TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2008

With
Independent Auditor's Report

TEXAS STATE AFFORDABLE HOUSING CORPORATION

ANNUAL FINANCIAL REPORT
August 31, 2008

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TEXAS STATE AFFORDABLE HOUSING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2008

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, 2008. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and total liabilities increased approximately $41 million primarily due to the issuance of $56 million in single family mortgage revenue bonds.

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending August 31, 2008 by approximately $2,341,183. Of this amount, $2,306,891 may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $34,292 is invested in capital assets.

- The Corporation's total net assets increased during fiscal year 2008 by approximately $150,000.

- The Corporation follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* which requires that certain types of investments to be reported at fair value on the balance sheet. The Corporation recorded an increase in the fair value of investments totaling approximately $2.3 million.

- The Corporation recognized approximately $5.7 million in expenditures related to the Down Payment Assistance Program. These expenditures are recorded as the loans are made while the bond premium, which is the source of funding for these grants, is amortized over the life of the bonds.

- Total operating revenues for fiscal year 2008 were approximately $22.7 million and operating expenditures were approximately $22.6 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 which was implemented during fiscal year 2002. This annual report consists of the following:

1. Management's Discussion and Analysis
2. Financial Statements
3. Notes to the Financial Statements

The Corporation operates as a single enterprise fund; therefore the basic financial statements presented are the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Corporation as a whole. These statements include *all* assets and liabilities 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the Corporation's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the Corporation's financial health, or *financial position*. Over time, *increases or decreases* in the Corporation's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The Corporation's activities are accounted for as a special purpose government, or single enterprise fund.

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 Assets

Condensed Statement of Net Assets

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Cash & Cash Equivalents	$ 7,255,339	$ 4,085,059	$ 3,170,280	77.61%
Investments	291,924,601	255,708,179	36,216,422	14.16%
Accounts Receivable	410,644	351,967	58,677	16.67%
Accrued Interest Receivable	647,922	753,918	(105,996)	(14.06%)
Loans Receivable	1,341,085	1,445,441	(104,356)	(7.22%)
Notes Receivable	2,969,148	1,868,336	1,100,812	58.92%
Prepaid Expenses	25,759	21,924	3,835	17.49%
Mortgage Servicing Rights	923,360	1,025,049	101,689	(9.92%)
Fixed Assets	34,292	32,426	1,866	5.75%
Custodial Cash & Cash Equivalents	190,666	170,966	19,700	11.52%
Bond Issuance Costs	4,965,144	4,306,611	658,533	15.29%
Other Deposits	25,000	0	25,000	-
Total Assets	$ 310,712,960	$ 269,769,876	$ 40,943,084	15.18%

Condensed Statement of Net Assets Continued

	2008	2007	Increase (Decrease) Amount	Percentage
LIABILITIES:				
Accounts Payable & Accrued Expenses	$ 144,064	$ 119,882	$ 24,182	20.17%
Notes Payable	2,053,999	2,069,615	(15,616)	(0.75%)
Revenue Bonds Payable	302,958,768	261,156,988	41,801,780	16.01%
Accrued Interest	2,292,024	2,199,083	92,941	4.23%
Multifamily Custodial & Reserve Funds	190,666	170,966	19,700	11.52%
Deferred Revenue	532,097	1,807,530	(1,275,433)	(70.56%)
Other Liabilities	200,159	57,884	142,275	245.79%
Total Liabilities	$ 308,371,777	$ 267,581,948	$ 40,789,829	15.24%
NET ASSETS:				
Invested in Capital Assets	34,292	32,426	1,866	5.75%
Unrestricted Net Assets	2,306,891	2,155,502	151,389	7.02%
Total Net Assets	$ 2,341,183	$ 2,187,928	$ 153,255	7.00%

Net assets increased from $2,187,928 to $2,341,183 in fiscal year 2008. Of the total net assets, $34,292 is invested in capital assets. The remaining balance of $2,306,891 is unrestricted and available for corporate programs, payment of obligations, and fulfillment of the Corporation's public purpose.

The Corporation's total assets increased from $270 million to $310 million during fiscal year 2008. The largest single factor contributing to this increase was the issuance of approximately $56 million in Single Family Mortgage Revenue Bonds. These bonds were issued for the purpose of making first lien single family mortgage loans to eligible borrowers under the Corporation's Professional Educators Home Loan Program and Texas Home Sweet Loan Program.

The Corporation's current assets totaled $29,337,269 while current liabilities totaled $13,965,863.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $271,062,620; capitalized bond issuance costs of $4,965,144; the Corporation's loan portfolio equaling $1,284,863; notes receivable of $2,914,746; custodial cash and cash equivalents of $190,666 and purchased mortgage servicing rights totaling $923,360. The Corporation's capital assets, consisting of furniture, equipment and leasehold improvements total only $34,292, net of accumulated depreciation.

Noncurrent liabilities consist of bonds payable totaling $291,645,788; deferred revenue of $532,097; notes payable of $2,037,363 and custodial reserve funds totaling $190,666.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Interest and investment income	$ 15,965,929	$ 11,139,794	$ 4,826,135	43.32%
Net increase/(decrease) in fair value	2,324,116	(1,646,768)	3,970,884	(241.13%)
Single Family Program Issuer and Servicing Fees	2,373,135	1,981,438	391,697	19.77%
Asset Oversight and Compliance Fees, net	1,055,503	440,090	615,413	139.84%
Loan Servicing Fees, net	370,898	428,789	(57,891)	(13.50%)
Multifamily Bond Fees	75,885	16,748	59,137	353.10%
Fundraising & Grants	160,000	10,000	150,000	1500.00%
Other Operating Revenue	400,654	55,250	345,404	625.17%
Total Income	$ 22,726,120	$ 12,425,341	$ 10,300,779	82.90%
EXPENSES:				
Interest Expense on Bonds and Notes Payable	$ 14,407,267	$ 9,898,835	$ 4,508,432	45.55%
Down Payment Assistance Program	5,714,704	4,652,276	1,062,428	22.84%
Salaries, Wages, and Payroll Related Costs	1,103,615	1,002,780	100,835	10.06%
Professional Fees and Services	358,524	236,734	121,790	51.45%
Amortization	385,708	200,986	184,722	91.91%
Office and Equipment Rental and Maintenance	142,704	129,780	12,294	9.96%
Travel and Meals	65,935	66,015	(80)	(0.12%)
Depreciation	21,965	15,794	6,171	39.07%
Program and Loan Administration	165,877	203,432	(37,555)	(18.46%)
Other Operating Expenses	206,566	141,889	64,677	45.58%
Total Expenses	$ 22,572,865	$ 16,548,521	$ 6,024,344	36.40%
Operating Gain/(Loss)	153,255	(4,123,180)	4,276,435	(103.72%)
Beginning Net Assets	2,187,928	6,311,108	(4,123,180)	(65.33%)
Ending Net Assets	$ 2,341,183	$ 2,187,928	$ 153,255	7.00%

The Corporation reported $22.7 million in operating revenues during fiscal year 2008. Interest and Investment Income totaling $15,965,929 along with the Increase in Fair Value of Investments of $2,324,116, constitutes the largest source of income contributing 80% to total operating revenue for fiscal year 2008.

Asset Oversight and Compliance Fees totaled $1,055,503 and represent 4% of operating revenue for fiscal year 2008. Asset Oversight and Compliance Fees are derived from contracts with properties financed with multifamily bonds issued by the Corporation or the Texas Department of Housing and Community Affairs.

Loan Servicing activities include performing duties as Master Servicer for the Texas Department of Housing and Community Affairs and servicing the Corporation's own portfolio of single-family and multifamily loans. Loan Servicing Fees contributed $370,898 in revenue, reported net of subservicer fees of $123,319.

Single Family Servicing Fees are paid to the Corporation by the Master Servicer for the right to service loans originated under the Professional Educators Home Loan Program and the Fire Fighter and Law Enforcement or Security Officer Home Loan Program. Single Family Servicing Fees totaled $1,647,020. Single Family Issuer Fees totaled $726,115 for fiscal year 2008. Together these fees totaled $2,373,135 and represent 10% of total operating revenues.

Multifamily Bond Fees contributed only $75,885 or .3% of total operating revenues for fiscal year 2008. Multifamily programs primarily consist of the multifamily bond program, direct lending activities, and projects performed for the purpose of increasing and preserving the availability of affordable housing units throughout the state of Texas.

The Corporation also recorded contributions to the Texas Foreclosure Task Force of $160,000 (.7%) during fiscal year 2008.

Operating expenses for the year totaled $22.6 million. The four largest expenses for fiscal year 2008 were Interest Expense on Bonds and Notes Payable (64%); Down Payment Assistance Program Expense (25%); Salaries, Wages and Payroll Related Expenses (5%); and Professional Fees (1.5%). The Corporation recorded a net income for fiscal year 2008 of $153,255

BONDED INDEBTEDNESS

During fiscal year 2008 the Corporation issued approximately $56 million in single family mortgage revenue bonds. Single Family debt retirements totaled approximately $16 million. Overall bonds payable increased from $261 million to $303 million during the year. Bonds payable within one year total $11 million. The Corporation issued no multifamily bond debt during the year. For additional information, see Note 11, Bonded Indebtedness.

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 and Management's Discussion and Analysis.

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.

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2009 unless continued in existence as provided by the Act. If abolished, the Corporation may continue until September 1, 2010 to close out its operations.

The Texas Sunset Commission has recommended that the Corporation's sunset date be extended to September 1, 2015. This recommendation will be voted on during the 81st Legislative Session as part of the recurring Sunset Bill.

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 101 Westlake Drive, Austin, Texas 78746, phone 512-477-3555.

AUDITED FINANCIAL STATEMENTS

MIKESKA • MONAHAN • PECKHAM • PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Texas State Affordable Housing Corporation

We have audited the accompanying statement of net assets of Texas State Affordable Housing Corporation (the "Corporation"), a nonprofit corporation that is a component unit of the State of Texas, as of August 31, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2007 financial statements and, in our report dated December 14, 2007, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas State Affordable Housing Corporation as of August 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards,* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Mikeska Monahan & Peckham, P.C.

Austin, Texas
December 12, 2008

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS
As of August 31, 2008

with comparative amounts as of August 31, 2007

ASSETS		**August 31, 2008**		**August 31, 2007**
Current Assets:				
Cash and Cash Equivalents	$	4,513,526	$	1,504,521
Restricted Assets Held by Bond Trustee:				
Cash and Cash Equivalents		2,741,813		2,580,538
Short-term Investments, at Fair Market Value		16,960,265		80,776,036
Accrued Interest		547,258		704,728
Investments, at Fair Market Value		1,652,186		4,627,046
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $739,168		410,644		351,967
Accrued Interest Receivable		100,664		49,190
Loans Receivable, Current Portion		56,222		62,219
Notes Receivable, Current Portion		54,402		17,627
Prepaid Expenses		25,759		21,924
Total Current Assets		27,062,739		90,695,796
Noncurrent Assets:				
Loans Receivable, Net of uncollectible amounts of $91,726		1,284,863		1,383,222
Notes Receivable		2,914,746		1,850,709
Mortgage Servicing Rights, Net of Accumulated Amortization of $1,804,701		923,360		1,025,049
Fixed Assets, Net of Accumulated Depreciation of $217,369		34,292		32,426
Custodial Cash and Cash Equivalents		190,666		170,966
Bond Issuance Costs, Net of Amortization of $694,693		4,965,144		4,306,611
Restricted Investments Held by Bond Trustee, at Fair Market Value		273,312,150		170,305,097
Other Deposits		25,000		-
Total Noncurrent Assets		283,650,221		179,074,080
TOTAL ASSETS	$	**310,712,960**	$	**269,769,876**
LIABILITIES & NET ASSETS				
Current Liabilities:				
Accounts Payable and Accrued Expenses	$	144,064	$	119,882
Notes Payable, Current Portion		16,636		15,616
Other Current Liabilities		200,159		57,884
Payable from Restricted Assets Held by Bond Trustee:				
Bonds Payable, Current Portion		11,312,980		1,824,055
Accrued Interest on Bonds		2,292,024		2,199,083
Total Current Liabilities		13,965,863		4,216,520
Noncurrent Liabilities:				
Multifamily Custodial and Reserve Funds		190,666		170,966
Notes Payable		2,037,363		2,053,999
Revenue Bonds Payable from Restricted Assets Held by Bond Trustee		291,645,788		259,332,933
Deferred Revenue		532,097		1,807,530
Total Noncurrent Liabilities:		294,405,914		263,365,428
Total Liabilities		308,371,777		267,581,948
Net Assets:				
Invested in Capital Assets		34,292		32,426
Unrestricted Net Assets		2,306,891		2,155,502
Total Net Assets		2,341,183		2,187,928
TOTAL LIABILITIES & NET ASSETS	$	**310,712,960**	$	**269,769,876**

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ending August 31, 2008
with comparative amounts for the year ended August 31, 2007

	2008	2007
Operating Revenues		
Interest and Investment Income	$ 15,965,929	$ 11,139,794
Net Increase/(Decrease) in Fair Value of Investments	2,324,116	(1,646,768)
Single Family Program Issuer and Servicing Fees	2,373,135	1,981,438
Asset Oversight and Compliance Fees, Net of bad debt of $112,683	1,055,503	440,090
Loan Servicing Fees, Net of subservicer fees of $123,319	370,898	428,789
Multifamily Bond Fees	75,885	16,748
Fundraising & Grants	160,000	10,000
Other Operating Revenue	400,654	55,250
Total Operating Revenues	22,726,120	12,425,341
Operating Expenses		
Interest Expense on Bonds and Notes Payable	14,407,267	9,898,835
Down Payment Assistance Program	5,714,704	4,652,276
Salaries, Wages and Payroll Related Costs	1,103,615	1,002,780
Professional Fees and Services	358,524	236,734
Amortization	385,708	200,986
Office and Equipment Rental and Maintenance	142,704	129,780
Travel and Meals	65,935	66,015
Depreciation	21,965	15,794
Program and Loan Administration	165,877	203,432
Other Operating Expenses	206,566	141,889
Total Operating Expenses	22,572,865	16,548,521
Net Income/(Loss)	153,255	(4,123,180)
Total Net Assets, Beginning	2,187,928	6,311,108
Total Net Assets, Ending	$ 2,341,183	$ 2,187,928

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2008
with comparative amounts for the year ended August 31, 2007

	2008	2007
Increase/(Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Receipts from Customers & Loan Programs	$ 1,654,477	$ 1,012,111
Payments to Employees	(850,061)	(769,813)
Payments of Benefits & Other Payroll Related Costs	(249,605)	(223,796)
Payments for Down Payment Assistance	(5,714,704)	(4,652,276)
Payments to Suppliers of Goods & Services	(924,692)	(981,682)
Net Cash Used By Operating Activities	(6,084,585)	(5,615,456)
Cash Flows from Non-Capital Financing Activities		
Proceeds from the Sale of Bonds	55,905,946	158,977,000
Proceeds from Bond Premiums	2,868,207	7,329,193
Proceeds from Deferred Servicing Fees on Bond Programs	893,344	2,208,576
Payments of Principal on Notes Payable	(15,616)	(14,658)
Payments of Interest on Notes Payable	(85,247)	(65,204)
Payments of Interest on Single Family Bond Program	(15,662,506)	(9,221,946)
Payments for Bond Issuance Costs	(942,552)	(2,077,134)
Payments of Principal related to Bond Maturities and Calls	(15,624,193)	(45,876,931)
Net Cash Provided By Non-Capital Financing Activities	27,337,383	111,258,896
Cash Flows from Capital and Related Financing Activities		
Payments for Additions to Fixed Assets	(23,157)	(11,849)
Net Cash Used for Capital and Related Financing Activities	(23,157)	(11,849)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income	15,872,238	11,208,684
Proceeds from Sale of Investments by Bond Trustee	136,413,502	149,343,320
Proceeds from Sale of Unrestricted Investments	8,294,178	9,347,204
Purchase of Investments by Bond Trustee	(173,257,479)	(264,306,674)
Purchase of Unrestricted Investments	(5,381,800)	(9,033,767)
Restricted Cash & Cash Equivalents Held by Bond Trustee	(161,275)	(1,688,193)
Net Cash Used By Investing Activities	(18,220,636)	(105,129,426)
Net Increase (Decrease) in Cash and Cash Equivalents	3,009,005	502,165
Cash and Cash Equivalents at Beginning of Year	1,504,521	1,002,356
Cash and Cash Equivalents at End of Year	$ 4,513,526	$ 1,504,521

The accompanying Notes to the Financial Statements are an integral part of this financial statement

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF CASH FLOWS - Continued
For the Year Ended August 31, 2008
with comparative amounts for the year ended August 31, 2007

	2008	2007
Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities		
Net Income from Operations	$ 153,255	$ (4,123,180)
Adjustments To Reconcile to Net Cash from Operations		
Recognition of Deferred Revenue	(2,360,526)	(1,784,355)
Depreciation and Amortization Expense	407,673	216,780
Unrealized (Gain) Loss on Investments	(2,324,116)	1,646,768
Operating Income and Cash Flow Categories - Classification Differences	-	(589,468)
Changes in Current Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(58,677)	206,072
Increase in Accrued Interest Receivable	(51,474)	(11,938)
Decrease in Loans Receivable	104,356	154,481
(Increase)/Decrease in Notes Receivable	(1,100,812)	161,487
Increase in Bond Issue Costs	(942,552)	(2,077,133)
Increase in Accounts Payable & Accrued Expenses	24,182	54,129
Increase in Accrued Interest Payable	92,941	494,262
Increase/(Decrease) in Other Assets & Liabilities, net	(28,835)	36,639
Net Cash Used by Operating Activities	$ (6,084,585)	$ (5,615,456)

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

ANNUAL FINANCIAL REPORT
AUGUST 31, 2008

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NOTE 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, is legally separate from the State of Texas and does not receive State appropriated funding. Under Government Accounting Standards Board ("GASB") Statement 14, *The Financial Reporting Entity*, the Corporation is a special purpose government and component unit of the State of Texas for financial reporting purposes.

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 - Upon dissolution of the Corporation, title to or other interest in real or personal property or rights thereto owned by the Corporation shall not be transferred to private ownership but shall be transferred and delivered to, and shall vest in, the Texas Department of Housing and Community Affairs (the "Department").

The Corporation is subject to Chapter 325 of the *Texas Government Code* (Texas Sunset Act). Unless continued in existence as provided by the Texas Sunset Act, the Corporation will be abolished effective September 1, 2009. See Note 18.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - The accompanying financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (the "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 Department's single-family mortgage revenue bond program issues 52, 53, and 54, and servicer of the Corporation's own portfolio of mortgage 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 – These operations are used to account for monitoring activities performed by the Corporation for multifamily bond properties for which the Department acted as issuer or the Corporation acted as conduit issuer. The Corporation receives an annual fee based on either the number of units serviced or a percentage of the outstanding bond balance.

Compliance – Multifamily mortgage revenue bonds for which the Corporation acts as a conduit issuer require monitoring in order to ensure that the borrower is in compliance with specific regulations for tax-exempt bonds.

Single Family Lending Operations

Single Family Bond 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

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – Continued

administers three separate single family bond programs: the Professional Educators Home Loan Program; the Fire Fighter, Law Enforcement or Security Officer, and Emergency Medical Services Personnel Home Loan Program (Homes for Texas Heroes Program); and the Home Sweet Texas Loan Program. In addition to the low interest rate, these programs offer down payment and closing cost assistance, up to 5% of the loan amount, in the form of a grant.

Multifamily Programs and Operations

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 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. See Note 16.

Multifamily Private Activity Bond Program – Under the Multifamily Private Activity Bond ("PAB") 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 2008 program year the amount available for issuance was approximately $45 million. The Corporation's Multifamily PAB 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 this program must provide a minimum number of affordable units.

Multifamily Direct Lending – The Multifamily Direct Lending 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.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – Continued

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 flow. The Corporation has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

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.

Marketing Costs – The Corporation expenses the cost of advertising and promotion as they are incurred.

Investments – The Corporation follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement No. 31 requires certain types of investments to be reported at fair value on the balance sheet. 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 ("GNMA/FNMA") has been estimated by each bond issues' trustee using a pricing service.

In accordance with GASB Statement No. 31, changes in the fair value of investments are reported in the statement of revenues, expenses and changes in net assets as net increase/(decrease) in 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 loss. Mortgage loans purchased by the Corporation are carried at the amortized cost of loans acquired, net of allowance for possible loan loss.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Notes Receivable – Notes receivable is comprised of loans made under the Multifamily Direct Lending Program, the Multifamily Private Activity Bond Program and the Single Family Interim Construction and Acquisition Program. 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 for possible loan losses 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 Issuance Costs –Capitalized bond issuance costs related to the Single Family Bond Programs totaled $5,659,837. Bond issuance costs are amortized over the life of the bonds (32 to 34 years). Prepayments on bonds result in the proportionate amortization during the current year of the remaining balance of capitalized bond issuance costs. Amortization expense for Fiscal Year 2008 totaled $284,019; accumulated amortization as of August 31, 2008 equaled $694,693.

Amortization of Bond Premium – The premiums related to the Single Family Bond Programs range from 104.00 to 109.54 and are amortized using the effective interest method. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of premiums on debt. Amortization of the bond premium for Fiscal Year 2008 totaled approximately $1,348,180; accumulated amortization as of August 31, 2008 equaled approximately $2,710,698.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Amortization of Purchase 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 2008 was $101,690; accumulated amortization as of August 31, 2008 equaled approximately $1,804,702.

Fixed Assets - All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Expenses for betterments that materially extend the useful life of an asset are capitalized at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, usually 3 to 5 years. The Corporation capitalizes fixed assets with a cost greater than $500 and a useful life of more than one year.

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 168 hours if employed less than two years, 232 hours if employed less than five years, and 256 if employed less than ten years, as compensation upon termination of employment. The total compensated absences accrued liability for the year ended August 31, 2008 was approximately $42,250.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling $190,666 for the benefit of two multifamily projects that are financed by the Corporation.

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.

Reclassifications – Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Comparative Financial Information – The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended August 31, 2007, from which the comparative information was derived.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2008 consist of bank deposits totaling $511,081, money market mutual funds totaling $78,957, deposits in the Federal Home Loan Bank totaling $13,965, and pooled investment funds totaling $3,909,523.

Restricted cash and cash equivalents at August 31, 2008 total $2,741,813 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains six custodial accounts with a combined total of $190,666 pledged as reserves on two multifamily projects. These funds are maintained in interest bearing demand accounts.

Investments

The Corporation's unrestricted investments consist of the following:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Federal Home Loan Bank Coupon Note - 05/05/09	2.625%	$ 500,000	$ 500,000	$ -
Certificate of Deposit - 09/26/08	2.180%	1,152,186	1,152,186	-
Total		$ 1,652,186	$ 1,652,186	$ -

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Corporation's investments held by the bond trustee are summarized as follows:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Short-Term Investments				
Guaranteed Investment Contract - 12/01/08	5.10%	$ 950,587	$ 950,587	$ -
Guaranteed Investment Contract – 06/01/09	4.83%	2,750,081	2,750,081	-
Guaranteed Investment Contract - 07/01/09	5.14%	1,462,763	1,462,763	-
Guaranteed Investment Contract - 12/01/08	4.93%	165,000	165,000	-
Guaranteed Investment Contract - 03/02/09	4.81%	2,770,888	2,770,888	-
Guaranteed Investment Contract - 09/01/11	3.84%	8,860,946	8,860,946	-
Total		$ 16,960,265	$ 16,960,265	$ -
Long-Term Investments				
Guaranteed Investment Contract - 03/01/34	4.80%	$ 67,695	$ 67,695	$ -
Guaranteed Investment Contract - 03/01/34	3.75%	276,732	276,732	-
Guaranteed Investment Contract - 03/01/34	3.41%	174,371	174,371	-
Guaranteed Investment Contract - 09/01/39	3.05%	894,557	894,557	-
Guaranteed Investment Contract - 09/01/39	3.83%	836,177	836,177	-
GNMA/FNMA Investments - 2032/2033	6.71%	830,248	872,522	42,274
GNMA/FNMA Investments - 2032/2033	6.02%	2,316,977	2,363,516	46,539
GNMA/FNMA Investments - 2032/2033	5.74%	2,216,104	2,237,343	21,240
GNMA/FNMA Investments - 2034	5.45%	2,534,327	2,517,082	(17,245)
GNMA/FNMA Investments - 2034	5.80%	1,720,789	1,732,582	11,794
GNMA/FNMA Investments - 2034	5.99%	5,787,872	5,878,070	90,198
GNMA/FNMA Investments - 2034	5.87%	2,713,682	2,740,704	27,022
GNMA/FNMA Investments - 2034	5.75%	2,949,782	2,960,985	11,203
GNMA/FNMA Investments - 2034/2035	5.49%	1,733,909	1,724,717	(9,192)
GNMA/FNMA Investments - 2035	5.60%	1,410,156	1,405,150	(5,006)
GNMA/FNMA Investments - 2035	5.45%	3,959,437	3,929,801	(29,636)
GNMA/FNMA Investments - 2035	5.40%	2,988,277	2,964,232	(24,045)
GNMA/FNMA Investments - 2035	5.39%	2,964,624	2,932,760	(31,864)
GNMA/FNMA Investments - 2035	5.34%	148,689	146,749	(1,940)

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

GNMA/FNMA Investments - 2035/2036	5.45%	21,600,870	21,425,451	(175,419)
GNMA/FNMA Investments - 2036	5.49%	17,448,560	17,331,539	(117,021)
GNMA/FNMA Investments - 2036	5.49%	21,709,685	21,561,593	(148,092)
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	21,025,729	20,998,491	(27,237)
GNMA/FNMA Investments - 2036/2037	5.75%	21,450,490	21,450,082	(408)
GNMA/FNMA Investments - 2037/2038	5.65%	33,740,711	33,565,895	(174,816)
GNMA/FNMA Investments – 2037/2038	5.75%	35,754,015	35,669,106	(84,909)
GNMA/FNMA Investments – 2037/2038	5.65%	22,582,771	22,444,530	(138,241)
GNMA/FNMA Investments – 2037/2038	6.10%	20,723,210	21,027,912	304,702
GNMA/FNMA Investments – 2037/2038	6.00%	20,919,206	21,181,806	262,600
Total		$ 273,479,652	$ 273,312,150	$ (167,499)

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

Single Family Mortgage Revenue Bonds Series 2002	$ 349,852
Single Family Mortgage Revenue Bonds Series 2004	1,735,109
Single Family Mortgage Revenue Bonds Series 2005A & B	2,276,278
Single Family Mortgage Revenue Bonds Series 2006A ,B & C	3,779,642
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D & Drawdown	7,467,536
	$ 15,608,417

The net increase in the fair value of investments held by the bond trustee totaled $2,324,116. The Corporation uses Government Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* GASB Statement 31 requires investments to be reported at fair value at the balance sheet 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 31 also affects the way in which unrealized gains and losses are recognized for financial reporting purposes.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Credit Risk

The primary stated objective of the Corporation's adopted 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, and non-rated SEC registered money market mutual funds. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the US Government, its agencies or instrumentalities.

State law and the Corporation's adopted Investment Policy restrict both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of one year. Collateral, with a 102% margin, is required and collateral is limited to obligations of the US Government, its agencies or instrumentalities. Independent safekeeping 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.

By adopted Policy and state law, repurchase agreements are limited to those with defined termination dates executed with a Texas bank or 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 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 Corporation's adopted Investment Policy restricts investment in SEC registered mutual funds to money market mutual funds striving to maintain a $1 net asset value and with a weighted average maturity of 90 days as further defined by State law. Neither the state law nor the Policy requires a rating.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

As of August 31, 2008,

- collateralized certificates of deposit represented 18.08% of the total portfolio,
- repurchase agreements represented 0.00% of the total portfolio,
- commercial paper represented 0.00% of the total portfolio,
- investment in an independent AAA-rated local government investment pool represented 61.34% of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 1.46 % of the total portfolio,
- funds invested in fully collateralized interest bearing accounts represented 11.27 % of the total portfolio, and
- holdings in US Government securities rated AAA represented 7.85% of the total 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 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 Policy are:

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

As of August 31, 2008 funds invested in fully collateralized interest bearing accounts represented 29.35% of the total portfolio.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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. Collateralized mortgage obligations have a stated maturity limitation of 10 years as set by state law. Certificates of deposit are restricted to a maturity of one year and commercial paper 90 days. The Policy sets a maximum weighted average maturity of six months.

As of August 31, 2008, the portfolio contained:

- no holding with a stated maturity date beyond nine months, and
- the dollar weighted average maturity of the total portfolio was 25 days.

As of August 31, 2008, the portfolio contained no securities or structured notes 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 require 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 FIRREA. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of August 31, 2008:

- the portfolio contained 18.08% in 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.

NOTE: 3 LOANS RECEIVABLE

Loans receivable are carried at the unpaid principal balance, net of loss allowances. A summary of loans receivable at August 31, 2008 is as follows:

Loans Receivable at September 1, 2007	$	1,567,167
Additions		-
Paydowns		(123,825)
Reduction due to Foreclosure and Short Sale		(10,531)
Loans Receivable at August 31, 2008		1,432,811
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2008	$	1,341,085

The current portion of loans receivable at August 31, 2008 is $56,222; the remaining balance of $1,284,863 is classified as noncurrent loans receivable.

The activity for allowance for loan losses for fiscal year 2008 is as follows:

Balance at September 1, 2007	$	(121,726)
Current Year Reduction		30,000
Loss Applied to the Allowance		-
Balance at August 31, 2008	$	(91,726)

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

NOTE 4: NOTES RECEIVABLE

Notes receivable is comprised of loans made under the Multifamily Direct Lending Program, the Multifamily Private Activity Bond Program and the Single Family Interim Construction and Acquisition Program. Notes are carried at the unpaid principal balance outstanding. Included in notes receivable are two notes totaling $1,350,709 which collateralize advances from Federal Home Loan Bank (See Note 10).

A summary of notes receivable at August 31, 2008 is as follows:

Balance at September 1, 2007	$ 1,868,336
Additions	1,122,963
Collections	(22,151)
Balance at August 31, 2008	$ 2,969,148

The current portion of notes receivable at August 31, 2008 is $54,402; the remaining balance of $2,914,746 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts.

NOTE 5: FIXED ASSETS

Fixed Assets held by the Corporation for 2008 consists of the following:

	COST OR BASIS OF PROPERTY			
	Balance September 1, 2007	Additions	Deletions	Balance August 31, 2008
Office Furniture & Equipment	$ 228,504	23,157	-	$ 251,661

NOTE 5: FIXED ASSETS - Continued

	ACCUMULATED DEPRECIATION			
	Balance September 1, 2007	Additions	Deletions	Balance August 31, 2008
Office Furniture & Equipment	$ 196,078	21,291	-	$ 217,369

Fixed Assets less accumulated depreciation at August 31, 2008 totaled $34,292.

NOTE 6: INCOME TAX STATUS

Texas State Affordable Housing Corporation, a nonprofit 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 nonprofit organization other than a private foundation.

NOTE 7: OPERATING LEASES & COMMITMENTS

Operating Leases

The Corporation leases office space under a 5 year lease agreement which calls for monthly lease payments of approximately $9,200. In addition, the Corporation pays a pro-rata share of the increase in building operating expenses. The corporation incurred rent expense of approximately $121,800 during Fiscal Year 2008 under this lease. This lease agreement expired on August 31, 2008.

The Corporation has entered into a six-month lease (through February 28, 2009) for office space at $5,463 per month inclusive of operating expenses.

The Corporation also leased certain office equipment under a five-year lease agreement which calls for monthly lease payments of $915 beginning September 2006.

NOTE 7: OPERATING LEASES & COMMITMENTS - Continued

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

Year Ended August 31,	Amount
2009	$ 43,758
2010	10,980
2011	10,980
2012	-
2013	-
Total Minimum Future Rental Payments	**$ 65,718**

Commitments

Prior to year end, the Corporation entered into an agreement to purchase an office building that will serve as the future headquarters of the Corporation. The agreement includes a purchase price of $1.1 million and expires on February 28, 2009. The Corporation paid $25,000 as an escrow deposit in July 2008 and is pursuing financing opportunities as of the date of these financial statements.

NOTE 8: MULTIFAMILY RESERVES & CUSTODIAL ACCOUNTS

The Corporation holds certain cash reserves for the benefit of two multifamily projects that were financed by the Corporation through the Multifamily Direct Lending Program (See Note 4).

Reserve activity for the year ended August 31, 2008 is as follows:

Balance at September 1, 2007	$ 170,966
Deposits	22,663
Disbursements	(2,963)
Balance at August 31, 2008	$ 190,666

NOTE 9: DEFERRED 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

NOTE 9: DEFERRED REVENUE – Continued

occurs as loans are repaid. Revenue recognized during Fiscal Year 2008 totaled approximately $46,444. The remaining deferred revenue for this portfolio is $384,559.

Deferred revenue also includes amounts that resulted from the sale of master servicer rights associated with the bond programs. Revenue is recognized as mortgage loans are pooled and mortgage backed securities are purchased. The balance of deferred revenue related to the bond programs is $120,785.

A summary of deferred revenue activity for fiscal year 2008 is as follows:

Balance at September 1, 2007	$	1,807,530
Additions		1,131,537
Revenue Earned		(2,360,526)
Foreclosed Loans		-
Loan Payments Received		(46,444)
Balance at August 31, 2008	$	532,097

NOTE 10: NOTES PAYABLE

During Fiscal Year 2004 the Corporation provided permanent financing for: (1) the new construction of a 60-unit multifamily affordable housing development in Brady, Texas in the amount of $875,000; and, (2) the new construction of a 44-unit multifamily affordable housing development in Stephenville, Texas in the amount of $550,000. The Corporation used unrestricted assets to fund 25% of each loan. Advances from Federal Home Loan Bank ("FHLB") funded the remaining 75% resulting in two notes payable by the Corporation totaling $1,068,750 at 6.345% with a 30 year amortization and 20 year term (balloon payment). The unpaid balance of the FHLB advances at August 31, 2008 was $1,003,999. FHLB advances are collateralized by the related notes receivable which totaled $1,350,709 as of August 31, 2008 (See Note 4).

In May 2006 the Corporation entered into an agreement with Wells Fargo Community Development Corporation and received a loan in the amount of $1,050,000. Loan funds are to be used to fund an Interim Construction Loan Program, Multifamily Gap Financing Program and Down Payment Assistance Program. The loan is to be repaid in 10 years at 2% interest.

NOTE 10: NOTES PAYABLE - Continued

The summary of notes payable for the year ended August 31, 2008 is as follows:

Balance at September 1, 2007	$	2,069,615
Advances		-
Repayments		(15,616)
Balance at August 31, 2008	$	2,053,999

The current portion of notes payable at August 31, 2008 is $16,636; the remaining balance of $2,037,363 is classified as noncurrent notes payable.

The debt service requirements on long-term borrowings (i.e. notes payable) for the next five years and thereafter are as follows:

2009	$	101,263
2010		101,261
2011		101,259
2012		101,255
2013		101,251
Thereafter		2,727,511
Total		3,233,800
Less Interest		(1,179,801)
Outstanding Debt Obligations	$	2,053,999

NOTE 11: BONDED INDEBTEDNESS

The Corporation had twenty-four (24) bond series outstanding as of August 31, 2008. 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.

NOTE 11: BONDED INDEBTEDNESS – Continued

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, 2008.

A summary of deferred bond issuance costs for fiscal year 2008 follows:

Bonds Costs of Issuance

	Balance 09/01/2007	Additions	Deletions	Balance 08/31/2008
2002	$ 346,253	$ -	$ -	346,253
2004	696,959	29,184	-	726,143
2005A	406,314	-	-	406,314
2005B	366,103	-	-	366,103
2006A	414,140	-	-	414,140
2006B	410,922	-	-	410,922
2006C	410,551	500	-	411,051
2007A-1	672,658	1,500	-	674,158
2007A-3	578,644	-	-	578,644
2007C	414,742	-	-	414,742
2007B	-	414,761	-	414,761
Drawdown	-	81,500	-	81,500
2007D	-	415,107	-	415,107
	$ 4,717,286	$ 942,552	$ -	$ 5,659,838

Amortization of Bond Costs of Issuance

	Balance 09/01/2007	Additions	Deletions	Balance 08/31/2008
2002	$ 225,141	$ 10,748	$ -	$ 235,889
2004	156,034	48,324	-	233,543
2005A	8,006	25,202	-	33,208
2005B	4,719	34,729	-	39,448
2006A	7,136	27,234	-	34,370
2006B	4,457	38,293	-	42,750
2006C	4,638	33,158	-	37,796
2007A-1	544	8,289	-	8,833
2007A-3	-	5,966	-	5,966
2007C	-	16,182	-	16,182
2007B	-	4,675	-	4,675
2007D	-	2,034	-	2,034
	$ 410,675	$ 254,834	$ -	$ 694,694

NOTE 11: BONDED INDEBTEDNESS – Continued

CHANGES IN BONDS PAYABLE

Description	Interest Rate	Bonds Outstanding 9/1/07	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/08	Amounts Due Within One Year
Single Family 2002							
Series 2002	Variable	-	-	-	-	-	-
Series 2002-1	6.01%-7.10%	$ 1,210,000	-	$ 190,000	-	$ 1,020,000	$ 5,000
Series 2002-2	5.64%-6.20%	2,405,000	-	215,000	-	2,190,000	20,000
Series 2002-3	5.65%-5.70%	2,420,000	-	130,000	-	2,290,000	30,000
Single Family 2004							
Series 2004A	1.62%	-	-	-	-	-	-
Series 2004-B1	5.40%	2,998,809	-	462,822	-	2,535,987	24,281
Series 2004-B2	5.75%	1,895,853	-	172,323	-	1,723,530	15,406
Series 2004-B3	5.95%	6,609,381	-	816,514	-	5,792,867	49,880
Series 2004-B4	5.80%	3,321,376	-	502,187	-	2,819,189	24,433
Series 2004-B5	5.65%	3,601,191	-	648,974	-	2,952,217	25,925
Series 2004-B6	5.45%	1,769,548	-	32,765	-	1,736,783	15,812
Series 2004-B7	5.55%	1,623,254	-	212,188	-	1,411,066	12,382
Series 2004-B8	5.30%	4,264,357	-	301,388	-	3,962,969	35,206
Series 2004-B9	5.30%	3,240,704	-	249,399	-	2,991,305	26,293
Series 2004-B10	5.25%	3,649,217	-	532,248	-	3,116,969	27,286
Single Family 2005							
Series 2005A	Variable	23,450,000	-	1,485,000	-	21,965,000	275,000
Series 2005B	Variable	19,745,000	-	1,900,000	-	17,845,000	195,000
Single Family 2006							
Series 2006A	Variable	23,398,792	-	1,565,723	-	21,833,069	183,369
Series 2006B	Variable	23,383,625	-	2,203,004	-	21,180,621	169,855
Series 2006C	5.30%	23,382,818	-	1,907,429	-	21,475,389	162,995
Single Family 2007							
Series 2007A-1	5.50%	34,971,710	-	430,294	-	34,541,416	261,962
Series 2007A-3	5.60%	37,235,000	-	383,927	-	36,851,073	267,747
Series 2007C	5.45%	23,529,000	-	918,008	-	22,610,992	170,426
Series 2007B	6.10%	-	23,510,000	265,000	-	23,245,000	156,354
Drawdown Program	Variable	-	8,860,946	-	-	8,860,946	8,860,946
Series 2007D	6.00%	-	23,535,000	100,000	-	23,435,000	297,422
Total Principal		$ 248,104,635	$ 55,905,946	$ 15,624,193	-	$ 288,386,388	$ 11,312,980
Unamortized Premium		13,052,353				14,572,380	
		$ 261,156,988				$ 302,958,768	

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2008 is $11,312,980; the remaining balance of $277,073,408 is classified as noncurrent bonds payable.

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

Year Ended August 31	Principal	Interest	Total
2009	11,312,980	10,748,634	22,061,613
2010	3,772,973	15,203,598	18,976,571
2011	4,000,052	14,997,057	18,997,109
2012	4,255,428	14,776,937	19,032,365
2013	4,524,956	14,541,652	19,066,608
2014 thru 2018	26,410,077	68,641,963	95,052,040
2019 thru 2023	36,404,601	60,245,070	96,649,671
2024 thru 2028	51,104,920	48,291,103	99,396,023
2029 thru 2033	70,957,931	31,648,198	102,606,130
2034 thru 2038	70,757,470	9,943,886	80,701,356
2039 thru 2043	4,885,000	279,205	5,164,205
Total	$ 288,386,388	$289,317,304	$ 577,703,692

The sources of pledged revenue to pay the principal and interest on the bonds come from the collected principal and interest from the Ginnie Mae, Freddie Mac and Fannie Mae mortgage-backed securities as well as reserves set up at the bond closing. For fiscal year 2008, the debt service requirement was $15,624,194 in bond principal and $15,571,940 in bond interest expense, totaling $31,196,134. During that period, the amount of pledged revenues and other sources totaled $34,155,416.

NOTE 12: 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 a grant. Grants are made in amounts equal to approximately 5% of the home purchase price. For fiscal year 2008, down payment assistance provided to home buyers was $5,714,704.

NOTE 13: RELATED PARTY TRANSACTIONS

On April 1, 2006, the Corporation entered into an agreement to act as Asset Oversight Agent for each of the Department's multifamily bond properties. Per the agreement, the Corporation agreed to remit to the Department a $3 administration fee per $25 asset oversight fee collected, payable each January 15th for collections in the previous calendar year. Administrative fees totaling approximately $26,900 are included in Accounts Payable on the Statement of Net Assets.

NOTE 14: EMPLOYEE BENEFITS

The Corporation is a co-employer with Administaff, a Professional Employer Organization (PEO) that serves as an off-site, payroll and human resources department. Administaff maintains the Corporation's employee benefits programs including a 401(k) retirement plan.

The 401(k) retirement plan is a defined contribution plan under which 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 contributions for the year ended August 31, 2008, were approximately $85,000. Employee and employer contributions totaled approximately $61,000 and $24,000 respectively.

NOTE 15: 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 Multifamily Private Activity Bond ("PAB") Program, the Corporation administers 10 percent or approximately $45 million of the State's volume cap allocation of private activity bonds for multifamily residential rental housing each year.

NOTE 15: CONDUIT DEBT - Continued

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, 2008, there were twenty-two series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $329 million.

NOTE 16: RISK FINANCING AND RELATED INSURANCE 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.

NOTE 17: SUBSEQUENT EVENTS

Subsequent to year end the Corporation made a decision to cancel the Single Family Drawdown Program. All outstanding bonds in the Drawdown Program are expected to be redeemed prior to January 1, 2009.

NOTE 18: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2009 unless continued in existence as provided by the Act. If abolished, the Corporation may continue until September 1, 2010 to close out its operations.

The Texas Sunset Commission has recommended that the Corporation's sunset date be extended to September 1, 2015. This recommendation will be voted on during the 81st Legislative Session as part of the recurring Sunset Bill.

NOTE 19: 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, 2008 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	$ 22,726,120
Depreciation and Amortization	407,673
Net Income	153,255
Net Working Capital*	13,096,876
Total Assets	310,712,960
Total Net Assets	2,341,183
Noncurrent Notes Payable	2,037,363
Noncurrent Bonds Payable	291,645,788
Deferred Revenue	532,097
Multifamily Custodial & Reserve Accounts	190,666
Fixed Asset Additions	23,158

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	$ 4,513,526
Restricted Assets Held by Bond Trustee	20,249,336
Investments	1,652,186
Accounts Receivable & Accrued Revenue	410,644
Accrued Interest Receivable	100,664
Loans Receivable, Current Portion	56,222
Notes Receivable, Current Portion	54,402
Prepaid Expenses	25,759
Payables:	
Accounts & Accrued Expenses	(144,064)
Current Portion of Notes	(16,636)
Other Current Liabilities	(200,159)
Current Portion of Bonds & Accrued Interest	(13,605,004)
	$ 13,096,876

SUPPLEMENTAL INFORMATION

MIKESKA MONAHAN & PECKHAM PC
CERTIFIED PUBLIC ACCOUNTANTS
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Austin, Texas 78701

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Texas State Affordable Housing Corporation

We have audited the financial statements of Texas State Affordable Housing Corporation as of and for the year ended August 31, 2008, and have issued our report thereon dated December 12, 2008. 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.

Internal Control over Financial Reporting
In planning and performing our audit, we considered Texas State Affordable Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 Texas State Affordable Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Texas State Affordable Housing Corporation's financial statements are free of 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.*

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Mikeska Monahan & Peckham, PC

Austin, Texas
December 12, 2008

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2008

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified not considered to be a material weakness?	None reported
Noncompliance material to the financial statements noted?	No

B. FINANCIAL STATEMENT FINDINGS

None.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2008

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

B. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.