TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2009

With
Independent Auditor's Report

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
August 31, 2009

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2009

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, 2009. 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 decreased approximately $11.6 million and total liabilities decreased approximately $35 million.

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending August 31, 2009 by approximately $25,985,630. Of this amount, $8,095,061 may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $476,668 is invested in capital assets.

- The Corporation's total net assets increased during fiscal year 2009 by approximately $23.6 million.

- 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 $12.9 million.

- In 2009, the Corporation changed its method of accounting for the cost of the Down Payment Assistance Program (DPA Program). The Corporation has determined that the DPA Program should be recorded as an interest-free loan to the home buyer that will be repaid to the Corporation thorough the higher interest rate charged by the mortgage. The amount of interest collected that was treated as repayment of Down Payment Assistance in the current year was $1,664,240.

- On December 31, 2008, the Corporation closed on the purchase of a building to serve as their headquarters. The building currently houses the Corporation and one tenant.

- Total operating revenues for fiscal year 2009 were approximately $28.4 million and operating expenditures were approximately $17 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

	2009	2008	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Cash & Cash Equivalents	$ 6,670,635	$ 7,255,339	$ (584,704)	(8.06)%
Investments	269,895,401	291,924,601	(22,029,200)	(7.55%)
Accounts Receivable	300,565	410,644	(110,079)	(26.81%)
Accrued Interest Receivable	550,943	647,922	(96,979)	(14.97%)
Loans Receivable	1,253,124	1,341,085	(87,961)	(6.56%)
Notes Receivable	2,780,410	2,969,148	(188,738)	(6.36%)
Prepaid Expenses	27,000	25,759	1,241	4.82%
Mortgage Servicing Rights	837,381	923,360	(85,979)	(9.31%)
Fixed Assets	1,360,442	34,292	1,326,150	3867.23%
Custodial Cash & Cash Equivalents	202,049	190,666	11,383	5.97%
Bond Issuance Costs	4,444,691	4,965,144	(520,453)	(10.48%)
Other Deposits		25,000	(25,000)	(100.00%)
Down Payment Assistance	10,736,860	0	10,736,860	
Total Assets	$ 299,059,501	$ 310,712,960	$ (11,653,459)	(3.75%)

	2009	2008	Increase (Decrease) Amount	Percentage
LIABILITIES:				
Accounts Payable & Accrued Expenses	$ 239,233	$ 144,064	$ 95,169	66.06
Notes Payable	2,846,917	2,053,999	792,918	38.60%
Revenue Bonds Payable	267,110,706	302,958,768	(35,848,062)	(11.83%)
Accrued Interest	2,051,917	2,292,024	(240,107)	(10.48%)
Multifamily Custodial & Reserve Funds	202,049	190,666	11,383	5.97%
Deferred Revenue	433,308	532,097	(98,789)	(18.57%)
Other Liabilities	189,741	200,159	(10,418)	(5.20%)
Total Liabilities	$ 273,073,871	$ 308,371,777	$ (35,297,906)	(11.45%)
NET ASSETS:				
Invested in Capital Assets	476,668	34,292	442,376	1290.03%
Restricted Net Assets	17,413,901	0	17,413,901	
Unrestricted Net Assets	8,095,061	2,306,891	5,788,170	250.91%
Total Net Assets	$ 25,985,630	$ 2,341,183	$ 23,644,447	

Net assets increased from $2,341,183 to $25,985,630 in fiscal year 2009. Of the total net assets, $476,668 is invested in capital assets. Restricted assets totaled $17,413,901, and the remaining balance of $8,095,061 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 $310 million to $299 million during fiscal year 2009. The largest single factor contributing to this decrease was the repayment of bonded indebtedness.

The Corporation's current assets totaled $13,720,806 while current liabilities totaled $4,929,244.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $265,914,412; down payment assistance of $9,201,207; capitalized bond issuance costs of $4,444,691; the Corporation's loan portfolio equaling $1,158,124; notes receivable of $2,220,390; custodial cash and cash equivalents of $202,049 and purchased mortgage servicing rights totaling $837,381. The Corporation's capital assets, consisting of furniture, equipment and leasehold improvements total only $1,360,442, net of accumulated depreciation.

Noncurrent liabilities consist of bonds payable totaling $264,703,353; deferred revenue of $433,308; notes payable of $2,805,917 and custodial reserve funds totaling $202,049.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2009	2008	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Interest and investment income	$ 14,024,462	$ 15,965,929	$ (1,941,467)	(12.16%)
Net increase/(decrease) in fair value	12,896,646	2,324,116	10,572,530	454.91%
Single Family Program Issuer and Servicing Fees	157,492	2,373,135	(2,215,643)	(93.36%)
Asset Oversight and Compliance Fees, net	632,175	1,055,503	(-423,328)	(40.11%)
Loan Servicing Fees, net	291,834	370,898	(79,064)	(21.32%)
Multifamily Bond Fees	109,593	75,885	33,708	44.42%
Fundraising & Grants	351,052	160,000	(191,052)	119.41%
Other Operating Revenue	0	400,654	(400,654)	(100%)
Total Income	$ 28,463,254	$ 22,726,120	$ 5,237,134	
EXPENSES:				
Interest Expense on Bonds and Notes Payable	$ 13,177,755	$ 14,407,267	$ (1,229,512)	(8.53%)
Down Payment Assistance Program	0	5,714,704	(5,481,616)	(95.92%)
Salaries, Wages, and Payroll Related Costs	1,303,004	1,103,615	199,389	18.07%
Professional Fees and Services	367,523	358,524	8,999	2.51%
Amortization	524,932	385,708	139,224	36.10%
Office and Equipment Rental and Maintenance	108,814	142,704	(33,890)	(23.75%)
Travel and Meals	59,020	65,935	(6,915)	(10.49%)
Nonperforming Loans	500,000	0	-	-
Depreciation	33,361	21,965	12,186	55.48%
Program and Loan Administration	292,752	165,877	343,787	207.25%
Grants to Others	450,000	0	-	-
Other Operating Expenses	169,658	206,566	(37,698)	(18.25%)
Total Expenses	$ 16,986,819	$ 22,572,865	$ (5,586,046)	(24.75%)
Operating Gain/(Loss)	11,476,435	153,255	11,323,180	7388.46%
Beginning Net Assets	14,509,195	2,187,928	12,321,267	563.15%
Ending Net Assets	$ 25,985,630	$ 2,341,183	$ 23,644,447	1009.94%

The Corporation reported $28.4 million in operating revenues during fiscal year 2009. Interest and Investment Income totaling $14,024,462 along with the Increase in Fair Value of Investments of $12,896,646, constitutes the largest source of income contributing 94.58% to total operating revenue for fiscal year 2009.

In 2009, the Corporation changed its method of accounting for the cost of the Down Payment Assistance Program (DPA Program). The Corporation has determined that the DPA Program should be recorded as an interest-free loan to the home buyer that will be repaid to the Corporation through the higher interest rate charged by the mortgage. The amount of interest collected that was treated as repayment of Down Payment Assistance in the current year was $1,664,240.

Net Asset Oversight and Compliance Fees totaled $632,175 and represented 0.22% of operating revenue for fiscal year 2009. 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 $291,834 in revenue, reported net of subservicer fees of $115,443.

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 $136,718. Single Family Mortgage Credit Certificate Fees totaled $20,774 for fiscal year 2009. Together these fees totaled $157,492 and represent 0.56% of total operating revenues.

Multifamily Bond Fees contributed only $109,593 or 0.39% of total operating revenues for fiscal year 2009. 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.

Operating expenses for the year totaled $17 million. The four largest expenses for fiscal year 2009 were Interest Expense on Bonds and Notes Payable (77.58%); Salaries, Wages and Payroll Related Expenses (7.67%); Amortization (3.09%); and Grants to Others (2.65%). The Corporation recorded a net income for fiscal year 2009 of $11,476,435.

BOND PROGRAM DEBT

During fiscal year 2009 the Corporation issued $0 in single family mortgage revenue bonds. Single Family debt retirements totaled approximately $35 million. Overall bonds payable decreased from $303 million to $267 million during the year. Bond payable within one year total $2.4 million. The Corporation issued no multifamily bond debt during the year.

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.

CONTINUANCE SUBJECT TO REVIEW

During the July 2009 special legislative session, the Corporation was granted a 2-year extension and will undergo a limited Sunset review in 2010.

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 Blvd, Austin, Texas 78702, 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, 2009, 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.

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, 2009, 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.

As discussed in Note 20 to the financial statements, the Corporation changed the method used to account for the cost of the down payment assistance program that is part of its Single Family Bond Program.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, 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, PC

Austin, Texas
December 11, 2009

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS
As of August 31, 2009

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,914,126
Restricted Assets Held by Bond Trustee:		
Cash and Cash Equivalents		4,757,499
Accrued Interest		473,063
Investments, at Fair Market Value		3,980,000
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $1,049,171		300,565
Accrued Interest Receivable		77,880
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		560,020
Down Payment Assistance, Current Portion		1,535,653
Prepaid Expenses		27,000
Total Current Assets		13,720,806
Noncurrent Assets:		
Loans Receivable, Net of uncollectible amounts of $91,726		1,158,124
Notes Receivable, Net of uncollectible amounts of $500,000		2,220,390
Mortgage Servicing Rights, Net of Accumulated Amortization of $1,890,680		837,380
Fixed Assets, Net of Accumulated Depreciation of $250,730		1,360,442
Custodial Cash and Cash Equivalents		202,049
Bond Issuance Costs, Net of Amortization of $1,133,647		4,444,691
Down Payment Assistance		9,201,207
Restricted Investments Held by Bond Trustee, at Fair Market Value		265,914,412
Total Noncurrent Assets		285,338,695
TOTAL ASSETS	$	**299,059,501**
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$	239,233
Notes Payable, Current Portion		41,000
Other Current Liabilities		189,741
Payable from Restricted Assets Held by Bond Trustee:		
Bonds Payable, Current Portion		2,407,353
Accrued Interest on Bonds		2,051,917
Total Current Liabilities		4,929,244
Noncurrent Liabilities:		
Multifamily Custodial and Reserve Funds		202,049
Notes Payable, Net of Current Portion		2,805,917
Revenue Bonds Payable, Net of Current Portion		264,703,353
Deferred Revenue		433,308
Total Noncurrent Liabilities		268,144,627
Total Liabilities		273,073,871
Net Assets:		
Invested in Capital Assets		476,668
Restricted Net Assets		17,413,901
Unrestricted Net Assets		8,095,061
Total Net Assets		25,985,630
TOTAL LIABILITIES & NET ASSETS	$	**299,059,501**

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 Period Ending August 31, 2009

Operating Revenues		
Interest and Investment Income, Net of $70,000 uncollectible interest	$	14,024,462
Net Increase in Fair Value of Investments		12,896,646
Single Family Program Issuer and Servicing Fees		157,492
Asset Oversight and Compliance Fees, Net of Bad Debt Expense of $310,004		632,175
Loan Servicing Fees, Net of subservicer fees of $115,443		291,834
Multifamily Bond Fees		109,593
Fundraising Income		351,052
Total Operating Revenues		28,463,254
Operating Expenses		
Interest Expense on Bonds and Notes Payable		13,177,755
Salaries, Wages and Payroll Related Costs		1,303,004
Professional Fees and Services		367,523
Amortization		524,932
Office and Equipment Rental and Maintenance		108,814
Travel and Meals		59,020
Nonperforming Loans		500,000
Depreciation		33,361
Program and Loan Administration		292,752
Grants to Others		450,000
Other Operating Expenses		169,658
Total Operating Expenses		16,986,819
Net Income		11,476,435
Total Net Assets, Beginning, Restated		14,509,195
Total Net Assets, Ending	$	25,985,630

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, 2009

Cash Flows from Operating Activities	
Receipts from Customers & Users	$ 2,162,037
Payments to Employees	(981,784)
Payments of Benefits & Other Payroll Related Costs	(308,645)
Payments to Suppliers of Goods & Services	(1,038,196)
Net Cash Used By Operating Activities	(166,588)
Cash Flows from Non-Capital Financing Activities	
Proceeds from the Sale of Bonds	1,539,406
Payments of Principal on Notes Payable	(16,636)
Payments of Interest on Notes Payable	(113,560)
Payments of Interest on Single Family Bond Program	(15,124,354)
Payments of Principal related to Bond Maturities and Calls	(35,453,008)
Payment of Bond Premium	(110,275)
Net Cash Used By Non-Capital Financing Activities	(49,278,427)
Cash Flows from Capital and Related Financing Activities	
Payments for Additions to Fixed Assets	(461,083)
Payments of Principal on Capital Acquisition Note Payable	(15,447)
Net Cash Used for Capital and Related Financing Activities	(476,530)
Cash Flows from Investing Activities	
Proceeds from Interest and Investment Income	15,676,874
Proceeds from Sale of Investments by Bond Trustee	36,539,643
Proceeds from Sale of Unrestricted Investments	6,203,786
Purchase of Investments by Bond Trustee	(4,661,760)
Purchase of Unrestricted Investments	(8,452,084)
Restricted Cash & Cash Equivalents Held by Bond Trustee	2,015,686
Net Cash Provided By Investing Activities	47,322,145
Net Increase (Decrease) in Cash and Cash Equivalents	(2,599,400)
Cash and Cash Equivalents at Beginning of Year	4,513,526
Cash and Cash Equivalents at End of Year	$ 1,914,126

Noncash Capital Financing Activities

A capital asset of $825,000 was acquired using long-term borrowings.

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, 2009

Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities

Net Income from Operations	$ 11,476,435
Adjustments To Reconcile to Net Cash from Operations:	
Recognition of Deferred Revenue	(190,622)
Depreciation and Amortization Expense	558,293
Unrealized Gain on Investments	(12,896,646)
Operating Income and Cash Flow Categories - Classification Differences	526,487
Changes in Current Assets and Liabilities:	
Decrease in Accounts Receivable	110,079
Decrease in Accrued Interest Receivable	22,784
Decrease in Loans Receivable	87,961
Decrease in Notes Receivable	188,738
Decrease in Bond Issue Costs	81,500
Increase in Accounts Payable & Accrued Expenses	95,169
Decrease in Accrued Interest Payable	(240,107)
Increase/(Decrease) in Other Assets & Liabilities, net	13,341
Net Cash Used by Operating Activities	$ (166,588)

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

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2009

INDEX FOR THE NOTES TO THE FINANCIAL STATEMENTS

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, 2011.

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 asset oversight 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.

Effective March 2009, the Corporation's contract to perform asset oversight monitoring for the Department was terminated.

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.

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

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 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. The Corporation's Single Family Bond 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. No bonds were issued under this program during 2009.

During Fiscal Year 2009, the Corporation implemented a Mortgage Credit Certificate (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 $2000, each year that they occupy the home as their principal residence.

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 15.

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 2009 program year the amount available for issuance was approximately $48 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,

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

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.

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.

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

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.

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.

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

Amortization of Bond Issuance Costs –Capitalized bond issuance costs related to the Single Family Bond Programs totaled $5,578,338. 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 2009 totaled $438,953; accumulated amortization as of August 31, 2009 equaled $1,133,647.

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 2009 totaled approximately $1,823,193; accumulated amortization as of August 31, 2009 equaled approximately $4,533,892.

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 2009 was $85,978; accumulated amortization as of August 31, 2009 equaled approximately $1,890,680.

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. 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 37.5 years. The Corporation capitalizes fixed assets with a cost greater than $500 and a useful life of more than one year.

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

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, 2009 was approximately $53,635.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling $202,049 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.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2009 consist of bank deposits totaling $714,992, deposits in the Federal Home Loan Bank totaling $34,102, and pooled investment funds totaling $1,165,032.

Restricted cash and cash equivalents at August 31, 2009 total $4,757,499 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains six custodial accounts with a combined total of $202,049 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)
Certificate of Deposit - 7/29/10	1.850%	$ 245,000	$ 245,000	$ -
Certificate of Deposit - 7/27/10	1.100%	1,000,000	1,000,000	-
Federal Home Loan Bank Coupon Bond - 6/10/11	1.000%	1,000,000	1,000,000	-
Certificate of Deposit - 2/20/10	1.600%	1,000,000	1,000,000	-
Certificate of Deposit - 3/27/10	2.300%	245,000	245,000	-
Certificate of Deposit - 10/10/09	1.750%	95,000	95,000	-
Certificate of Deposit - 10/10/09	1.750%	95,000	95,000	-
Certificate of Deposit - 10/10/09	1.750%	55,000	55,000	-
Certificate of Deposit - 2/2/10	1.850%	245,000	245,000	-
Total		$ 3,980,000	$ 3,980,000	$ -

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Guaranteed Investment Contract - 03/01/34	4.80%	$ 255,405	$ 255,405	$ -
Guaranteed Investment Contract - 03/01/34	3.75%	160,781	160,781	-
Guaranteed Investment Contract - 03/01/34	3.41%	80,877	80,877	-
Guaranteed Investment Contract - 09/01/39	3.05%	1,135,918	1,135,918	-
Guaranteed Investment Contract - 09/01/39	3.83%	663,536	663,536	-
GNMA/FNMA Investments - 2032/2033	6.71%	547,737	597,873	50,136
GNMA/FNMA Investments - 2032/2033	6.02%	1,884,360	2,009,259	124,899
GNMA/FNMA Investments - 2032/2033	5.74%	1,998,133	2,116,096	117,963
GNMA/FNMA Investments - 2034	5.45%	2,104,723	2,210,669	105,946
GNMA/FNMA Investments - 2034	5.80%	1,392,557	1,474,408	81,851
GNMA/FNMA Investments - 2034	5.99%	5,253,892	5,582,247	328,355
GNMA/FNMA Investments - 2034	5.87%	2,577,295	2,732,010	154,715
GNMA/FNMA Investments - 2034	5.75%	2,335,518	2,464,978	129,460
GNMA/FNMA Investments - 2034/2035	5.49%	1,577,980	1,657,748	79,768
GNMA/FNMA Investments - 2035	5.60%	1,261,064	1,325,921	64,857
GNMA/FNMA Investments - 2035	5.45%	3,674,049	3,855,612	181,563
GNMA/FNMA Investments - 2035	5.44%	2,663,619	2,794,501	130,882
GNMA/FNMA Investments - 2035	5.39%	2,712,296	2,841,768	129,472
GNMA/FNMA Investments - 2035	5.34%	145,362	152,267	6,905
GNMA/FNMA Investments - 2035/2036	5.45%	19,029,045	19,953,195	924,150
GNMA/FNMA Investments - 2036	5.49%	15,576,902	16,335,890	758,988
GNMA/FNMA Investments - 2036	5.49%	19,849,076	20,812,832	963,756
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	18,066,274	18,976,035	909,761
GNMA/FNMA Investments - 2036/2037	5.75%	19,211,158	20,181,587	970,429
GNMA/FNMA Investments - 2037/2038	5.65%	32,352,112	33,890,092	1,537,980
GNMA/FNMA Investments – 2037/2038	5.75%	34,123,808	35,786,999	1,663,191
GNMA/FNMA Investments – 2037/2038	5.65%	20,601,781	21,567,976	966,195
GNMA/FNMA Investments – 2037/2038	6.10%	20,768,553	21,921,660	1,153,107
GNMA/FNMA Investments – 2037/2038	6.00%	21,181,457	22,376,272	1,194,815
Total		$ 253,185,268	$ 265,914,412	$ 12,729,144

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

Single Family Mortgage Revenue Bonds Series 2002	$	306,373
Single Family Mortgage Revenue Bonds Series 2004		1,566,889
Single Family Mortgage Revenue Bonds Series 2005A & B		2,076,810
Single Family Mortgage Revenue Bonds Series 2006A ,B & C		3,462,500
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D & Drawdown		7,998,438
Less interest reclassified to payback of Down Payment Assistance		(1,664,240)
	$	13,746,770

The net increase in the fair value of investments held by the bond trustee totaled $12,896,646. 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.

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 (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. Collateral, with a 102% margin, is required and collateral is limited to obligations of the US

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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.

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, 2009,

- collateralized certificates of deposit represented 52.02% 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 20.34% of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 0.00 % of the total portfolio,
- funds invested in fully collateralized or insured interest bearing accounts represented 10.18 % of the total portfolio, and
- holdings in US Government securities rated AAA represented 17.46% of the total portfolio.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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	45%
By Institution	25%
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, 2009 collateralized or insured certificates of deposit represented 52.02% of the total portfolio. At the time the certificates of deposits were placed, the percentage allocation was within the limits of the Investment Policy. Funds invested in fully collateralized or insured interest bearing accounts represented 10.18% of the total portfolio.

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, 2009, the portfolio contained:

- no holding with a stated maturity date beyond twelve months, and
- the dollar weighted average maturity of the total portfolio was 228 days.

As of August 31, 2009, the portfolio contained one security or structured note which might be affected by interest rate risk.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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 US Financial Institutions Resource and Recovery Enforcement Act (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, 2009:

- the portfolio contained 52.02% 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, 2009 is as follows:

Loans Receivable at September 1, 2008	$	1,432,810
Additions		-
Paydowns		(71,109)
Reduction due to Foreclosure and Short Sale		(16,852)
Loans Receivable at August 31, 2009		1,344,849
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2009	$	1,253,124

The current portion of loans receivable at August 31, 2009 is $95,000; the remaining balance of $1,158,124 is classified as noncurrent loans receivable.

NOTE: 3 LOANS RECEIVABLE - Continued

The activity for allowance for loan losses for fiscal year 2009 is as follows:

Balance at September 1, 2008	$	(91,726)
Current Year Reduction		-
Loss Applied to the Allowance		-
Balance at August 31, 2009	$	(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 $1,331,724 which collateralize advances from Federal Home Loan Bank See Note 10.

A summary of notes receivable at August 31, 2009 is as follows:

Balance at September 1, 2008	$	2,969,148
Additions		349,084
Collections		(37,822)
Provision for loan loss		(500,000)
Balance at August 31, 2009	$	2,780,410

The current portion of notes receivable at August 31, 2009 is $560,020; the remaining balance of $2,220,390 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 2009 consists of the following:

	COST OR BASIS OF PROPERTY			
	Balance September 1, 2008	**Additions**	**Deletions**	**Balance August 31, 2009**
Building - 2200 E. MLK JR	$ -	$ 1,102,085	-	$1,102,085
Land - 2200 E. MLK JR	-	232,241	-	232,241
Office Furniture & & Furniture	251,661	25,185	-	276,846
Total	$ 251,661	$ 1,359,511	$ -	$1,611,172

	September 1, 2008	**Additions**	**Deletions**	**August 31, 2009**
Building - 2200 E. MLK JR	$ -	$ 15,560	$ -	$ 15,560
Land - 2200 E. MLK JR	-	-	-	-
Office Furniture & & Furniture	217,369	17,801	-	235,170
	$ 217,369	$ 33,361	$ -	$ 250,730

Fixed Assets less accumulated depreciation at August 31, 2009 totaled $1,360,442.

The Corporation purchased an office building for $1,100,000 in December 2008. The building is located at 2200 East Martin Luther King Jr. Blvd. in Austin, Texas and will serve as the Corporation's permanent headquarters. See Note 10.

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

During the year the Corporation leased office space at $5,463 per month inclusive of operating expenses. This lease expired on August 31, 2009. Total rent expense was $67,194, which included a $1,644 pass-thru amount due to a former landlord.

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

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

Year Ended August 31,	Amount
2010	$ 10,980
2011	10,980
2012	-
2013	-
2014	-
Total Minimum Future Rental Payments	**$ 21,960**

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, 2009 is as follows:

Balance at September 1, 2008	$ 190,666
Deposits	21,831
Disbursements	(10,448)
Balance at August 31, 2009	$ 202,049

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 occurs as loans are repaid. Revenue recognized during Fiscal Year 2009 totaled approximately $15,152. The remaining deferred revenue for this portfolio is $369,407.

Two properties, Marshall Meadows and Rainbow Housing, prepay their Issuer Fees and they are recognized throughout the year. As of August 31, 2009 Deferred Revenue related to these properties totaled $63,901

A summary of deferred revenue activity for fiscal year 2009 is as follows:

Balance at September 1, 2008	$	532,097
Additions		106,985
Revenue Earned		(190,622)
Foreclosed Loans		-
Loan Payments Received		(15,152)
Balance at August 31, 2009	$	433,308

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, 2009 was $987,363. FHLB advances are collateralized by the related notes receivable which totaled $1,331,724 as of August 31, 2009. See Note 4.

NOTE 10: NOTES PAYABLE - Continued

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 were 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.

The Corporation purchased an office building for $1,100,000 in December 2008 paying $275,000 in cash and financing the balance of $825,000 with a promissory note payable to Plains Capital Bank. The note is amortized over 20 years and is payable in 119 monthly payments of $5,903 at 5.9% interest, plus a final payment of the unpaid balance on December 31, 2018. See Note 5.

The summary of notes payable for the year ended August 31, 2009 is as follows:

Balance at September 1, 2008	$	2,053,999
Advances		825,000
Repayments		(32,082)
Balance at August 31, 2009	$	2,846,917

The current portion of notes payable at August 31, 2009 is $41,000; the remaining balance of $2,805,917 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:

Year Ended August 31	Principal	Interest	Total
2010	40,022	131,786	171,808
2011	43,283	128,414	171,697
2012	45,889	125,808	171,697
2013	48,915	122,783	171,698
2014	52,005	119,694	171,699
2015 thru 2019	1,868,970	454,234	2,323,204
2020 thru 2024	747,833	181,791	929,624
Total	$ 2,846,917	$ 1,264,510	$ 4,111,427

NOTE 11: BONDED INDEBTEDNESS

The Corporation had twenty-three (23) bond series outstanding as of August 31, 2009. 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, 2009.

A summary of deferred bond issuance costs for fiscal year 2009 follows:

Bonds Costs of Issuance

	Balance 09/01/2008	Additions	Deletions	Balance 08/31/2009
2002	346,253	$ -	$ -	346,253
2004	726,143	-	-	726,143
2005A	406,314	-	-	406,314
2005B	366,103	-	-	366,103
2006A	414,140	-	-	414,140
2006B	410,922	-	-	410,922
2006C	411,051	-	-	411,051
2007A-1	674,158	-	-	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
	$ 5,659,838	-	$ 81,500	$ 5,578,338

NOTE 11: BONDED INDEBTEDNESS - Continued

Amortization of Bond Costs of Issuance

	Balance 09/01/2008	Additions	Deletions	Balance 08/31/2009
2002	$ 235,889	$ 16,417	$ -	$ 252,306
2004	233,543	53,155	-	286,698
2005A	33,208	37,795	-	71,003
2005B	39,448	32,400	-	71,848
2006A	34,370	29,646	-	64,016
2006B	42,750	48,777	-	91,527
2006C	37,796	35,431	-	73,227
2007A-1	8,833	38,272	-	47,105
2007A-3	5,966	39,871	-	45,837
2007C	16,182	33,107	-	49,289
2007B	4,675	36,254	-	40,929
2007D	2,034	37,828	-	39,862
	$ 694,694	$ 438,953	$ -	$ 1,133,647

NOTE 11: BONDED INDEBTEDNESS - Continued

Changes in Bonds Payable

Description	Interest Rate	Bonds Outstanding 9/1/08	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/09	Amounts Due Within One Year
Single Family 2002							
Series 2002	Variable	-	-	-	-	-	-
Series 2002-1	6.01%-7.10%	$1,020,000	-	$210,000	-	$ 810,000	$ 0
Series 2002-2	5.64%-6.20%	2,190,000	-	415,000	-	1,775,000	20,000
Series 2002-3	5.65%-5.70%	2,290,000	-	195,000	-	2,095,000	30,000
Single Family 2004							
Series 2004A	1.62%	-	-	-	-	-	-
Series 2004-B1	5.40%	2,535,987	-	429,778	-	2,106,209	21,761
Series 2004-B2	5.75%	1,723,530	-	253,447	-	1,470,083	14,213
Series 2004-B3	5.95%	5,792,867	-	532,544	-	5,260,323	49,058
Series 2004-B4	5.80%	2,819,189	-	239,140	-	2,580,049	24,191
Series 2004-B5	5.65%	2,952,217	-	489,072	-	2,463,145	23,378
Series 2004-B6	5.45%	1,736,783	-	157,432	-	1,579,351	15,510
Series 2004-B7	5.55%	1,411,066	-	149,316	-	1,261,750	11,948
Series 2004-B8	5.30%	3,962,969	-	285,250	-	3,677,719	34,212
Series 2004-B9	5.30%	2,991,305	-	324,672	-	2,666,633	25,143
Series 2004-B10	5.25%	3,116,969	-	255,274	-	2,861,695	26,098
Single Family 2005							
Series 2005A	Variable	21,965,000	-	2,225,000	-	19,740,000	280,000
Series 2005B	Variable	17,845,000	-	1,770,000	-	16,075,000	210,000
Single Family 2006							
Series 2006A	Variable	21,833,069	-	1,704,366	-	20,128,703	182,119
Series 2006B	Variable	21,180,621	-	2,806,087	-	18,374,534	155,858
Series 2006C	5.30%	21,475,389	-	2,039,060	-	19,436,329	159,105
Single Family 2007							
Series 2007A-1	5.50%	34,541,416	-	1,914,370	-	32,627,046	267,883
Series 2007A-3	5.60%	36,851,072	-	2,565,625	-	34,285,447	268,517
Series 2007C	5.45%	22,610,992	-	1,878,213	-	20,732,779	168,359
Series 2007B	6.10%	23,245,000	-	2,055,000	-	21,190,000	150,000
Drawdown Program	Variable	8,860,946	1,539,406	-	10,400,352	-	-
Series 2007D	6.00%	23,435,000	-	2,160,000	-	21,275,000	270,000
Total Principal		$288,386,387	$1,539,406	$25,053,646	$ 10,400,352	$254,471,795	$2,407,353
Unamortized Premium		14,572,380				12,638,911	
		$302,958,767				$267,110,706	

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2009 is $2,407,353; the remaining balance of $264,703,353 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
2010	2,407,353	9,560,452	11,967,805
2011	3,734,861	13,834,215	17,569,076
2012	3,974,384	13,625,207	17,599,591
2013	4,207,148	13,407,688	17,614,836
2014	4,473,759	13,178,741	17,652,500
2015 thru 2019	25,440,418	61,943,194	87,383,612
2020 thru 2024	34,340,617	53,914,218	88,254,835
2025 thru 2029	49,952,009	42,461,248	92,413,257
2030 thru 2034	70,735,581	25,884,398	96,619,979
2035 thru 2039	52,995,547	6,073,085	59,068,632
2040 thru 2044	2,210,118	58,388	2,268,506
Total	$ 254,471,795	$ 253,940,834	$ 508,412,629

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 2009, the debt service requirement was $35,453,998 in bond principal and $15,395,133 in bond interest expense, totaling $50,849,131. During that period, the amount of pledged revenues and other sources totaled $53,808,413.

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 an interest-free forgivable loan that is 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.

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 payable as of August, 31 2009 totaled $27,700. This contract was terminated in March 2009 and as of August 31, 2009 all services have been provided. Net revenues under that program totaled approximately $565,000 for fiscal year 2009.

NOTE 14: RESTRICTED GRANT INCOME

During Fiscal Year 2009 the Corporation received a $250,000 grant from the Meadows Foundation. This grant was restricted by the donor specifically for use by the Foreclosure Prevention Task Force. As of August 31, 2009 $250,000 is included in Restricted Net Assets on the Statement of Net Assets.

NOTE 15: 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, 2009, were approximately $102,000. Employee and employer contributions totaled approximately $75,000 and $27,000 respectively.

NOTE 16: 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

NOTE 16: CONDUIT DEBT - Continued

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 $48 million of the State's volume cap allocation of private activity bonds for multifamily residential rental housing each year.

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, 2009, there were nineteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $314 million. No bonds were issued during fiscal year 2009.

NOTE 17: 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 18: SUBSEQUENT EVENTS

The Corporation has entered into a Commitment Agreement to loan the Mary Lee Foundation, a Texas nonprofit corporation, $1.2 million to facilitate the construction of a 64-Unit affordable multifamily housing development in Austin, Texas known as the Willows Apartments. The Corporation intends to finance the loan by borrowing approximately $725,000 from Federal Home Loan Bank and contributing approximately $475,000 from unrestricted cash reserves.

Subsequent to year end the Corporation entered into an agreement with the Texas Department of Housing and Community Affairs to receive approximately $5 million in grant funds under the Neighborhood Stabilization Program, under the Housing and Economic Recovery Act of 2008. Allowable activities under this grant include the acquisition and disposition of foreclosed homes or residential

NOTE 18: SUBSEQUENT EVENTS - Continued

properties. Subsequent to year end the Corporation purchased a foreclosed property located in Alamo, Texas for approximately $60,000.

The board has approved a resolution to proceed with the 2009 Single Family Bond Program, which includes a $1.2 million commitment of unrestricted funds into the transaction from the Corporation.

NOTE 19: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2011 unless continued in existence as provided by the Act. During the July 2009 special legislative session, the Corporation was granted a 2-year extension and will undergo a limited Sunset review in 2010. If abolished, the Corporation may continue until September 1, 2012 to close out its operations.

NOTE 20: RESTATEMENT – CHANGE IN ACCOUNTING METHOD

During the current year, the Corporation changed its method of accounting for the cost of the Down Payment Assistance Program ("DPA Program"). The DPA Program was developed as part of the Single Family Bond program to provide assistance to qualified home buyers toward their closing costs and/or down payment. The amount of assistance varied by bond issue, but was approximately 5% of the amount borrowed. In prior years, the Corporation expensed the cost of the DPA programs as it was incurred. The Corporation has determined that the DPA Program should be recorded as an interest-free loan to the home buyer that will be repaid to the Corporation through the higher interest rate charged by the mortgage (and on the mortgage-backed securities received in exchange for the mortgage). Accordingly, the beginning Unrestricted Net Assets at September 1, 2008 have been restated as follows:

Unrestricted Net Assets at September 1, 2008	$2,306,891
Net effect of change in accounting method	12,168,012
Restated Unrestricted Net Assets at September 1, 2008	$14,474,903

The net effect on 2009 operations is to reduce interest income by approximately $1,664,000 with a corresponding decrease in the DPA loan receivable.

NOTE 20: RESTATEMENT – CHANGE IN ACCOUNTING METHOD - Continued

The Corporation believes that this change will more accurately match the cost of the DPA Program with the additional proceeds generated by the mortgages (and the underlying mortgage-backed securities) created under the program.

NOTE 21: 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, 2009 and for the year then ended is as follows:

Summary Financial Information		Amount
Operating Revenue	$	28,463,254
Depreciation and Amortization		559,083
Net Income		11,476,435
Net Working Capital*		8,791,562
Total Assets		299,059,501
Total Net Assets		25,985,630
Noncurrent Notes Payable		2,805,917
Noncurrent Bonds Payable		264,703,353
Deferred Revenue		433,308
Multifamily Custodial & Reserve Accounts		202,049
Fixed Asset Additions		1,359,511

NOTE 21: SEGMENT INFORMATION - Continued

* Net Working Capital Calculation		Amount
Unrestricted Cash and Cash Equivalents	$	1,913,136
Restricted Assets Held by Bond Trustee		5,230,562
Investments		3,980,990
Accounts Receivable & Accrued Revenue		300,565
Accrued Interest Receivable		77,880
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		560,020
Downpayment Assistance, Current Portion		1,535,653
Prepaid Expenses		27,000
Payables:		
Accounts & Accrued Expenses		(239,233)
Current Portion of Notes		(41,000)
Other Current Liabilities		(189,741)
Current Portion of Bonds & Accrued Interest		(4,459,270)
	$	8,791,562

SUPPLEMENTAL INFORMATION

MIKESKA MONAHAN & PECKHAM PC
CERTIFIED PUBLIC ACCOUNTANTS
100 Congress Avenue, Suite 990
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, 2009, and have issued our report thereon dated December 11, 2009. 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 11, 2009

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2009

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, 2009

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

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

None.