporation's management believes that it complied with the requirements of the Public Funds Investment Act and the Corporation's investment policy. The Corporation follows the provisions of GASB Statement No. 31 and 72, which requires certain types of investments to be reported at fair value on the statement of net position. The Corporation utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. The fair value of the Corporation's mortgage backed securities has been estimated by each bond issues' trustee using a pricing service.

In accordance with GASB Statement No. 31 and 72, changes in the fair value of investments are reported in the statement of revenues, expenses and changes in net position as a net increase or decrease in the fair value of investments.

**Loans Receivable** - Mortgage loans originated by the Corporation are carried at the unpaid principal balance outstanding, net of allowances for possible loan losses.

Mortgage loans purchased by the Corporation are carried at the amortized cost of loans acquired, net of allowance for possible loan loss.

**Notes Receivable** - Notes receivable is comprised of loans made under THIF. Notes are carried at the unpaid principal balance outstanding.

**Allowance for Possible Losses** - Losses are charged to the allowance for possible loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. During the year, management estimates the level of future losses to determine whether the allowance is adequate to absorb anticipated losses in the existing mortgage loans. Based on these estimates, a provision for possible losses on loans is credited to the allowance in order to adjust the allowance to levels estimated to be adequate to absorb reasonably foreseeable losses.

While management uses available information to recognize losses in the loan portfolio, future adjustments may be necessary due to changes in economic conditions. However, it is the judgment of management that the allowances are currently adequate to absorb reasonably foreseeable losses in the existing portfolios.

**Amortization of Bond Premium** - The gross premiums related to the SFB Programs totaled \$3.19 million and are amortized using the effective interest method. Accumulated amortization as of August 31, 2017 equaled \$1.07 million and the total unamortized premiums were \$2.12 million. During the current year, prepayments on the bonds resulted in the proportionate amortization of approximately \$3.94 million on the remaining balance of premiums on debt.

**Deferred Outflows and Deferred Inflows of Resources** - The Corporation complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the Corporation's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the Corporation's acquisition of net position applicable to a future reporting period.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 9 for additional information on deferred inflows of resources.

**Fair Value Measurements** - The Corporation complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

**Purchased Mortgage Servicing Rights** - Purchase Mortgage Servicing Rights are recorded at cost and are amortized in relation to the remaining value of the related mortgage balances at the end of each period so that the value of the servicing rights equals the same percentage of the outstanding mortgage balance as when originally purchased. Amortization expense for fiscal year 2017 was approximately \$48,000; accumulated amortization as of August 31, 2017 equaled approximately \$2.45 million.

**Capital Assets** - All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The Corporation capitalizes assets with a cost greater than \$1,500 and a useful life of more than one year. Donated capital assets are valued at their estimated acquisition value on the date donated. Expenses for betterments that materially extend the useful life of an asset are capitalized at cost. Land owned by the Corporation is not depreciated. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, usually 3 to 5 years. The building is depreciated using the straight-line method over 30 years.

**Compensated Absences** - Employees of the Corporation earn annual leave on a monthly basis. Each employee is entitled to earned but unused annual leave pay up to a maximum 180 hours if employed less than two years, 243 hours if employed less than five years, 329 if employed less than ten years, 444 hours if employed less than 15 years, and 599 if employed more than 15 years as compensation upon termination of employment. The total compensated absences accrued liability as of August 31, 2017 was approximately \$173,000.

**Reserve and Custodial Accounts** - The Corporation holds certain cash reserves totaling approximately \$99,000 as of August 31, 2017 for the benefit of two multifamily projects that are financed by the Corporation.

**Net Position** - When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Donated Property Valuation** - When the Corporation receives donated property, a Broker's Price Opinion (the "BPO") is obtained, which estimates the acquisition value. The BPO typically offers a range of values. The property is booked at the lowest value in the range offered in the BPO.

**Operating and Nonoperating Revenues and Expenses** - Operating revenues and expenses generally result from providing services in connection with the bond programs, lending programs, and federal and other grants. Operating expenses are primarily related to interest expense on bonds and general administrative expenses. The Corporation considers all of its revenues and expenses to be operating revenues and expenses.

**Recently Issued Accounting Pronouncements** - In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended August 31, 2021.

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

### Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2017 consisted of bank deposits totaling \$1,133,505, deposits in the Federal Home Loan Bank totaling \$152,030, holdings in a AAA-rated local government pool totaling \$107,828, and money market accounts totaling \$52,112.

Restricted cash and cash equivalents at August 31, 2017 totaled \$2,023,992 and were maintained in money market mutual funds by the bond trustee. The Corporation also maintained eight custodial accounts with a combined total of \$99,412 pledged as reserves on two multifamily projects. These funds were maintained in interest bearing demand accounts.

### Investments

GASB Statement 72 regarding *Fair Value Measurement and Application* for financial reporting purposes categorizes financial instruments within three different levels of risk dependent upon the measure of their fair value and pricing.

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

The *exit* or fair market prices used for these fair market valuations of the portfolio are all Level 1 and Level 2 and represent unadjusted quoted prices in active markets for identical assets and liabilities that have been accessed at the measurement date.

As of August 31, 2017 the *securities* to be priced in the portfolio are:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Agency Obligations	\$ 1,989,890	\$ -	\$ -	\$ 1,989,890
US Agency MBS	-	3,762,340	-	3,762,340
Total Fair Value	\$ 1,989,890	\$ 3,762,340	\$ -	\$ 5,752,230
Investments not subject to GASB 72				<u>644,270</u>
Total Unrestricted Investments				<u>\$ 6,396,500</u>

The Corporation's unrestricted investments consisted of the following at August 31, 2017:

<u>Description/Maturity</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Certificate of Deposit - 9/29/17*	0.929%	\$ 50,000	\$ 50,000	\$ -
Certificate of Deposit - 5/4/18	0.400%	100,101	100,101	-
Certificate of Deposit - 1/30/18	1.000%	246,216	246,216	-
Brokered CD - 9/28/17	0.850%	248,000	247,953	(47)
Federal Agency Coupon Securities - 8/23/18	1.100%	<u>1,000,300</u>	<u>997,342</u>	<u>(2,958)</u>
Total Short Term Investments		1,644,617	1,641,612	(3,005)
Pass through securities GNMA - 10/20/2034	5.990%	5,192	6,014	822
Pass through securities GNMA - 2036-2038*	5.49 - 5.75%	1,295,579	1,420,363	124,784
Pass through securities FNMA - 2035-2037*	5.49 - 5.75%	939,880	977,585	37,705
Pass through securities FHLMC - 2036-2038*	5.49 - 5.75%	1,231,233	1,358,378	127,145
Federal Agency Coupon Securities - 8/23/19	1.300%	<u>1,000,750</u>	<u>992,548</u>	<u>(8,202)</u>
Total Long Term Investments		<u>\$ 4,472,634</u>	<u>\$ 4,754,888</u>	<u>\$ 282,254</u>
Total Investments		<u>\$ 6,117,251</u>	<u>\$ 6,396,500</u>	<u>\$ 279,249</u>

\*Pledged as collateral against cash advances from the Federal Home Loan Bank of Dallas.  
See Note 10.

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

Mortgage-backed securities are valued using Level 2 inputs that are based on market data obtained from independent sources. The investments are reported by the Corporation at fair value in accordance with GASB Statement No. 72.

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2017:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
GNMA/FNMA Investments - 2037/2038	6.10%	\$ 3,854,907	\$ 4,294,536	\$ 439,629
GNMA/FNMA Investments - 2037/2038	6.00%	3,848,141	4,286,467	438,326
GNMA/FNMA Investments - 2040/2042	3.5- 4.75%	37,753,959	39,926,218	2,172,259
Total Restricted Investments		\$ 45,457,007	\$ 48,507,221	\$ 3,050,214

Interest income on investments held by the bond trustee includes the following amounts:

Single Family Mortgage Revenue Bonds Series 2006A, B & C	\$ 27,393
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3, B, C & D	1,003,342
Single Family Mortgage Revenue Bonds Series 2009A, B/2011A, B/2013A	1,746,694
	\$ 2,777,429

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2017 has decreased by approximately \$33.4 million. The Corporation follows GASB Statement No. 31 and 72, whereby investments are required to be reported at fair value at the statement of net position date rather than at cost, except for money-market investments and participating interest-earning investment contracts and certain external investment pools, which may be reported at fair value or at amortized cost, provided that the fair value of these investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. In addition, GASB Statement No. 31 also affects the way in which unrealized gains and losses are recognized for financial reporting purposes.

The Corporation holds approximately \$48.5 million (valued under GASB Statement No. 72 at fair value) in mortgage backed securities issued by Ginnie Mae ("GNMA"), Fannie Mae ("FNMA") and Freddie Mac ("FMCC") through the Corporation's SFB Programs. These securities have a face value of approximately \$45.5 million and unrealized gain of approximately \$3.1 million as of August 31, 2017. The Corporation is susceptible to risk that the market for such mortgage backed securities could decline, which would eventually result in a loss of value for the investments held. Further, it is likely that the Corporation will only collect the face value of the mortgage backed securities as the mortgages are repaid in the future.

### **Credit Risk**

The primary stated objective of the Corporation's adopted Investment Policy ("Investment Policy") is the safety of principal and avoidance of principal loss. Credit risk within the Corporation's portfolio, among the authorized investments approved by the Corporation's adopted Investment Policy, is represented only in time and demand deposits, repurchase agreements, commercial paper, municipal obligations and non-rated SEC registered money market mutual funds. In 2017, the Corporation received surplus funds from a bond buy-back and established a separate portfolio ("Surplus Funds") with the same authorized investments but a longer maximum maturity of ten (10) years for CMO and thirty (30) years for mortgage-backed securities. The maximum weighted average maturity ("WAM") for the Surplus Funds portfolio is fifteen (15) years.

State law and the Corporation's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit ("CD"), to those banks doing business in the State of Texas and further requires full insurance and/or collateralization from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of one year. Brokered CDs must be FDIC insured and delivered versus payment to the Corporation's depository with a further restriction on maximum maturity to one year. The FDIC insurance must be verified before purchase. On all time and demand deposits collateral at a 102% margin is required and collateral is limited to obligations of the US Government, its agencies or instrumentalities. Independent safekeeping for collateral is required outside the pledging bank's holding company with monthly reporting. Securities are priced at market on a daily basis as a contractual responsibility of the bank.

In accordance with the adopted policy and state law, repurchase agreements are limited to those with defined termination dates and executed with a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed 90 days to stated maturity. Reverse repurchase agreements may not exceed 90 days after the term of the reverse and funds may be used only to acquire authorized investments matched to the reverse.

State law and the adopted Investment Policy require that municipal obligations have a maximum stated maturity of 3 years or less and be rated at least A or its equivalent by at least two nationally recognized rating agencies.

State law and the adopted Investment Policy require that commercial paper have a maximum stated maturity of 90 days or less and be rated A1/P1 or its equivalent by at least two nationally recognized rating agencies.

The adopted Investment Policy restricts money market mutual fund investment to SEC registered money market mutual funds striving to maintain a \$1 net asset value and with a WAM of 90 days as further defined by state law. Neither the state law nor the Investment Policy requires a rating on money market funds.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The adopted Investment Policy further restricts investments to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

As of August 31, 2017 holdings in the General Portfolio included:

- collateralized or insured certificates of deposit represented 9.57% of the General Portfolio,
- brokered certificate of deposit securities represented 5.99% of the General Portfolio,
- investment in a FHLB money market mutual fund represented 3.67% of the General Portfolio,
- funds invested in fully insured or collateralized bank accounts represented 29.96% of the General Portfolio,
- holdings in a AAA-rated local government pool represented 2.60% of the General Portfolio,
- one mortgage backed US GNMA security represented 0.15% of the General Portfolio, and
- holdings in US Government agency securities represented 48.06 % of the General Portfolio.

As of August 31, 2017 holdings in the Surplus Funds Portfolio included:

- GNMA pass-through mortgage securities represented 37.81% of the Surplus Portfolio,
- FNMA pass-through mortgage securities represented 26.03% of the Surplus Portfolio, and
- FHLMC pass-through mortgage securities represented 36.16% of the Surplus Portfolio.

### **Concentration of Credit Risk**

The Corporation recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The Corporation's adopted Investment Policy establishes diversification as a major objective of the investment program. The Investment Policy requires that no issuer or institution represent more than 50% of the total portfolio with the exception of US Treasuries. Further diversification requirements established by the Investment Policy are:

	<u>Max % of Portfolio</u>
US Obligations	80%
Obligations of US Agencies	80%
Certificates of Deposit	60%
Certificates of Deposit By Institution	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper	30%
Commercial Paper By Issuer	10%
Local Government Stable Net Asset Value Pools	75%
Banking Accounts	80%

### **Interest Rate Risk**

In order to limit interest and market rate risk from changes in interest rates, the Corporation's adopted Investment Policy sets a maximum stated maturity for US obligations of 3 years in the General Portfolio. The Investment Policy sets a maximum weighted average maturity of one (1) year.

Surplus bond funds have a maximum maturity limitation of ten (10) years for CMO and thirty (30) years for government obligations and mortgage-backed securities. The Surplus Fund as a stand-alone portfolio has a maximum weighted average portfolio limitation of fifteen (15) years.

In the total portfolio certificates of deposit are restricted to a maturity of one (1) year and commercial paper 90 days. On February 17, 2011, the Corporation received \$22,957 in a GNMA participation certificate #586163 as payment of an obligation due from the Federal National Mortgage Association. The stated maturity is October 20, 2034. State law does not require securities obtained in this manner to be liquidated and keeping the security until maturity is permitted.

As of August 31, 2017, the General Portfolio, excluding the GNMA, held no security with a stated maturity date beyond 722 days. With the inclusion of the one GNMA the weighted average maturity of the total general portfolio was 285 days.

The Surplus Funds Portfolio had a dollar weighted average maturity of 7,226 days and the longest security was 7,659 days.

As of August 31, 2017, the General Portfolio contained two (2) US agency structured notes (quarterly callables) which might be affected by interest rate risk with a fair market value of \$1,989,890.

As of August 31, 2017, the Surplus Funds Portfolio contained MBS which might be affected by interest rate risk.

### **Custodial Credit Risk**

To control custody and safekeeping risk, state law and the Corporation's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Corporation and held in the Corporation's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of the Financial Institutions Reform Recovery and Enforcement Act. The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

The Corporation's portfolio disclosure as of August 31, 2017:

- the general portfolio contained 9.57% in fully insured or collateralized certificates of deposit
- the portfolio contained no repurchase agreements
- all bank demand deposits were fully insured and collateralized.
- all pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

### 3. LOANS RECEIVABLE

Loans receivable are carried at the unpaid principal balance, net of loss allowances. A summary of loans receivable at August 31, 2017 is as follows:

Loans Receivable at September 1, 2016	\$ 706,219
Additions	-
Paydowns	<u>(66,552)</u>
Loans Receivable at August 31, 2017	639,667
Allowance for possible loan losses	<u>(26,923)</u>
Net Balance at August 31, 2017	<u><u>\$ 612,744</u></u>

The current portion of loans receivable at August 31, 2017 is \$66,552; the remaining balance of \$546,192 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2017 is as follows:

Balance at September 1, 2016	\$ (22,102)
Current Year Reduction	-
Loss Applied to the Allowance	<u>(4,821)</u>
Balance at August 31, 2017	<u><u>\$ (26,923)</u></u>

The Corporation considers loans receivable to be delinquent when they become more than 60 days past due.

### 4. NOTES RECEIVABLE

Notes receivable were comprised of loans made under the MDL Program, the MPAB Program, the Single Family Direct Lending Program and ACT Veterans Housing Initiative (see Note 12). Under the ACT Veterans Housing Initiative, donated properties are sold to Veterans at 75% of the appraised value and the remaining 25% is carried as forgivable notes receivable which are forgiven over 10 years. Notes are carried at the unpaid principal balance outstanding. Included in notes receivable is one note totaling \$1,076,218 which collateralizes advances from FHLB. See Note 10.

A summary of activity for notes receivable for the year ended August 31, 2017 is as follows:

Balance at September 1, 2016	\$ 5,450,579
Additions	3,035,010
Collections	(1,973,266)
Accumulated Amortization	<u>(200,032)</u>
Balance at August 31, 2017	<u>\$ 6,312,291</u>

The current portion of notes receivable at August 31, 2017 is \$626,467; the remaining balance of \$5,685,824 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts.

## 5. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2017 consisted of the following:

	Cost or Basis In Property			Balance August 31, 2017
	Balance September 1, 2016	Additions	Deletions	
Land	\$ 232,241	\$ -	\$ -	\$ 232,241
Building	\$ 1,297,817	\$ 3,625	\$ -	\$ 1,301,442
Furniture & Fixtures	\$ 529,034	\$ 15,147	\$ 82,139	\$ 462,042
Total	<u>\$ 2,059,092</u>	<u>\$ 18,772</u>	<u>\$ 82,139</u>	<u>\$ 1,995,725</u>

  

	Accumulated Depreciation			Balance August 31, 2017
	Balance September 1, 2016	Additions	Deletions	
Building	\$ 280,058	\$ 39,228	\$ -	\$ 319,286
Furniture & Fixtures	\$ 403,462	\$ 73,747	\$ 81,950	\$ 395,259
Total	<u>\$ 683,520</u>	<u>\$ 112,975</u>	<u>\$ 81,950</u>	<u>\$ 714,545</u>

Capital assets, less accumulated depreciation, at August 31, 2017 totaled \$1,281,180.

## 6. INCOME TAX STATUS

The Corporation, a non-profit corporation operating under section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal income taxes and, accordingly, no provision for income taxes is included in the financial statements. The Corporation is classified as a non-profit organization other than a private foundation. Tax returns for the past three years are open to examination by the Internal Revenue Service. There are no examinations currently in process. Management believes it has appropriate support for any tax position taken and as such does not have any uncertain tax positions that are required to be reported in these financial statements.

## 7. OPERATING LEASES

### Operating Leases

The Corporation leases certain office equipment under a three-year lease agreement which calls for monthly lease payments of \$590. Lease expense under this agreement was \$7,073.

The future minimum lease payments under the agreement are as follows:

<u>Year Ended August 31,</u>	<u>Amount</u>
2018	\$ 2,358
Total Minimum Future Rental Payments	<u>\$ 2,358</u>

The Corporation owns rental property consisting of single family homes, a multifamily apartment complex and an office building.

Based on current agreements the future operating lease income is:

<u>Year Ended August 31,</u>	<u>Amount</u>
2018	\$ 417,571
2019	33,120
Total Future Rental Income	<u>\$ 450,691</u>

Total operating lease income for the year ended August 31, 2017 was \$464,627.

## 8. CUSTODIAL RESERVE FUNDS

The Corporation holds certain cash reserves for the benefit of four multifamily projects that were financed by the Corporation through the MDL Program. See Note 4.

Reserve activity for the year ended August 31, 2017 was as follows:

Balance at September 1, 2016	\$ 323,208
Deposits	53,123
Disbursements	<u>(276,919)</u>
Balance at August 31, 2017	<u>\$ 99,412</u>

## 9. DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE

In a prior year, the Corporation received \$679,800 from the Department's Housing Trust Fund for the origination of down payment and closing cost assistance loans for households who earn less than 60% of the area median family income. The Corporation established a loan receivable for each loan made with a corresponding offset to deferred revenue. Recognition of the deferred revenue occurs as loans are repaid. Revenue recognized during fiscal year 2017 totaled approximately \$10,380. The remaining deferred revenue for this portfolio was \$202,623 at August 31, 2017.

The prepaid issuer fees from nine multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2017, unearned revenue related to these properties totaled \$121,815.

A summary of deferred inflows of resources and unearned revenue activity for fiscal year 2017 is as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2016	\$ 213,003	\$ 115,105
Additions	-	336,797
Revenue Earned	-	(330,087)
Loan Payments Received	<u>\$ (10,380)</u>	<u>\$ -</u>
Balance at August 31, 2017	<u><u>\$ 202,623</u></u>	<u><u>\$ 121,815</u></u>

## 10. NOTES PAYABLE

As of August 31, 2017 notes payable consisted of:

Note Payable to Federal Home Loan Bank, installment note with equal payments of \$2,568.65 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	\$ 312,073
Note Payable to Federal Home Loan Bank, installment note with equal payments of \$4,086.48 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	496,490
Note Payable to Federal Home Loan Bank, installment note with equal payments of \$3,538.30 monthly, 2.993% interest, due October 2026, secured by note receivable.	729,770
Note Payable to Federal Home Loan Bank, interest only at 1.432% payable monthly, due in full February 2019, secured by mortgage backed securities.	1,000,000
Note Payable to Federal Home Loan Bank, interest only at 1.416% payable monthly, due in full February 2019, secured by mortgage backed securities.	1,000,000
Note Payable to Wells Fargo Community Development Corporation, interest only at 2.00% payable quarterly, due in full May 2018, unsecured.	1,050,000
Note Payable to Texas Community Bank, interest only at 2.00% payable quarterly, due in full May 2020, unsecured.	500,000
Note Payable to Texas Capital Community Development Corporation, interest only at 3.55% payable quarterly, due in full May 2022, unsecured.	<u>500,000</u>
Total Notes Payable	\$ 5,588,333
Current Portion of Notes Payable	<u>\$ 1,100,307</u>
Noncurrent Notes Payable	<u>\$ 4,488,026</u>

The summary of notes payable for the year ended August 31, 2017 is as follows:

Balance at September 1, 2016	\$ 3,136,221
Advances	4,750,000
Repayments	<u>(2,297,888)</u>
Balance at August 31, 2017	<u>\$ 5,588,333</u>

The debt service requirements on notes payable for the next five years and thereafter are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,100,307	\$ 142,247	\$ 1,242,554
2019	2,052,861	111,453	2,164,314
2020	55,562	94,513	150,075
2021	558,415	88,327	646,742
2022	561,431	65,329	626,760
2023 thru 2027	<u>1,259,757</u>	<u>119,805</u>	<u>1,379,562</u>
Total	<u>\$ 5,588,333</u>	<u>\$ 621,674</u>	<u>\$ 6,210,007</u>

## 11. BONDED INDEBTEDNESS

The Corporation had five (5) bond series outstanding as of August 31, 2017. The Corporation issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes.

Single Family Mortgage Revenue Bonds do not constitute a general obligation of the Corporation or the State of Texas. Single-family bonds are collateralized and payable solely from revenues and other assets pledged under the trust indentures and held in trust by Wells Fargo Corporate Trust Services, the Bond Trustee. Assets pledged consist primarily of mortgage-backed securities and investments. Interest on bonds is payable semiannually or monthly. There are a number of limitations and restrictions contained in the various single family bond indentures.

The Corporation is in compliance with all significant limitations and restrictions at August 31, 2017.

Description	Interest Rate	Bonds Outstanding 9/1/16	Bonds Issued	Bonds Matured/Retired	Bonds Refunded/Extinguished	Bonds Outstanding 8/31/17	Amounts Due Within One Year
Single Family 2006							
Series 2006C	5.30%	3,371,657	-	3,371,657	-	-	-
Single Family 2007							
Series 2007A-1	5.50%	6,451,176	-	6,451,176	-	-	-
Series 2007A-3	5.60%	7,237,516	-	7,237,516	-	-	-
Series 2007C	5.45%	4,378,567	-	4,378,567	-	-	-
Series 2007B	6.10%	4,480,000	-	615,000	-	3,865,000	3,865,000
Series 2007D	6.00%	4,750,000	-	820,000	-	3,930,000	3,930,000
Single Family 2009/2011							
Series 2011A	Variable	8,680,000	-	2,045,000	-	6,635,000	460,000
Series 2009/2011B	Variable	19,935,000	-	2,380,000	-	17,555,000	280,000
Series 2013A	Variable	16,320,000	-	2,975,000	-	13,345,000	-
Total Principal		<u>\$75,603,916</u>	\$ -	<u>\$ 30,273,916</u>	\$ -	<u>\$ 45,330,000</u>	<u>\$ 8,535,000</u>
Unamortized Premium		<u>6,054,168</u>				<u>2,118,671</u>	
Total		<u>\$81,658,084</u>				<u>\$ 47,448,671</u>	

The current portion of bonds payable at August 31, 2017 was \$8,535,000. The remaining balance of \$38,913,671 is classified as noncurrent bonds payable.

The principal and interest expense requirements for the next five years and thereafter are summarized below:

Year Ended August 31,	Principal	Interest	Total
2018	\$ 8,535,000	\$ 1,259,212	\$ 9,794,212
2019	870,000	1,190,439	2,060,439
2020	930,000	1,155,918	2,085,918
2021	920,000	1,117,758	2,037,758
2022	1,005,000	1,077,998	2,082,998
2023 thru 2027	5,645,000	4,650,995	10,295,995
2028 thru 2032	7,385,000	3,300,817	10,685,817
2033 thru 2037	9,720,000	2,127,410	11,847,410
2038 thru 2042	10,320,000	680,790	11,000,790
Total	<u>\$ 45,330,000</u>	<u>\$ 16,561,337</u>	<u>\$ 61,891,337</u>

The sources of pledged revenue to pay the principal and interest on the bonds is derived from the principal and interest collected from the GNMA, FHLMC and FNMA mortgage-backed securities as well as reserves set up at the bond closing. For fiscal year 2017, the debt service requirement equaled \$30,273,916 in bond principal and \$2,518,134 in bond interest expense, totaling \$32,792,050. As of August 31, 2017, pledged revenues totaled \$34,095,770.

## **12. ACT VETERANS HOUSING INITIATIVE**

The ACT Veterans Housing Initiative is a pilot initiative funded primarily through the donation of foreclosed homes from banks and other mortgage servicers. The intent of the initiative is to provide low and no-cost housing to U.S. military veterans who are disabled or low-income. The Corporation coordinates the initiative on a statewide basis within Texas using the Affordable Communities of Texas Land Banking program. The Corporation currently has a network of more than twenty locally based non-profit housing providers that manage rehabilitation of the properties and qualification of eligible homebuyers within their local communities.

Properties are made available to qualified veteran households either at a significant discount or as a fully donated home. If discounted, the property is sold for 75% of its post-rehab appraised value with the Corporation placing a deferred forgivable second lien for the remaining 25% of value. If donated, the property is provided at no cost with the Corporation placing a deferred forgivable lien for 100% of the post-rehab appraised value.

## **13. MORTGAGE CREDIT CERTIFICATE PROGRAM**

The MCC Program was created to assist low and moderate income first time homebuyers. Under the MCC Program, the homebuyer is eligible to claim a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed \$2,000, each year for the life of the home loan. The Corporation must convert single family bond cap each year to issue MCCs. During the fiscal year ended August 31, 2017, the MCC Program revenue totaled approximately \$576,000 and is included in single family income in the statement of revenues, expenses, and changes in net position.

## **14. NEIGHBORHOOD STABILIZATION PROGRAM**

The Corporation was awarded approximately \$5 million in Neighborhood Stabilization Program (the "NSP") funds in November 2009 by the Department. The NSP's goal is to help stabilize communities hardest hit by foreclosures by working with locally based non-profit and government agencies to acquire and rehabilitate foreclosed homes, vacant land and tax foreclosed properties, which are then inhabited by low-income individuals and families. The funds used to acquire property must be returned to the Department when the property is sold along with any program income.

As of August 31, 2017, the Corporation, through the NSP, owed the Department \$2,385,632. This represents funds used to purchase real property for the purpose of establishing a land bank. As the properties are sold, the funds will be paid back to the Department. The effective due date of this obligation is August 31, 2019.

## **15. TEXAS FOUNDATIONS FUND**

The Texas Foundation Fund program provides grants to non-profit organizations and rural government entities for the costs associated with the construction, rehabilitation, or repair of single family homes, or the provision of supportive housing services within multifamily housing. During the fiscal year ended August 31, 2017, the Corporation, through the Texas Foundation Fund, made grants totaling \$302,500.

## **16. DOWN PAYMENT ASSISTANCE PROGRAM**

Under the various Single Family Home Loan Programs provided by the Corporation, first-time homebuyers are able to apply for a 30 year fixed rate mortgage loan which offers down payment assistance in the form of an interest-free forgivable loan that is to be paid back to the Corporation in the form of a higher interest rate. Down payment assistance is made in amounts equal to approximately 5% of the amount borrowed for the 2002 through 2007 programs. The 2009-2013 programs offer 3-5% in down payment assistance.

## **17. RELATED PARTY TRANSACTIONS**

The Corporation received federal grant awards passed through the Department for the NSP Program during fiscal year 2017. Receivables and payables related to this grant as of August 31, 2017 totaled \$113,511 and \$2,385,632, respectively. See Note 14.

## **18. EMPLOYEE BENEFITS**

The Corporation offers a defined contribution 403(b) retirement plan to its employees. Under the plan, the Corporation matches dollar for dollar the first three percent (3%) and one half percent (.5%) of the fourth and fifth percent of the employee's annual gross salary contributed to the plan. The maximum employer contribution is 4%. Total employer contributions for the fiscal year ended August 31, 2017 were \$63,102.

## **19. CONDUIT DEBT**

The Corporation is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501(c)(3) bond program provides long-term variable or fixed rate financing to non-profit borrowers/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income.

Under the MPAB Program, the Corporation administers 10 percent or approximately \$60 million of the State's volume cap allocation of private activity bonds for multifamily residential rental housing.

The 501(c)(3) and private activity revenue bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of August 31, 2017, there were fourteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately \$183 million.

## **20. RISK FINANCING AND RELATED ISSUANCE ISSUES**

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all such risks, the Corporation has purchased commercial insurance in varying amounts to mitigate the risk of loss.

## **21. SUBSEQUENT EVENTS**

The Corporation has evaluated subsequent events through December 14, 2017 (the date the financial statements were available for issue), and has determined that the following subsequent events have occurred that require additional disclosure.

### **Redemption of Single Family Bonds**

On October 2, 2017, the 2007B and 2007D Single Family Mortgage Revenue Bonds were redeemed with a payment of approximately \$7.7 million.

## **22. NON-CASH CONTRIBUTIONS**

During the year ended August 31, 2017, the Corporation did not receive any new donated properties to be utilized in the ACT Veterans Housing Initiative. See Note 12. Additionally, Google, Inc. made an in-kind donation of \$3,261 for advertising.

## **23. CONTINUANCE SUBJECT TO REVIEW**

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2023 unless continued in existence as provided by the Act.

## 24. SEGMENT INFORMATION

For a description of the Corporation's operations, please see Note 1.

Segment financial information of the Corporation's only proprietary fund type at August 31, 2017 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	\$ 9,995,799
Depreciation and Amortization	526,160
Net Income	2,315,444
Net Working Capital*	4,819,437
Total Assets	87,331,409
Total Net Position	30,355,024
Noncurrent Notes Payable	4,488,026
Noncurrent Bonds Payable	38,913,671
Deferred Inflows of Resources	202,623
Unearned Revenue	121,815
Capital Asset Additions	18,772
Due to Federal Programs	2,385,632

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	\$ 1,445,475
Restricted Assets Held by Bond Trustee	2,098,988
Custodial Cash and Cash Equivalents	99,412
Investments, Short-Term	1,641,612
Accounts Receivable and Accrued Revenue, net	1,606,401
Accrued Interest Receivable	88,601
Loans Receivable, Current Portion	66,552
Notes Receivable, Current Portion	626,467
Downpayment Assistance, Current Portion	7,908,071
Prepaid Expenses	102,476
Payables:	
Accounts Payable and Accrued Expenses	(378,631)
Notes Payable, Current Portion	(1,100,307)
Custodial Reserve Funds	(99,412)
Other Current Liabilities	(90,227)
Bonds Payable and Accrued Interest on Bonds, Current Portion	(9,196,041)
Total Net Working Capital	<u>\$ 4,819,437</u>

**GOVERNMENT  
AUDITING STANDARDS**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Directors of  
Texas State Affordable Housing Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 14, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maxwell Locke + Ritter LLP*

Austin, Texas  
December 14, 2017

**OTHER SUPPLEMENTAL  
INFORMATION**

# TEXAS STATE AFFORDABLE HOUSING CORPORATION

## SCHEDULE OF REVENUES AND EXPENSES BY ACTIVITY FOR THE YEAR ENDED AUGUST 31, 2017

	NSP & NFMC	Single Family	Multi Family	ACT	Asset Management	Other	Total
<b>Income</b>							
Interest and Investment Income	\$ -	\$ 2,906,653	\$ 141,867	\$ -	\$ -	\$ 92,365	\$ 3,140,885
Net Increase (Decrease) in Fair Value of Investments	-	325,112	-	-	-	-	325,112
Single Family Income	-	4,919,971	-	-	-	-	4,919,971
Federal and State Grants	143,970	72,500	-	-	-	-	216,470
Other Operating Revenue	49,924	-	282,521	218,720	699,383	142,813	1,393,361
<b>Total Income</b>	<b>193,894</b>	<b>8,224,236</b>	<b>424,388</b>	<b>218,720</b>	<b>699,383</b>	<b>235,178</b>	<b>9,995,799</b>
<b>Expenses</b>							
Interest Expense on Bonds and Notes Payable	-	2,321,148	84,661	10,000	-	-	2,415,809
Salaries, Wages and Payroll Related Costs	75,791	753,938	91,388	151,880	420,476	986,328	2,479,801
Grant Expenditures	143,970	128,104	-	-	-	-	272,074
Other Expenditures	-	490,068	45,650	688,204	457,419	831,330	2,512,671
<b>Total Expense</b>	<b>\$ 219,761</b>	<b>\$ 3,693,258</b>	<b>\$ 221,699</b>	<b>\$ 850,084</b>	<b>\$ 877,895</b>	<b>\$ 1,817,658</b>	<b>\$ 7,680,355</b>
<b>Net Income</b>							<b>\$ 2,315,444</b>