TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2010

With
Independent Auditor's Report

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
August 31, 2010

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2010

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, 2010. 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 increased approximately $38.6 million and total liabilities increased approximately $35.7 million.

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending August 31, 2010 by approximately $28,840,927. Of this amount, $6,960,904 may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $681,978 is invested in capital assets.

- The Corporation's total net assets increased during fiscal year 2010 by approximately $3 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 $4.7 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 $1,459,362.

- Total operating revenues for fiscal year 2010 were approximately $20 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

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Cash & Cash Equivalents	$ 79,258,535	$ 6,670,635	$ 72,587,900	1088.17%
Investments	236,169,290	269,895,401	(33,726,111)	(12.50%)
Accounts Receivable	963,712	300,565	663,147	220.63%
Accrued Interest Receivable	633,141	550,943	82,198	16.20%
Loans Receivable	1,166,282	1,253,124	(86,842)	(6.93%)
Notes Receivable	2,750,581	2,780,410	(29,829)	(1.07%)
Prepaid Expenses	23,666	27,000	(3,334)	(12.35%)
Mortgage Servicing Rights	744,581	837,381	(92,800)	(11.08%)
Fixed Assets	1,471,498	1,360,442	111,056	8.16%
Owned Real Estate, Federal Programs	892,715	0	892,715	
Custodial Cash & Cash Equivalents	210,152	202,049	8,103	4.01%
Bond Issuance Costs	4,158,585	4,444,691	(286,106)	(6.44%)
Down Payment Assistance	9,208,229	10,736,860	(1,528,631)	(14.24%)
Total Assets	$ 337,650,967	$ 299,059,501	$ 38,591,466	12.90%

	2010	2009	Increase (Decrease) Amount	Percentage
LIABILITIES:				
Accounts Payable & Accrued Expenses	$ 370,366	$ 239,233	$ 131,133	54.81%
Notes Payable	4,261,875	2,846,917	1,414,958	49.70%
Revenue Bonds Payable	301,769,238	267,110,706	34,658,532	12.98%
Accrued Interest	1,775,232	2,051,917	(276,685)	(13.48%)
Multifamily Custodial & Reserve Funds	210,242	202,049	8,193	4.05%
Deferred Revenue	388,371	433,308	(44,937)	(10.37%)
Other Liabilities	34,716	189,741	(155,025)	(81.70%)
Total Liabilities	$ 308,810,040	$ 273,073,871	$ 35,736,169	13.09%
NET ASSETS:				
Invested in Capital Assets	681,978	476,668	205,310	43.07%
Restricted Net Assets	21,198,045	17,413,901	3,784,144	21.73%
Unrestricted Net Assets	6,960,904	8,095,061	(1,134,157)	(14.01%)
Total Net Assets	$ 28,840,927	$ 25,985,630	$ 2,895,297	11.14%

Net assets increased from $25,985,630 to $28,840,927 in fiscal year 2010. Of the total net assets, $681,978 is invested in capital assets. Restricted assets totaled $21,198,045, and the remaining balance of $6,960,904 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 $299 million to $338 million during fiscal year 2010. The largest single factor contributing to this increase was the issuance of the 2009 Single Family bonds.

The Corporation's current assets totaled $88,764,757 while current liabilities totaled $5,283,891.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $231,214,392; down payment assistance of $7,825,159; capitalized bond issuance costs of $4,158,585; the Corporation's loan portfolio equaling $1,071,282; notes receivable of $2,190,561; custodial cash and cash equivalents of $210,152 and purchased mortgage servicing rights totaling $744,581. The Corporation's capital assets, consisting of furniture, equipment and leasehold improvements total only $1,471,498, net of accumulated depreciation.

Noncurrent liabilities consist of bonds payable totaling $299,661,659; deferred revenue of $388,371; notes payable of $3,265,877 and custodial reserve funds totaling $210,242.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Interest and investment income	$ 12,203,775	$ 14,024,462	$ (1,820,687)	-12.98%
Net increase/(decrease) in fair value	4,653,221	12,896,646	(8,243,425)	-63.92%
Single Family Program Issuer and Servicing Fees	326,853	157,492	169,361	107.54%
Asset Oversight and Compliance Fees, net	503,739	632,175	(128,436)	-20.32%
Loan Servicing Fees, net	244,127	291,834	(47,707)	-16.35%
Multifamily Bond Fees	76,112	109,593	(33,481)	-30.55%
Fundraising & Grants	1,878,592	351,052	1,527,540	435.13%
Other Operating Revenue	190,311	0	190,311	
Total Income	$ 20,076,730	$ 28,463,254	$ (8,386,524)	-29.46%
EXPENSES:				
Interest Expense on Bonds and Notes Payable	$ 11,852,258	$ 13,177,755	$ (1,325,497)	-10.06%
Down Payment Assistance Program	377,394	0	377,394	
Salaries, Wages, and Payroll Related Costs	1,330,316	1,303,004	27,312	2.10%
Professional Fees and Services	227,736	367,523	(139,787)	-38.03%
Amortization	751,805	524,932	226,873	43.22%
Office and Equipment Rental and Maintenance	41,616	108,814	(67,198)	-61.75%
Travel and Meals	43,218	59,020	(15,802)	-26.77%
Nonperforming Loans	0	500,000	(500,000)	-100.00%
Depreciation	48,038	33,361	14,677	43.99%
Program and Loan Administration	204,874	292,752	(87,878)	-30.02%
Grants to Others	200,000	450,000	(250,000)	-55.56%
Grant Expenditures	1,978,491		1,978,491	
Other Operating Expenses	165,687	169,658	(3,971)	-2.34%
Total Expenses	$ 17,221,433	$ 16,986,819	$ 234,614	1.38%
Operating Gain/(Loss)	2,855,297	11,476,435	(8,621,138)	-75.12%
Beginning Net Assets	25,985,630	14,509,195	11,476,435	79.10%
Ending Net Assets	$ 28,840,927	$ 25,985,630	$ 2,855,297	10.99%

The Corporation reported $20 million in operating revenues during fiscal year 2010. Interest and Investment Income totaling $12,203,775 along with the Increase in Fair Value of Investments of $4,653,221, constitutes the largest source of income contributing 83.96% to total operating revenue for fiscal year 2010.

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 $1,459,362.

Net Asset Oversight and Compliance Fees totaled $503,739 and represented 2.51% of operating revenue for fiscal year 2010. 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 $244,127 in revenue, reported net of subservicer fees of $108,657.

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 $15,000. Single Family Mortgage Credit Certificate Fees totaled $311,853 for fiscal year 2010. Together these fees totaled $326,853 and represent 1.63% of total operating revenues.

Multifamily Bond Fees contributed only $76,112 or 0.38% of total operating revenues for fiscal year 2010. 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 2010 were Interest Expense on Bonds and Notes Payable (68.82%); Grant Expenditures (11.49%): Salaries, Wages and Payroll Related Expenses (7.72%); and Amortization (4.37%). The Corporation recorded a net income for fiscal year 2010 of $2,855,297.

BOND PROGRAM DEBT

During fiscal year 2010 the Corporation issued $73,640,000 in single family mortgage revenue bonds. Single Family debt retirements totaled approximately $37.8 million. Overall bonds payable increased from $267 million to $302 million during the year. Bonds payable within one year totaled $2.1 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

Under the Texas Sunset Act, the Corporation will be abolished effective September 1, 2011 unless continued in existence as provided by the Act. The Corporation's Sunset Staff Report dated November 2010 recommended that the Corporation be continued until September 1, 2017.

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, 2010, 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, 2010, 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 17, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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 17, 2010

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS
As of August 31, 2010

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	2,616,380
Restricted Assets Held by Bond Trustee:		
Cash and Cash Equivalents		76,642,155
Short-term Investments, at Fair Market Value		2,467,328
Accrued Interest		517,792
Investments, at Fair Market Value		2,487,570
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $1,001,518		963,712
Accrued Interest Receivable		115,349
Owned Real Estate, Federal Programs		892,715
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		560,020
Downpayment Assistance, Current Portion		1,383,070
Prepaid Expenses		23,666
Total Current Assets:		88,764,757
Noncurrent Assets		
Loans Receivable, Net of uncollectible amounts of $91,726		1,071,282
Notes Receivable		2,190,561
Mortgage Servicing Rights, Net of Accumulated Amortization of $1,983,481		744,581
Fixed Assets, Net of Accumulated Depreciation of $298,768		1,471,497
Custodial Cash and Cash Equivalents		210,152
Bond Issuance Costs, Net of Amortization of $1,792,652		4,158,585
Downpayment Assistance		7,825,160
Restricted Investments Held by Bond Trustee, at Fair Market Value		231,214,392
Total Noncurrent Assets:		248,886,210
TOTAL ASSETS:	$	**337,650,967**
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses	$	370,366
Notes Payable, Current Portion		103,283
Other Current Liabilities		34,716
Due to State Agency, Federal Programs		892,715
Payable from Restricted Assets Held by Bond Trustee:		
Bonds Payable, Current Portion		2,107,579
Accrued Interest on Bonds		1,775,232
Total Current Liabilities:		5,283,891
Noncurrent Liabilities		
Multifamily Custodial and Reserve Funds		210,242
Notes Payable		3,265,877
Revenue Bonds Payable		299,661,659
Deferred Revenue		388,371
Total Noncurrent Liabilities:		303,526,149
Total Liabilities:		308,810,040
Net Assets		
Invested in Capital Assets		681,978
Restricted Assets		21,198,045
Unrestricted Net Assets		6,960,904
Total Net Assets:		28,840,927
TOTAL LIABILITIES & NET ASSETS	$	**337,650,967**

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, 2010

Operating Revenues		
Interest and Investment Income	$	12,203,775
Net Increase in Fair Value of Investments		4,653,221
Single Family Program Issuer and Servicing Fees, Net of bad debt of $69,268		326,853
Asset Oversight and Compliance Fees, Net of bad debt of $38,350		503,739
Loan Servicing Fees, Net of subservicer fees of $108,657 and bad debt of $11,010		244,127
Multifamily Bond Fees		76,112
Federal and State Grants		1,623,399
Fundraising Income		255,193
Other Operating Revenue		190,311
Total Operating Revenues	$	20,076,730
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	11,852,258
Down Payment Assistance Program		377,394
Salaries, Wages and Payroll Related Costs		1,330,316
Professional Fees and Services		227,736
Amortization		751,805
Office and Equipment Rental and Maintenance		41,616
Travel and Meals		43,218
Depreciation		48,038
Program and Loan Administration		204,874
Foundation Fund Grants		200,000
Grant Expenditures		1,978,491
Other Operating Expenses		165,687
Total Operating Expenses		17,221,433
Net Income		2,855,297
Total Net Assets, Beginning		25,985,630
Total Net Assets, Ending	$	28,840,927

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, 2010

Cash Flows from Operating Activities		
Receipts from Customers & Users	$	2,426,486
Payments to Employees		(979,041)
Payments of Benefits & Other Payroll Related Costs		(337,545)
Payments to Suppliers of Goods & Services		(736,684)
Net Cash Provided By Operating Activities		373,216
Cash Flows from Non-Capital Financing Activities		
Proceeds from the Sale of Bonds		73,640,000
Proceeds from Notes Payable		1,001,215
Payments of Principal on Notes Payable		(17,723)
Payments of Interest on Notes Payable		(128,038)
Payments of Interest on Single Family Bond Program		(11,133,525)
Payments of Principal related to Bond Maturities and Calls		(37,801,890)
Net Cash Provided By Non-Capital Financing Activities		25,560,039
Cash Flows from Capital and Related Financing Activities		
Payments for Additions to Fixed Assets		(159,094)
Payments for Additions to Owned Real Estate		(501,215)
Payments of Principal on Capital Acquisition Note Payable		(20,034)
Net Cash Used for Capital and Related Financing Activities		(680,343)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income		13,515,233
Proceeds from Sale and Maturities of Investments by Bond Trustee		40,764,720
Proceeds from Sale of Unrestricted Investments		3,980,000
Purchase of Investments by Bond Trustee		(152,208,945)
Purchase of Unrestricted Investments		(2,486,322)
Restricted Cash & Cash Equivalents Held by Bond Trustee		71,884,656
Net Cash Used For Investing Activities		(24,550,658)
Net Increase in Cash and Cash Equivalents		702,254
Cash and Cash Equivalents at Beginning of Year		1,914,126
Cash and Cash Equivalents at End of Year	$	2,616,380

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, 2010

Reconciliation of Operating Income to Net Cash Provided By Operating Activities

Net Income from Operations	$	2,855,297
Adjustments To Reconcile to Net Cash from Operations:		
Depreciation and Amortization Expense		1,979,421
Unrealized Gain on Investments		(4,653,221)
Amortization of Down Payment Assistance		1,528,630
Provision for Estimated Losses		48,000
Changes in Current Assets and Liabilities:		
Increase in Accounts Receivable		(663,147)
Increase in Accrued Interest Receivable		(38,717)
Decrease in Loans Receivable		86,842
Decrease in Notes Receivable		29,829
Increase in Bond Issue Costs		(372,899)
Increase in Accounts Payable & Accrued Expenses		91,133
Decrease in Accrued Interest Payable		(276,685)
Increase (Decrease) in Other Assets & Liabilities, net		(241,267)
Net Cash Provided By Operating Activities	$	373,216

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, 2010

INDEX TO THE NOTES TO THE FINANCIAL STATMENTS

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.

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.

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 2010 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 $5,951,236. 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 2010 totaled $659,005; accumulated amortization as of August 31, 2010 equaled $1,792,652.

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 2010 totaled approximately $1,184,985; accumulated amortization as of August 31, 2010 equaled approximately $5,718,877.

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 2010 was $92,800; accumulated amortization as of August 31, 2010 equaled approximately $1,983,481.

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 180 hours if employed less than two years, 244 hours if employed less than five years, and 268 if employed less than ten years, as compensation upon termination of employment. The total compensated absences accrued liability for the year ended August 31, 2010 was approximately $38,100.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling $210,152 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, 2010 consist of bank deposits totaling $2,272,450, deposits in the Federal Home Loan Bank totaling $21,845, and pooled investment funds totaling $322,085.

Restricted cash and cash equivalents at August 31, 2010 total $76,642,155 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains six custodial accounts with a combined total of $210,152 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 - 1/21/11	1.110%	$ 248,376	$ 248,376	$ -
Certificate of Deposit - 3/25/11	1.500%	245,000	245,000	-
Certificate of Deposit - 12/2/10	1.000%	248,821	248,821	-
Certificate of Deposit - 10/14/10	1.600%	55,000	55,000	-
Certificate of Deposit - 10/14/10	1.600%	95,000	95,000	-
Certificate of Deposit - 10/14/10	1.600%	95,000	95,000	-
Federal Home Loan Bank Coupon Bond - 5/17/12	0.550%	499,875	500,145	270
Federal Home Loan Bank Coupon Bond - 4/12/12	1.470%	999,250	1,000,228	978
				-
Total		$ 2,486,322	$ 2,487,570	$ 1,248

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%	$ 192,812	$ 192,812	$ -
Guaranteed Investment Contract - 03/01/34	3.75%	149,047	149,047	-
Guaranteed Investment Contract - 03/01/34	3.41%	80,957	80,957	-
Guaranteed Investment Contract - 09/01/39	3.05%	973,502	973,502	-
Guaranteed Investment Contract - 09/01/39	3.83%	1,071,009	1,071,009	-
GNMA/FNMA Investments - 2032/2033	6.71%	386,397	439,553	53,156
GNMA/FNMA Investments - 2032/2033	6.02%	1,791,780	1,973,619	181,839
GNMA/FNMA Investments - 2032/2033	5.74%	1,727,680	1,890,931	163,251
GNMA/FNMA Investments - 2034	5.45%	1,712,688	1,859,127	146,439
GNMA/FNMA Investments - 2034	5.80%	1,158,589	1,267,924	109,335
GNMA/FNMA Investments - 2034	5.99%	4,535,495	4,976,655	441,160
GNMA/FNMA Investments - 2034	5.87%	2,016,625	2,209,052	192,427
GNMA/FNMA Investments - 2034	5.75%	1,987,694	2,168,721	181,027
GNMA/FNMA Investments - 2034/2035	5.49%	1,344,992	1,460,406	115,414
GNMA/FNMA Investments - 2035	5.60%	1,009,823	1,099,313	89,490
GNMA/FNMA Investments - 2035	5.45%	3,273,324	3,550,147	276,823
GNMA/FNMA Investments - 2035	5.44%	1,815,330	1,967,917	152,587
GNMA/FNMA Investments - 2035	5.39%	2,232,767	2,419,267	186,500
GNMA/FNMA Investments - 2035	5.34%	141,834	153,018	11,184
GNMA/FNMA Investments - 2035/2036	5.45%	17,002,283	18,405,136	1,402,853
GNMA/FNMA Investments - 2036	5.49%	13,574,216	14,690,204	1,115,988
GNMA/FNMA Investments – 2036	5.49%	17,127,486	18,532,616	1,405,130
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	14,343,726	15,500,498	1,156,772
GNMA/FNMA Investments - 2036/2037	5.75%	14,648,797	15,821,578	1,172,781
GNMA/FNMA Investments - 2037/2038	5.65%	29,260,003	31,485,548	2,225,545
GNMA/FNMA Investments – 2037/2038	5.75%	29,889,712	32,191,873	2,302,161
GNMA/FNMA Investments – 2037/2038	5.65%	18,486,796	19,884,717	1,397,921
GNMA/FNMA Investments – 2037/2038	6.10%	17,635,331	19,069,562	1,434,231
GNMA/FNMA Investments – 2037/2038	6.00%	16,728,659	18,197,010	1,468,351
Total		$ 216,299,354	$ 233,681,719	$ 17,382,365

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	$	240,918
Single Family Mortgage Revenue Bonds Series 2004		1,326,618
Single Family Mortgage Revenue Bonds Series 2005A & B		1,758,026
Single Family Mortgage Revenue Bonds Series 2006A ,B & C		2,881,903
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D		7,000,687
Less interest reclassified to payback of Down Payment Assistance		(1,459,362)
	$	11,748,790

The net increase in the fair value of investments held by the bond trustee totaled $4,653,221. 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 Texas State Affordable Housing 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 restricts both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the State of Texas and further requires full insurance and/or collateralization from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of one year. Collateral, with a 102% margin, is required and collateral is limited

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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 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 WAM 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, 2010:

- Collateralized or insured certificates of deposit represented 18.49% 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 6.03% of the total portfolio,
- holdings in AAA-rated money market funds represented 38.14% of the total portfolio,
- funds invested in fully collateralized or insured interest bearing accounts represented 9.23% of the total portfolio,
- and holding in US Government securities rated AAA represented 28.11% 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	60%
By Institution	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper	30%
By Issuer	10%
Local Government Stable Net Asset Value Pools	75%
Banking Accounts	80%

As of August 31, 2010 collateralized or insured certificates of deposit represented 18.49% of the total portfolio. At the time the certificates of deposits were placed, the percentage allocation was within limits of the Investment Policy. Funds invested in fully collateralized or insured interest bearing accounts represented 47.37% of the total portfolio.

Concentration of Credit Risk – Funding

Approximately 8.1% of the Corporation's revenues were received under federal grants passed through other sources. These grants have certain compliance requirements and, should audits by the grantor agencies disclose any areas of substantial noncompliance, the agency may be required to refund any disallowed costs.

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. Certificates of deposit are restricted to a maturity of one (1) year and commercial paper 90 days. The Policy sets a maximum weighted average maturity of six (6) months.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

As of August 31, 2010, the portfolio contained:

- no holding with a stated maturity date beyond 21 months (May, 2012), and
- the dollar weighted average maturity of the total portfolio was 192 days.

As of August 31, 2010, the portfolio contained two 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 requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Corporation and held in the Corporation's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA1. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis

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Portfolio disclosure as of August 31, 2010:

- the portfolio contained 18.49% 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, 2010 is as follows:

Loans Receivable at September 1, 2009	$	1,344,850
Additions		-
Paydowns		(75,833)
Reduction due to Foreclosure and Short Sale		(11,010)
Loans Receivable at August 31, 2010		1,258,008
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2010	$	1,166,282

The current portion of loans receivable at August 31, 2010 is $95,000; the remaining balance of $1,071,282 is classified as noncurrent loans receivable.

The activity for allowance for loan losses for fiscal year 2010 is as follows:

Balance at September 1, 2009	$	(91,726)
Current Year Reduction		-
Loss Applied to the Allowance		-
Balance at August 31, 2010	$	(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 $1,311,278 which collateralize advances from Federal Home Loan Bank See Note 10.

A summary of notes receivable at August 31, 2010 is as follows:

Balance at September 1, 2009	$ 2,780,410
Additions	10,700
Collections	(40,529)
Provision for loan loss	-
Balance at August 31, 2010	$ 2,750,581

The current portion of notes receivable at August 31, 2010 is $560,020; the remaining balance of $2,190,561 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts. See Note 24.

NOTE 5: FIXED ASSETS

Fixed Assets held by the Corporation for FY 2010 consists of the following:

	COST OR BASIS OF PROPERTY			
	Balance September 1, 2009	Additions	Deletions	Balance August 31, 2010
Building - 2200 E. MLK JR	$1,102,085	$ 146,136	-	$1,248,221
Land - 2200 E. MLK JR	232,241	-	-	232,241
Office Furniture & Fixtures	276,846	12,958	-	289,804
Total	$1,611,172	$ 159,094	$ -	$1,770,266

	ACCUMULATED DEPRECIATION			
	Balance September 1, 2009	Additions	Deletions	Balance August 31, 2010
Building - 2200 E. MLK JR	$ 15,560	$ 31,320	$ -	$ 46,880
Land - 2200 E. MLK JR	-	-	-	-
Office Furniture & Fixtures	235,170	16,718	-	251,888
	$ 250,730	$ 48,038	$ -	$ 298,768

Fixed Assets less accumulated depreciation at August 31, 2010 totaled $1,471,498.

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 serves 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

Operating Leases

The Corporation 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**
2011	$ 10,980
2012	-
2013	-
2014	-
2015	-
Total Minimum Future Rental Payments	**$ 10,980**

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, 2010 is as follows:

Balance at September 1, 2009	$ 202,049
Deposits	21,283
Disbursements	(13,180)
Balance at August 31, 2010	$ 210,152

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 2010 totaled approximately $14,320. The remaining deferred revenue for this portfolio is $355,087.

Two properties, Marshall Meadows and Rainbow Housing, prepay their Issuer Fees and they are recognized throughout the year. As of August 31, 2010 Deferred Revenue related to these properties totaled $33,284

A summary of deferred revenue activity for fiscal year 2010 is as follows:

Balance at September 1, 2009	$	433,308
Additions		108,526
Revenue Earned		(139,142)
Foreclosed Loans		-
Loan Payments Received		(14,321)
Balance at August 31, 2010	$	388,371

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, 2010 was $969,641. FHLB advances are collateralized by the related notes receivable which totaled $1,311,278 as of August 31, 2010. 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 full in10 years. Interest at 2% is accrued and paid monthly.

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. The building serves as collateral for the note payable.

In March 2010 the Corporation entered into an agreement with Meadows Foundation and received a loan in the amount of $500,000. Loan funds are to be used to fund the Affordable Communities of Texas Program. The loan is to be repaid in full in December 2013 at 0% interest.

The summary of notes payable for the year ended August 31, 2010 is as follows:

Balance at September 1, 2009	$	2,846,917
Advances		560,000
Repayments		(37,757)
Balance at August 31, 2010	$	3,369,160

The current portion of notes payable at August 31, 2010 is $103,283; the remaining balance of $3,265,877 is classified as noncurrent notes payable.

NOTE 10: NOTES PAYABLE – Continued

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
2011	103,283	128,414	231,697
2012	45,889	125,808	171,697
2013	48,915	122,783	171,698
2014	552,005	119,694	671,699
2015	55,291	116,407	171,698
2016 thru 2020	1,847,058	382,571	3,122,344
2021 thru 2025	716,719	135,298	852,017
Total	$ 3,369,160	$ 1,130,975	$ 5,392,850

NOTE 11: BONDED INDEBTEDNESS

The Corporation had twenty-three (23) bond series outstanding as of August 31, 2010. 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.

On December 23, 2009, the Corporation issued $73,640,000 in Single Family Mortgage Revenue Bonds. See Note 12.

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, 2010.

NOTE 11: BONDED INDEBTEDNESS - Continued

A summary of deferred bond issuance costs for fiscal year 2010 follows:

Bonds Costs of Issuance

	Balance 09/01/2009	Additions	Deletions	Balance 08/31/2010
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	-	-	-	-
2007D	415,107	-	-	415,107
2009A	-	372,899		372,899
	$ 5,578,338	$ 372,899	$ -	$ 5,951,237

Amortization of Bond Costs of Issuance

	Balance 09/01/2009	Additions	Deletions	Balance 08/31/2010
2002	$ 252,306	$ 14,749	$ -	$ 267,055
2004	286,698	74,373	-	360,071
2005A	71,003	40,258	-	111,261
2005B	71,848	35,237	-	107,085
2006A	64,016	48,142	-	112,158
2006B	91,527	67,907	-	159,434
2006C	73,227	78,327	-	151,554
2007A-1	47,105	57,476	-	104,581
2007A-3	45,837	65,204	-	111,041
2007C	49,289	39,126	-	88,415
2007B	40,929	60,159	-	101,088
2007D	39,862	78,047	-	117,909
2009A	-	-	-	-
	$ 1,133,647	$ 659,005	$ -	$ 1,792,652

NOTE 11: BONDED INDEBTEDNESS - Continued

CHANGES IN BONDS PAYABLE

Description	Interest Rate	Bonds Outstanding 9/1/09	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/10	Amounts Due Within One Year
Single Family 2002							
Series 2002	Variable	-	-	-	-	-	-
Series 2002-1	6.01%-7.10%	$ 810,000	-	$ 235,000	-	$ 575,000	$ 0
Series 2002-2	5.64%-6.20%	1,775,000	-	120,000	-	1,655,000	20,000
Series 2002-3	5.65%-5.70%	2,095,000	-	375,000	-	1,720,000	0
Single Family 2004							
Series 2004A	1.62%	-	-		-	-	-
Series 2004-B1	5.40%	2,106,209	-	392,598	-	1,713,611	19,130
Series 2004-B2	5.75%	1,470,083	-	310,918	-	1,159,165	12,138
Series 2004-B3	5.95%	5,260,323	-	720,111	-	4,540,212	45,917
Series 2004-B4	5.80%	2,580,049	-	434,459	-	2,145,590	21,792
Series 2004-B5	5.65%	2,463,145	-	398,019	-	2,065,126	21,211
Series 2004-B6	5.45%	1,579,351	-	233,625	-	1,345,726	14,272
Series 2004-B7	5.55%	1,261,750	-	251,556	-	1,010,194	10,336
Series 2004-B8	5.30%	3,677,719	-	401,029	-	3,276,690	33,854
Series 2004-B9	5.30%	2,666,633	-	729,226	-	1,937,407	19,796
Series 2004-B10	5.25%	2,861,695	-	483,916	-	2,377,779	24,167
Single Family 2005							
Series 2005A	Variable	19,740,000	-	2,370,000	-	17,370,000	285,000
Series 2005B	Variable	16,075,000	-	1,925,000	-	14,150,000	190,000
Single Family 2006							
Series 2006A	Variable	20,128,703	-	2,767,692	-	17,361,011	171,578
Series 2006B	Variable	18,374,534	-	3,906,612	-	14,467,922	135,335
Series 2006C	5.30%	19,436,329	-	4,506,079	-	14,930,250	132,808
Single Family 2007							
Series 2007A-1	5.50%	32,627,046	-	2,990,588	-	29,636,458	264,540
Series 2007A-3	5.60%	34,285,447	-	4,195,766	-	30,089,681	257,542
Series 2007C	5.45%	20,732,779	-	2,219,696	-	18,513,083	163,163
Series 2007B	6.10%	21,190,000	-	3,410,000	-	17,780,000	135,000
Drawdown Program	Variable	-	-	-	-	-	-
Series 2007D	6.00%	21,275,000	-	4,425,000	-	16,850,000	130,000
Single Family 2009		-					
Series 2009A		-	73,640,000	-	-	73,640,000	0
Total Principal		$254,471,795	$73,640,000	$37,801,890	$ 0	$290,309,905	$2,107,579
Unamortized Premium		12,638,911				11,459,333	
Total:		$267,110,706				$301,769,238	

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2010 is $2,107,579; the remaining balance of $299,661,659 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
2011	$ 2,107,579	$ 7,720,291	$ 9,827,870
2012	77,095,596	11,764,180	88,859,776
2013	3,644,388	11,575,057	15,219,445
2014	3,887,937	11,373,962	15,261,899
2015	4,091,859	11,159,873	15,251,732
2016 thru 2020	22,384,755	52,315,748	74,700,503
2021 thru 2025	30,856,407	45,074,620	75,931,027
2026 thru 2030	45,680,159	34,822,218	80,502,377
2031 thru 2035	65,579,791	19,369,936	84,949,727
2036 thru 2040	34,981,434	3,191,351	38,172,785
Total	$ 290,309,905	$ 208,367,236	$ 498,677,141

The sources of pledged revenue to pay the principal and interest on the bonds is derived from the principal and interest collected 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 2010, the debt service requirement equaled $37,801,890 in bond principal and $12,906,342 in bond interest expense, totaling $50,708,232. During the year pledged revenues totaled $55,722,007.

NOTE 12: SINGLE FAMILY NEW ISSUE BOND PROGRAM/WAREHOUSE LINE

Single Family New Issue Bond Program

The 2009 Single Family Bond Program represents an issuance of bonds under the New Issue Bond Program (NIBP) sponsored by the United States Department of Treasury and announced in late 2009. The bonds were issued on December 23, 2009 in the aggregate principal amount of $73,640,000. The bonds were initially issued as short-term, variable rate bonds to be converted from time to time in 2010 and 2011 to long-term bonds. As of August 31, 2010, no such conversion had occurred. The short-term bonds are secured by a global escrow agreement pursuant to which an amount equal to 100% of the principal amount of the bonds is invested. Any interest earnings related to the global escrow agreement is paid to the bondholders as the interest due on the short-term bonds.

Warehouse Agreement

In conjunction with the NIPB bond issue, the Corporation established mortgage loan rates (based in part on the long-term program bond interest rate locked in under the NIBP program) and then originated single family mortgage loans through qualified third party lenders; those loans were in turn pooled and securitized as GNMA mortgage backed securities by the master servicer, Bank of America, N.A. The par value of these securities at August 31, 2010 was $37,553,068 and their fair market value was $39,783,537. Pending the conversion of the NIBP short-term bonds to long-term fixed rate bonds (or the market sale of the mortgage-backed securities); the mortgage-backed securities are being warehoused by First Southwest Company under a warehousing agreement between the Corporation and First Southwest Company. The Corporation was required to make a collateral contribution of approximately $429,000 to the warehouse line which will be refunded when the bonds are converted. The net revenues derived from such warehousing arrangement are being shared between by the Corporation and First Southwest Company on a 50-50 basis, except as otherwise described in said sharing arrangement.

NOTE 13: MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

The Mortgage Credit Certificate (MCC) Program was created in 2008 to assist low and moderate income first time homebuyers. Under the program, the homebuyer is eligible to claim a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed $2,000, each year for the life of the home loan. The Corporation must convert bond cap each year to issue MCCs.

NOTE 13: MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM - Continued

MCC Program revenue earned during the fiscal year ending August 31, 2010 was $381,122.

NOTE 14: NATIONAL FORECLOSURE MITIGATION COUNSELING PROGRAM

The Corporation collaborates with the Department and NeighborWorks® America through the National Foreclosure Mitigation Counseling (NFMC) Program. As the state housing finance agency, the Department, in partnership with the Corporation, applies for NFMC funding from NeighborWorks America to help increase the capacity of foreclosure mitigation counseling agencies that serve struggling homeowners. The Corporation administers these funds to partnering HUD-approved counseling organizations, which allows these counseling organizations to increase the number of struggling Texas homeowners that they are able to serve. Since 2008, the Department, in partnership with the Corporation, has been awarded approximately $1 million in NFMC funding, which has been administered to 11 HUD-approved housing counseling organizations throughout the state of Texas.

NOTE 15: NEIGHBORHOOD STABILIZATION PROGRAM

The Corporation was awarded approximately $5 million in Neighborhood Stabilization Program (NSP) funds in November 2009 by the Department. NSP's goal is to help stabilize communities hardest hit by foreclosures by working with locally based nonprofit and government agencies to acquire and rehabilitate foreclosed homes, vacant land and tax foreclosed properties, which will then be inhabited by low-income individuals and families. The funds used to acquire property must be returned to the Department when the property is sold along with any program income. During the fiscal year ending August 31, 2010, the Corporation was able to acquire $890,000 in foreclosed properties.

NOTE 16: TEXAS FOUNDATIONS FUND

The Texas Foundations Fund program provides $50,000 grants to nonprofit organizations and rural government entities for the costs associated with the construction, rehabilitation, or repair of single family homes, or the provision of supportive housing services within multifamily housing. During the fiscal year ended August 31, 2010, the Corporation awarded five $50,000 grants. One grant from a previous year was returned.

NOTE 17: 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 for the 2002 through 2007 programs. The 2009 program contains 3% down payment assistance.

NOTE 18: 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 2010 totaled $19,217. 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 $291,448 for fiscal year 2010.

NOTE 19: RESTRICTED GRANT INCOME

Significant grants received during fiscal year ending August 31, 2010:

Grantor	Amount	Designation
Texas Department of Housing and Community Affairs	$1,050,493	Neighborhood Stabilization Program
	648,879	National Foreclosure Mitigation Counseling
FB Heron Foundation	50,000	Corporation's Operations
	25,000	Affordable Communities of Texas Program
	25,000	Texas Community Capital Program
NeighborWorks America	40,500	Foreclosure Prevention
CITI Foundation	40,000	Foreclosure Prevention – Resource Guide
	30,000	Foreclosure Prevention

NOTE 20: 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, 2010, were approximately $103,000. Employee and employer contributions totaled approximately $75,000 and $28,000 respectively.

NOTE 21: 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 21: 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, 2010, there were nineteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $310 million. No bonds were issued during fiscal year 2010.

NOTE 22: 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 23: SUBSEQUENT EVENTS

In accordance with the provisions set forth in FASB *Accounting Standards Codification* ("ASC") 855 "Subsequent Event," as amended by FASB *Accounting Standards Update* ("ASU") No. 2010-09, management has evaluated the possibility of subsequent events existing in the Corporation's financial statements through December 17, 2010 (the date that the Corporation's financial statements are available to be issued) and has determined that the following subsequent events have occurred that require additional disclosure.

Sale of Securities
On September 23, 2010 the Corporation entered into an agreement with the 2009 Single Family Bond Program Warehouse Provider which enabled the Corporation to sell certain mortgage pools from the warehouse line. On October 8, 2010 the Corporation sold the certificates for approximately $7.5 million less the outstanding principal balance plus accrued interest and fees totaling $7.2 million. On October 15, 2010 the Corporation entered into a similar agreement to sell certificates from the 2009 warehouse line for approximately $8 million less outstanding principal, accrued interest and fees totaling $7.6 million. The anticipated settlement date for this transaction is November 21, 2010. The certificate sales enable the Corporation to maximize its loan origination and down payment assistance under the 2009 Single Family Bond Program.

On April 30, 2010 the loan agreement with Affordable Home of South Texas, Inc. was modified to extend the maturity date to October 30, 2010. The balance of the note receivable as of August 31, 2010 was approximately $531,000. The note receivable plus accrued interest was paid in full on October 29, 2010.

Notes Receivable
On January 25, 2010 the Corporation entered into an agreement to loan an amount not to exceed $1,200,000 to Mary Lee Community, a Texas nonprofit corporation. The purpose of the loan is to facilitate the construction of a 64 unit affordable multifamily housing development located in Austin, Texas. The note is secured by the development. Interest accrues and is payable in arrears on sums advanced at a rate of 5.25% and is payable in monthly installments of accrued interest only beginning October 1, 2010 and principal and interest beginning June 1, 2011. Subsequent to year end Mary Lee Community made four draws on the note totaling $615,518.68. Utilizing its relationship with Federal Home Loan Bank, the Corporation intends to borrow 70% of the total note amount drawn by Mary Lee Community and will fund the remaining 30% with unrestricted assets.

NOTE 23: SUBSEQUENT EVENTS - Continued

Affordable Homes of South Texas paid off the balance of $530,578 on Donna Meadows on October 29, 2010. Reliant Group paid off the balance of $500,000 on the Rainbow Housing Portfolio on December 9, 2010.

Investment Provider

Per the terms and conditions set forth in investment agreements in connection with the Trust Indentures of the Single Family Mortgage Revenue Bonds, Series 2005A and 2005B, certain moneys held by the Trustee are invested with Pallas Capital Corporation (the provider). As of August 31, 2010 the balance invested with the provider was approximately $2 million. On October 1, 2010 Moody's Investors Service, Inc. downgraded the provider's long-term counterparty credit rating to Baa3 and the provider's short-term rating to P-3. As a result of this downgrade, the Single Family Mortgage Revenue Bond Series 2005A and 2005B were also downgraded.

Per the investment agreements, the Trustee has the right to withdraw funds held by the provider along with accrued interest. Per the agreements this right to withdraw expired on November 19, 2010. The Corporation directed the Trustee to request a 30 day extension until December 31, 2010 which was granted by the provider on November 19, 2010.

The Corporation is in the process of determining what steps are necessary to restore the Aaa credit rating to the bonds and ensure the safety of the funds currently invested with the provider.

NOTE 24: 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. The Corporation's Sunset Staff Report dated November 2010 recommended that the Corporation be continued until September 1, 2017.

NOTE 25: 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, 2010 and for the year then ended is as follows:

Summary Financial Information		Amount
Operating Revenue	$	20,076,730
Depreciation and Amortization		751,805
Net Income		2,855,297
Net Working Capital*		82,628,151
Total Assets		337,650,967
Total Net Assets		28,840,927
Noncurrent Notes Payable		3,265,877
Noncurrent Bonds Payable		299,661,660
Deferred Revenue		388,371
Multifamily Custodial & Reserve Accounts		210,242
Fixed Asset Additions		159,093

* Net Working Capital Calculation		Amount
Unrestricted Cash and Cash Equivalents	$	2,616,380
Restricted Assets Held by Bond Trustee		79,627,275
Investments		2,487,570
Accounts Receivable & Accrued Revenue		963,712
Accrued Interest Receivable		115,349
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		560,020
Downpayment Assistance, Current Portion		1,383,070
Prepaid Expenses		23,666
Payables:		
Accounts & Accrued Expenses		(330,366)
Current Portion of Notes		(103,283)
Other Current Liabilities		(927,431)
Current Portion of Bonds & Accrued Interest		(3,882,811)
	$	82,628,151

ADDITIONAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2010

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
U.S. Department Housing and Urban Development			
CDBG - State-Administered Small Cities Program Cluster:			
Passed through the Texas Department of Housing and Community Affairs			
Neighborhood Stabilization Program	14.228	77090000101	$ 1,050,493
Total Department Housing and Urban Development			**1,050,493**
Department of the Treasury			
Passed through the Texas Department of Housing and Community Affairs			
National Foreclosure Mitigation Counseling Programs:			
Round 2	21.000	PL110-289:95X1350	226,245
Round 3	21.000	PL111-8:95X1350	422,634
Round 4	21.000	PL111-117:95X1350	-
Total Department of the Treasury			**648,879**
Total Expenditures of Federal Awards			**$ 1,699,372**

See accompanying auditor's report. The accompanying notes are an integral part of this schedule.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
August 31, 2010

NOTE 1: BASIS OF PRESENTATION

The Schedule presents federal grant activities of Texas State Affordable Housing Corporation and has been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (the "GASB"). The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits *of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: MAJOR PROGRAM DESCRIPTIONS

National Foreclosure Mitigation Counseling Program (NFMC)

The Corporation collaborates with the Department and NeighborWorks® America through the National Foreclosure Mitigation Counseling (NFMC) Program. As the state housing finance agency, the Department, in partnership the Corporation, applies for NFMC funding from NeighborWorks America to help increase the capacity of foreclosure mitigation counseling agencies that serve struggling homeowners. The Corporation administers these funds to partnering HUD-approved counseling organizations, which allows these counseling organizations to increase the number of struggling Texas homeowners that they are able to serve. Since 2008, the Department, in partnership with the Corporation, has been awarded approximately $1 million in NFMC funding, which has been administered to 11 HUD-approved housing counseling organizations throughout the state of Texas.

Neighborhood Stabilization Program (NSP)

The Corporation was awarded approximately $5 million in Neighborhood Stabilization Program (NSP) funds in November 2009 by the Department. NSP's goal is to help stabilize communities hardest hit by foreclosures by working with locally based nonprofit and government agencies to acquire and rehabilitate foreclosed homes, vacant land and tax foreclosed properties, which will then be inhabited by low-income individuals and families. The funds used to acquire property must be returned to the Department when the property is sold along with any program income. During the fiscal year ending August 31, 2010, the Corporation was able to acquire $890,000 in foreclosed properties.

NOTE 3: MATCHING EXPENDITURES

The Schedule does not include matching expenditures paid by the Corporation and the Department of $138,426 for NFMC for the fiscal year ending August 31, 2010.

MIKESKA MONAHAN and 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. (a nonprofit organization) as of and for the year ended August 31, 2010, and have issued our report thereon dated December 17, 2010. 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 *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, 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 Board of Directors, others within the entity, and federal awarding agencies 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 17, 2010

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM

MIKESKA MONAHAN and PECKHAM PC

CERTIFIED PUBLIC ACCOUNTANTS
100 Congress Avenue, Suite 990
Austin, Texas 78701

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Texas State Affordable Housing Corporation

Compliance

We have audited the compliance of Texas State Affordable Housing Corporation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. Texas State Affordable Housing Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Texas State Affordable Housing Corporation's management. Our responsibility is to express an opinion on Texas State Affordable Housing Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about Texas State Affordable Housing Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Texas State Affordable Housing Corporation's compliance with those requirements.

In our opinion, Texas State Affordable Housing Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended August 31, 2010.

Internal Control over Compliance

The management of Texas State Affordable Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Texas State Affordable Housing Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Texas State Affordable Housing Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Maxwell Locke & Ritter? ... PC

Austin, Texas
December 17, 2010

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2010

A. SUMMARY OF AUDIT RESULTS

Financial Statement Section

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

Federal Awards Section

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified, which are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs?	Unqualified
Any audit findings disclosed, which are required to be Reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

Federal CFDA Numbers	Name of Major Federal Program
14.228	Neighborhood Stabilization Project
21.000	National Foreclosure Mitigation Counseling Program

Dollar threshold used to distinguish between type A and type B programs?	$300,000
Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	No

B. FINANCIAL STATEMENT AUDIT

This section identifies the significant deficiencies, material weaknesses, and instances of fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards require reporting in an OMB Circular A-133 audit.

No findings were noted.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2010

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

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

None.