TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2011

With
Independent Auditor's Report

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
August 31, 2011

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2011

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, 2011. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- Total assets decreased approximately $12.8 million and total liabilities decreased approximately $21.3 million.

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending August 31, 2011 by $37,338,626. Of this amount, $7,886,754 may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $676,905 is invested in capital assets.

- The Corporation's total net assets increased during fiscal year 2011 by approximately $8.5 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 $9.3 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 $1,148,641.

- Total operating revenues for fiscal year 2011 were approximately $26 million and operating expenditures were approximately $18 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

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Cash & Cash Equivalents	$ 49,665,522	$ 79,258,535	$ (29,593,013)	(37.34%)
Investments	252,488,829	236,169,290	16,319,539	6.91%
Accounts Receivable	335,130	963,712	(628,582)	(65.23%)
Accrued Interest Receivable	697,696	633,141	64,555	10.20%
Loans Receivable	1,034,006	1,166,282	(132,276)	(11.34%)
Notes Receivable	3,378,237	2,750,581	627,656	22.82%
Prepaid Expenses	30,379	23,666	6,713	28.36%
Mortgage Servicing Rights	676,555	744,581	(68,026)	(9.14%)
Fixed Assets	1,445,779	1,471,498	(25,719)	(1.75%)
Owned Real Estate	3,839,746	892,715	2,947,031	330.12%
Custodial Cash & Cash Equivalents	228,464	210,152	18,312	8.71%
Bond Issuance Costs	3,892,724	4,158,585	(265,861)	(6.39%)
Down Payment Assistance	7,158,296	9,208,229	(2,049,933)	(22.26%)
Total Assets	$ 324,871,363	$ 337,650,967	$ (12,779,604)	(3.78%)

		2011		2010		Increase (Decrease) Amount	Percentage
LIABILITIES:							
Accounts Payable & Accrued Expenses	$	470,976	$	370,366	$	100,610	27.17%
Notes Payable		7,468,952		4,261,875		3,207,077	75.25%
Revenue Bonds Payable		276,509,298		301,769,238		(25,259,940)	(8.37%)
Accrued Interest		2,415,348		1,775,232		640,116	36.06%
Multifamily Custodial & Reserve Funds		228,464		210,242		18,222	8.67%
Deferred Revenue		392,828		388,371		4,457	1.15%
Other Liabilities		46,871		34,716		12,155	35.01%
Total Liabilities	$	287,532,737	$	308,810,040	$	(21,277,303)	(6.89%)
NET ASSETS:							
Invested in Capital Assets		676,905		681,978		(5,073)	(0.74%)
Restricted Net Assets		28,774,967		21,198,045		7,576,922	35.74%
Unrestricted Net Assets		7,886,754		6,960,904		925,850	13.30%
Total Net Assets	$	37,338,626	$	28,840,927	$	8,547,699	29.64%

Net assets increased from $28,840,927 to $37,338,626 in fiscal year 2011. Of the total net assets, $676,905 is invested in capital assets. Restricted assets totaled $28,774,967, and the remaining balance of $7,886,754 is unrestricted and available for corporate programs, payment of obligations, and fulfillment of the Corporation's public purpose.

The Corporation's total assets decreased from $338 million to $325 million during fiscal year 2011. The largest single factor contributing to this decrease was the principal payments made to bondholders in the single family bond programs.

The Corporation's current assets totaled $54,110,886 while current liabilities totaled $46,485,501.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $249,467,760; down payment assistance of $6,158,296; capitalized bond issuance costs of $3,892,724; the Corporation's loan portfolio equaling $939,006; notes receivable of $3,318,217; and purchased mortgage servicing rights totaling $676,555. The Corporation's capital assets, consist of furniture, land, and equipment used in operations totaling $1,445,779, net of accumulated depreciation.

Noncurrent liabilities consist of bonds payable totaling $233,668,831; deferred revenue of $392,828; and notes payable of $3,219,982.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Interest and investment income	$ 11,747,486	$ 12,203,775	$ (456,289)	-3.74%
Net increase/(decrease) in fair value	9,330,776	4,653,221	4,677,555	100.52%
Single Family Program Issuer and Servicing Fees	821,533	326,853	494,680	151.35%
Asset Oversight and Compliance Fees, net	217,609	503,739	(286,130)	-56.80%
Loan Servicing Fees, net	244,065	244,127	(62)	-0.03%
Multifamily Bond Fees	168,646	76,112	92,534	121.58%
Public Support & Grants	3,549,289	1,878,592	1,670,697	88.93%
Other Operating Revenue	231,975	190,311	41,664	21.89%
Total Income	$ 26,311,379	$ 20,076,730	$ 6,234,649	31.05%
EXPENSES:				
Interest Expense on Bonds and Notes Payable	$ 10,679,167	$ 11,852,258	$ (1,173,091)	-9.90%
Down Payment Assistance Program	520,124	377,394	142,730	37.82%
Salaries, Wages, and Payroll Related Costs	1,396,305	1,330,316	65,989	4.96%
Professional Fees and Services	237,543	227,736	9,807	4.31%
Amortization	514,607	751,805	(237,198)	-31.55%
Office and Equipment Rental and Maintenance	44,126	41,616	2,510	6.03%
Travel and Meals	54,526	43,218	11,308	26.17%
Depreciation	52,777	48,038	4,739	9.87%
Program and Loan Administration	386,855	204,874	181,981	88.83%
Grants to Others	300,000	200,000	100,000	50.00%
Grant Expenditures	3,505,077	1,978,491	1,526,586	77.16%
Other Operating Expenses	122,573	165,687	(43,114)	-26.02%
Total Expenses	$ 17,813,680	$ 17,221,433	$ 592,247	3.44%
Operating Gain/(Loss)	8,497,699	2,855,297	5,642,402	197.61%
Beginning Net Assets	28,840,927	25,985,630	2,855,297	10.99%
Ending Net Assets	$ 37,338,626	$ 28,840,927	$ 8,497,699	29.46%

The Corporation reported $26 million in operating revenues during fiscal year 2011. Interest and Investment Income totaling $11,747,486 along with the Increase in Fair Value of Investments of $9,330,776, constitutes the largest source of income contributing 80% to total operating revenue for fiscal year 2011.

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 $1,148,641.

Net Asset Oversight and Compliance Fees totaled $217,609 and represented .8% of operating revenue for fiscal year 2011. 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 $244,065 in revenue, reported net of subservicer fees of $100,276.

Single Family Income was earned from Mortgage Credit Certificate (MCC) and Mortgage Revenue Bond (Professional Educators Home Loan Program, the Fire Fighter and Law Enforcement or Security Officer Home Loan Program, and Home Sweet Loan 80% Area Median Income and Below Program) activity. MCC issuer and participation fees totaled $327,510. Mortgage Revenue Bond program activity earned $560,000. This activity included premium income from the sale of bonds. Together these fees totaled $821,533 and represent 3% of total operating revenues.

Multifamily Bond Fees contributed only $168,646 or 0.64% of total operating revenues for fiscal year 2011. 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 $17.8 million. The four largest expenses for fiscal year 2011 were Interest Expense on Bonds and Notes Payable (60%); Grant Expenditures (19.7%); Salaries, Wages and Payroll Related Expenses (7.8%); and Program and Loan Administration (2.2%). The Corporation recorded a net income for fiscal year 2011 of $8,497,699.

BOND PROGRAM DEBT

During fiscal year 2011 the Corporation converted $33 million in single family revenue bonds from taxable bonds to tax-exempt bonds and issued $22 million in single family mortgage revenue bonds. Single Family debt retirements totaled approximately $78.4 million. Bonds payable decreased from $302 million to $277 million during the year. Bonds payable within one year totaled $42.8 million. In May 2011, the Corporation issued approximately $49.7 million in conduit multifamily private activity bonds for the HDSA Texas Affordable Housing Pool Project.

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, 2023 unless continued in existence as provided by the Act.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

AUDITED FINANCIAL STATEMENTS

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, 2011, 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, 2011, and the changes in net assets 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 14, 2011, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Standard* 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. The supplemental information included in the schedule of revenues and expenses by individual activity on page 52 is presented for purposes of additional analysis and is not a required part of the financial statements. 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.

Maxwell Locke & Ritter, PC

Austin, Texas
December 14, 2011

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS
As of August 31, 2011

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	2,865,652
Restricted Assets Held by Bond Trustee:		
Cash and Cash Equivalents		46,799,870
Accrued Interest		380,963
Custodial Cash and Cash Equivalents		228,464
Investments, at Fair Market Value		1,998,675
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $874,371		335,130
Accrued Interest Receivable		316,733
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		60,020
Downpayment Assistance, Current Portion		1,000,000
Prepaid Expenses		30,379
Total Current Assets:		54,110,886
Noncurrent Assets		
Loans Receivable, Net of uncollectible amounts of $91,726		939,006
Notes Receivable		3,318,217
Investments, at Fair Market Value		1,022,394
Mortgage Servicing Rights, Net of Accumulated Amortization of $2,051,506		676,555
Fixed Assets, Net of Accumulated Depreciation of $351,077		1,445,779
Owned Real Estate, Federal & Other Programs		3,839,746
Bond Issuance Costs, Net of Amortization of $1,848,182		3,892,724
Downpayment Assistance		6,158,296
Restricted Investments Held by Bond Trustee, at Fair Market Value		249,467,760
Total Noncurrent Assets:		270,760,477
TOTAL ASSETS	$	**324,871,363**

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

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS - Continued
As of August 31, 2011

LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses	$	470,976
Notes Payable, Current Portion		483,375
Multifamily Custodial and Reserve Funds		228,464
Other Current Liabilities		46,871
Payable from Restricted Assets Held by Bond Trustee:		
Bonds Payable, Current Portion		42,840,467
Accrued Interest on Bonds		2,415,348
Total Current Liabilities:		46,485,501
Noncurrent Liabilities		
Notes Payable		3,219,982
Revenue Bonds Payable		233,668,831
Due to TDHCA, Federal Programs		3,765,595
Deferred Revenue		392,828
Total Noncurrent Liabilities:		241,047,236
Total Liabilities:		287,532,737
Net Assets		
Invested in Capital Assets, Net of Related Debt		676,905
Restricted Assets		28,774,967
Unrestricted Net Assets		7,886,754
Total Net Assets:		37,338,626
TOTAL LIABILITIES & NET ASSETS	$	**324,871,363**

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 Ended August 31, 2011

Operating Revenues		
Interest and Investment Income	$	11,747,486
Net Increase in Fair Value of Investments		9,330,776
Single Family Income, Net of uncollectible amts. of $77,833		821,533
Asset Oversight and Compliance Fees		217,609
Loan Servicing Fees, Net of subservicer fees of $100,276 and uncollectible amts.of $1,932		244,065
Multifamily Bond Fees		168,646
Federal and State Grants		3,360,286
Other Contributions and Public Support		189,003
Other Operating Revenue		231,975
Total Operating Revenues	$	26,311,379
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	10,679,167
Down Payment Assistance Program		520,124
Salaries, Wages and Payroll Related Costs		1,396,305
Professional Fees and Services		237,543
Amortization		514,607
Office and Equipment Rental and Maintenance		44,126
Travel and Meals		54,526
Depreciation		52,777
Program and Loan Administration		386,855
Foundation Fund Grants		300,000
Grant Expenditures:		
Property Acquisitions and Related Costs		3,118,105
Foreclosure Prevention Counseling and Related Costs		386,972
Other Operating Expenses		122,573
Total Operating Expenses	$	17,813,680
Net Income		8,497,699
Total Net Assets, Beginning		28,840,927
Total Net Assets, Ending	**$**	37,338,626

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, 2011

Cash Flows from Operating Activities		
Receipts from Customers & Users	$	6,151,296
Payments to Employees		(1,049,683)
Payments of Benefits & Other Payroll Related Costs		(346,622)
Payments to Suppliers of Goods & Services		(1,039,105)
Net Cash Provided By Operating Activities		3,715,886
Cash Flows from Non-Capital Financing Activities		
Proceeds from the Sale of Bonds		55,000,000
Proceeds from Notes Payable		577,486
Payments of Principal on Notes Payable		(218,881)
Payments of Interest on Notes Payable		(129,112)
Payments of Interest on Single Family Bond Program		(10,389,513)
Payments of Principal related to Bond Maturities and Calls		(99,974,802)
Net Cash Used For Non-Capital Financing Activities		(55,134,822)
Cash Flows from Capital and Related Financing Activities		
Payments for Additions to Fixed Assets		(37,257)
Payments of Principal on Capital Acquisition Note Payable		(24,407)
Net Cash Used for Capital and Related Financing Activities		(61,664)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income		12,123,284
Proceeds from Sale and Maturities of Investments by Bond Trustee		55,804,056
Proceeds from Sale of Unrestricted Investments		4,236,509
Purchase of Investments by Bond Trustee		(45,487,943)
Purchase of Unrestricted Investments		(4,770,008)
Net Cash Provided By Investing Activities		21,905,898
Net Decrease in Cash and Cash Equivalents		(29,574,702)
Cash and Cash Equivalents at Beginning of Year		79,468,688
Cash and Cash Equivalents at End of Year	$	49,893,986

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, 2011

Reconciliation of Operating Income to Net Cash Provided By Operating Activities

Net Income from Operations	$	8,497,699
Adjustments To Reconcile to Net Cash from Operations:		
Depreciation and Amortization Expense		567,384
Unrealized Gain on Investments		(8,414,343)
Amortization of Down Payment Assistance		2,049,934
Provision for Estimated Losses		(28,245)
Changes in Current Assets and Liabilities:		
Decrease in Accounts Receivable		628,582
Increase in Accrued Interest Receivable		(64,555)
Decrease in Loans Receivable		132,276
Increase in Notes Receivable		(627,656)
Decrease in Bond Issue Costs		210,330
Increase in Accounts Payable & Accrued Expenses		100,610
Increase in Accrued Interest Payable		640,116
Increase (Decrease) in Other Assets & Liabilities, net		23,754
Net Cash Provided By Operating Activities	$	3,715,886
Noncash Transactions		
Acquisition of Owned Real Estate Using Capital Financing	$	2,867,980

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, 2011

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, 2023.

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 single and multifamily loans. The Corporation subcontracts the servicing related to the Department's single-family mortgage revenue bond programs.

Asset Oversight and Compliance

Asset Oversight – 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.

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.

The Corporation also provides a single family 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 $2,000, 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 2011 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.

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

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 $6,467,051. 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 2011 totaled $446,581; accumulated amortization as of August 31, 2011 equaled $1,848,183.

Amortization of Bond Premium – The premiums related to the Single Family Bond Programs range from 101.00 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 2011 totaled $1,024,317; accumulated amortization as of August 31, 2011 equaled $6,743,194.

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 2011 was $68,026; accumulated amortization as of August 31, 2011 equaled approximately $2,051,506.

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, 2011 was approximately $53,479.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling $228,464 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, 2011 consist of bank deposits totaling $2,520,717, deposits in the Federal Home Loan Bank totaling $43,874, and pooled investment funds totaling $301,061.

Restricted cash and cash equivalents at August 31, 2011 total $46,799,870 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains six custodial accounts with a combined total of $228,464 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 - 3/25/12	1.100%	$ 245,000	$ 245,000	$ -
Certificate of Deposit - 11/15/11	1.000%	245,000	245,000	-
Certificate of Deposit - 11/14/11	0.750%	245,000	245,000	-
Certificate of Deposit - 11/11/11	0.750%	510,000	510,000	-
Certificate of Deposit - 10/02/11	0.750%	251,620	251,620	-
Federal Home Loan Bank Coupon Bond - 3/16/12	1.500%	502,055	502,055	-
Total Short Term Investments		1,998,675	1,998,675	-
Pass through securities GNMA - 10/20/2034	5.990%	19,950	22,394	2,444
Federal Home Loan Bank Coupon Bond - 6/13/13	0.500%	500,000	500,000	-
Federal Home Loan Bank Coupon Bond - 6/13/13	0.500%	500,000	500,000	-
Total Long Term Investments		1,019,950	1,022,394	2,444
Total Investments		$ 3,018,625	$ 3,021,069	$ 2,444

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%	$ 38,226	$ 38,226	$ -
Guaranteed Investment Contract - 03/01/34	3.75%	84,455	84,455	-
Guaranteed Investment Contract - 03/01/34	3.41%	296,047	296,047	-
GNMA/FNMA Investments - 2032/2033	6.71%	375,569	436,045	60,475
GNMA/FNMA Investments - 2032/2033	6.02%	1,681,653	1,903,785	222,132
GNMA/FNMA Investments - 2032/2033	5.74%	1,347,224	1,515,906	168,682
GNMA/FNMA Investments - 2035/2036	5.45%	15,563,466	17,445,599	1,882,133
GNMA/FNMA Investments - 2036	5.49%	11,986,718	13,432,672	1,445,954
GNMA/FNMA Investments - 2036	5.49%	14,933,172	16,734,333	1,801,161
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	12,683,169	14,250,182	1,567,014
GNMA/FNMA Investments - 2036/2037	5.75%	12,572,325	14,144,251	1,571,926
GNMA/FNMA Investments - 2037/2038	5.65%	25,831,445	28,991,552	3,160,107
GNMA/FNMA Investments – 2037/2038	5.75%	26,186,255	29,436,229	3,249,974
GNMA/FNMA Investments – 2037/2038	5.65%	16,124,392	18,098,179	1,973,787
GNMA/FNMA Investments – 2037/2038	6.10%	15,531,846	17,561,402	2,029,556
GNMA/FNMA Investments – 2037/2038	6.00%	13,945,281	15,691,299	1,746,018
GNMA/FNMA Investments – 2040/2041	4.0-4.75%	54,230,842	59,407,598	5,176,756
Total		$ 223,412,085	$ 249,467,760	$ 26,055,675

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	$	229,726
Single Family Mortgage Revenue Bonds Series 2004		551,790
Single Family Mortgage Revenue Bonds Series 2005A & B		1,596,403
Single Family Mortgage Revenue Bonds Series 2006A ,B & C		2,414,279
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D		6,042,735
Single Family Mortgage Revenue Bonds Series 2009A/2011A		1,292,867
	$	12,127,800

The net increase in the fair value of investments held by the bond trustee totaled $9,496,334. 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.

The Corporation holds approximately $249 million (valued under GASB #31 at fair market value) in mortgage backed securities issued by Ginnie Mae and Fannie Mae through the Corporation’s Single Family Bond Programs. These securities have a face value of approximately $223 million and unrealized gain of $26 million as of August 31, 2011. The Corporation is susceptible to risk that the market for such mortgage backed securities could incur down grades which would eventually result in a loss of value for the investments held. Further, it is likely that the Corporation will only collect the face value of the mortgage backed securities as the mortgages are repaid in the future.

Credit Risk

The primary stated objective of the 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,

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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 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.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

As of August 31, 2011:

- Collateralized or insured certificates of deposit represented 24.41% of the total portfolio,
- repurchase agreements represented 0.00% of the total portfolio,
- commercial paper represented 0.00% of the total portfolio,
- municipal obligations rated A or better represented 8.19% of the total portfolio,
- investment in an independent AAA-rated local government investment pool represented 4.91% of the total portfolio,
- holdings in AAA-rated money market funds represented .72% of the total portfolio,
- funds invested in fully collateralized or insured interest bearing accounts represented 45.11% of the total portfolio,
- and holding in US Government securities rated AAA represented 16.66% of the total portfolio.

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

	Max % of Portfolio
US Obligations	80%
Obligations of US Agencies	80%
Certificates of Deposit	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%
Municipal Obligations	not stated

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

As of August 31, 2011:

Collateralized or insured certificates of deposit represented 24.41% of the total portfolio. Funds invested in fully collateralized or insured interest bearing accounts represented 45.11% of the total portfolio.

Concentration of Credit Risk – Funding
Approximately 12.78% 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 one (1) year. On 2/17/11, the Corporation received $22,957 in a GNMA participation certificate # 586163 as payment of an obligation due from the Federal National Mortgage Association. The stated maturity is 10/20/2034. State law does not require securities obtained in this manner to be liquidated and keeping the security until maturity is permitted.

As of August 31, 2011, the portfolio contained:
- excluding the GNMA, no holding with a stated maturity date beyond 21 months (June, 2013), and
- including the GNMA, the dollar weighted average maturity of the total portfolio was 172 days.

As of August 31, 2011, the portfolio contained one MBS and 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

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

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 Financial Institutions Resource and Recovery Enforcement Act. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis
.

Portfolio disclosure as of August 31, 2011:

- the portfolio contained 24.41% 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, 2011 is as follows:

Loans Receivable at September 1, 2010	$	1,258,008
Additions		-
Paydowns		(114,340)
Reduction due to Foreclosure and Short Sale		(17,936)
Loans Receivable at August 31, 2011		1,125,732
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2011	$	1,034,006

The current portion of loans receivable at August 31, 2011 is $95,000; the remaining balance of $939,006 is classified as noncurrent loans receivable.

NOTE: 3 LOANS RECEIVABLE - Continued

The activity for allowance for loan losses for fiscal year 2011 is as follows:

Balance at September 1, 2010	$	(91,726)
Current Year Reduction		-
Loss Applied to the Allowance		-
Balance at August 31, 2011	$	(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 $1,289,257 which collateralize advances from Federal Home Loan Bank See Note 10.

A summary of notes receivable at August 31, 2011 is as follows:

Balance at September 1, 2010	$	2,750,581
Additions		1,860,575
Collections		(1,232,919)
Provision for loan loss		-
Balance at August 31, 2011	$	3,378,237

The current portion of notes receivable at August 31, 2011 is $60,020; the remaining balance of $3,318,217 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts.

NOTE 5: FIXED ASSETS

Fixed Assets held by the Corporation for FY 2011 consists of the following:

	COST OR BASIS OF PROPERTY			
	Balance September 1, 2010	**Additions**	**Deletions**	**Balance August 31, 2011**
Building - 2200 E. MLK JR	$1,248,221	$ 15,169	-	$1,263,390
Land	232,241	-	-	232,241
Office Furniture & Fixtures	289,804	12,141	720	301,225
Total	$1,770,266	$ 27,310	$ 720	$1,796,856

	ACCUMULATED DEPRECIATION			
	Balance September 1, 2010	**Additions**	**Deletions**	**Balance August 31, 2011**
Building - 2200 E. MLK JR	$ 46,880	$ 34,996	$ -	$ 81,876
Land	-	-	-	-
Office Furniture & Fixtures	251,888	17,782	469	269,201
	$ 298,768	$ 52,778	$ 469	$ 351,077

Fixed Assets less accumulated depreciation at August 31, 2011 totaled $1,445,779.

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. Tax returns for the past three years

NOTE 6: INCOME TAX STATUS - Continued

are open to examination by the Internal Revenue Service. Management believes it has appropriate support for any tax position taken and as such does not have any uncertain tax positions that are required to be reported in these financial statements.

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
2012	3,660
2013	-
2014	-
2015	-
Total Minimum Future Rental Payments	$ **3,660**

During 2011, the Corporation entered into an agreement to lease approximately 700 square feet of its office facilities to a third party for a period of 30 months. The lease calls for monthly rental payments of $1,964 including operating costs of $626. The lease expires August 31, 2013. The expected annual cash flow from this lease agreement will be approximate $23,500

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.

NOTE 8: MULTIFAMILY RESERVES & CUSTODIAL ACCOUNTS - Continued

Reserve activity for the year ended August 31, 2011 is as follows:

Balance at September 1, 2010	$	210,152
Deposits		20,995
Disbursements		(2,682)
Balance at August 31, 2011	$	228,464

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 2011 totaled approximately $32,587. The remaining deferred revenue for this portfolio is $313,794.

Three portfolios, Marshall Meadows, Rainbow Housing, and HDSA prepay their Issuer Fees and they are recognized throughout the year. As of August 31, 2011 Deferred Revenue related to these properties totaled $79,034.

A summary of deferred revenue activity for fiscal year 2011 is as follows:

Balance at September 1, 2010	$	388,371
Additions		187,047
Revenue Earned		(141,296)
Foreclosed Loans		(8,707)
Loan Payments Received		(32,587)
Balance at August 31, 2011	$	392,828

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-

NOTE 10: NOTES PAYABLE - Continued

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, 2011 was $950,760. FHLB advances are collateralized by the related notes receivable which totaled $1,289,257 as of August 31, 2011. See Note 4.

In May 2006 the Corporation entered into an agreement with Wells Fargo Community Development Corporation and received a loan in the amount of $1,050,000. Loan funds 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. The balance on this note as of August 31, 2011 was $765,112.

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, 2011 is as follows:

Balance at September 1, 2010	$	3,369,160
Advances		1,288,751
Repayments		(954,554)
Balance at August 31, 2011	$	3,703,357

The current portion of notes payable at August 31, 2011 is $483,375; the remaining balance of $3,219,982 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
2012	483,375	125,808	609,183
2013	48,915	122,783	171,698
2014	552,005	119,694	671,699
2015	55,291	116,407	171,698
2016	1,108,676	104,272	1,212,948
2017 thru 2021	773,933	322,613	1,096,546
2022 thru 2026	681,162	90,984	772,146
Total	$ 3,703,357	$ 1,002,561	$ 4,705,918

NOTE 11: BONDED INDEBTEDNESS

The Corporation had fourteen (14) bond series outstanding as of August 31, 2011. The Corporation issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes.

Single Family Mortgage Revenue Bonds do not constitute a general obligation of the Corporation or the State of Texas. Single-family bonds are collateralized and payable solely from revenues and other assets pledged under the trust indentures and held in trust by Wells Fargo Corporate Trust Services, the Bond Trustee. Assets pledged consist primarily of mortgage-backed securities and investments. Interest on bonds is payable semiannually or monthly. There are a number of limitations and restrictions contained in the various single family bond indentures. The Corporation is in compliance with all significant limitations and restrictions at August 31, 2011.

During February 2011 the Corporation entered into an agreement with Fannie Mae to sell the mortgage backed securities related to the 2004 series bonds. In exchange for the mortgage backed securities Fannie Mae, the sole owner of the 2004 bonds, paid the Corporation approximately $180,000 in cash and securities and cancelled the outstanding bonds. The net loss related to the transaction of approximately $2 million is recorded net of the increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

NOTE 11: BONDED INDEBTEDNESS - Continued

A summary of deferred bond issuance costs for fiscal year 2011 follows:

Bonds Costs of Issuance

	Balance 09/01/2010	Additions	Deletions	Balance 08/31/2011
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	515,812	-	888,711
	$ 5,951,237	$ 515,812	$ 726,143	$ 5,740,906

Amortization of Bond Costs of Issuance

	Balance 09/01/2010	Additions	Deletions	Balance 08/31/2011
2002	$ 267,055	$ 8,475	$ -	$ 275,530
2004	361,071	25,326	386,397	-
2005A	111,261	16,901	-	128,162
2005B	107,085	34,963	-	142,048
2006A	112,158	33,753	-	145,911
2006B	159,434	29,528	-	188,962
2006C	151,554	39,909	-	191,463
2007A-1	104,581	60,858	-	165,439
2007A-3	111,041	58,133	-	169,174
2007C	88,415	36,998	-	125,413
2007B	101,088	36,695	-	137,783
2007D	117,909	48,592	-	166,501
2009A	-	11,796	-	11,796
	$ 1,792,652	$ 441,927	$ 386,397	$ 1,848,182

NOTE 11: BONDED INDEBTEDNESS - Continued

Description	Interest Rate	Bonds Outstanding 9/1/10	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/11	Amounts Due Within One Year
Single Family 2002							
Series 2002-1	6.01%-7.10%	$ 575,000	-	$ 170,000	-	$ 405,000	$ -
Series 2002-2	5.64%-6.20%	1,655,000	-	100,000	-	1,555,000	40,000
Series 2002-3	5.65%-5.70%	1,720,000	-	150,000	-	1,570,000	-
Single Family 2004							
Series 2004A	1.62%	-	-	-	-	-	-
Series 2004-B1	5.40%	1,713,611	-	1,713,611	-	-	-
Series 2004-B2	5.75%	1,159,165	-	1,159,165	-	-	-
Series 2004-B3	5.95%	4,540,212	-	4,540,212	-	-	-
Series 2004-B4	5.80%	2,145,590	-	2,145,590	-	-	-
Series 2004-B5	5.65%	2,065,126	-	2,065,126	-	-	-
Series 2004-B6	5.45%	1,345,726	-	1,345,726	-	-	-
Series 2004-B7	5.55%	1,010,194	-	1,010,194	-	-	-
Series 2004-B8	5.30%	3,276,690	-	3,276,690	-	-	-
Series 2004-B9	5.30%	1,937,407	-	1,937,407	-	-	-
Series 2004-B10	5.25%	2,377,779	-	2,377,779	-	-	-
Single Family 2005							
Series 2005A	Variable	17,370,000	-	995,000	-	16,375,000	295,000
Series 2005B	Variable	14,150,000	-	1,910,000	-	12,240,000	120,000
Single Family 2006							
Series 2006A	Variable	17,361,011	-	1,940,473	-	15,420,538	166,862
Series 2006B	Variable	14,467,922	-	1,698,738	-	12,769,184	130,358
Series 2006C	5.30%	14,930,250	-	2,296,166	-	12,634,084	122,287
Single Family 2007							
Series 2007A-1	5.50%	29,636,458	-	3,166,622	-	26,469,836	258,502
Series 2007A-3	5.60%	30,089,681	-	3,740,838	-	26,348,843	245,240
Series 2007C	5.45%	18,513,083	-	2,098,965	-	16,414,118	157,218
Series 2007B	6.10%	17,780,000	-	2,080,000	-	15,700,000	135,000
Drawdown Program	Variable	-	-	-	-	-	-
Series 2007D	6.00%	16,850,000	-	2,755,000	-	14,095,000	120,000
Single Family 2009/2011							
Series 2009A	Variable	73,640,000	-	33,000,000.00	-	40,640,000	40,640,000
Series 2011A	3.61%	-	55,000,000	730,000	-	54,270,000	410,000
Total Principal		$290,309,905	$55,000,000	$78,403,302	$ -	$266,906,603	$42,840,467
Unamortized Premium		11,459,333				9,602,695	
Total:		$301,769,238				$276,509,298	

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2011 is $42,840,467; the remaining balance of $233,668,831 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
2012	$ 42,840,467	$ 6,424,407	$ 49,264,874
2013	3,724,817	9,342,882	13,067,699
2014	3,933,141	9,189,944	13,123,085
2015	4,169,291	9,027,858	13,197,149
2016	4,153,756	8,854,681	13,008,437
2017 thru 2021	24,265,803	41,538,526	65,804,329
2022 thru 2026	33,421,812	35,612,126	69,033,938
2027 thru 2031	48,092,293	27,126,805	75,219,098
2032 thru 2036	68,203,312	13,891,152	82,094,464
2037 thru 2041	33,131,911	1,962,639	35,094,550
2042 thru 2046	970,000	35,017	1,005,017
Total	$ 266,906,603	$ 163,006,037	$ $ 429,912,640

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 2011, the debt service requirement equaled $78,403,302 in bond principal and $10,769,455 in bond interest expense, totaling $89,172,757. During the year pledged revenues totaled $96,061,654.

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. During fiscal year 2011, one conversion occurred in February 2011. 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, 2011 was $12,441,493 and their fair market value was $12,575,087. 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 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. During fiscal year 2011, the Corporation completed a market sale transaction of approximately $20 million in mortgage-backed securities , which resulted in net revenue of $737,310.

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, 2011 was $327,510.

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 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, 2011, the Corporation was able to acquire $2,876,980 in foreclosed properties.

As of August 31, 2011, the Corporation, through the Neighborhood Stabilization Program, owes the Department $3,769,695. This represents funds used to purchase real property for the purpose of establishing a land bank. As the properties are sold, the funds will be paid back to the Department. The effective due date of the obligations is August 31, 2019.

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, 2011, the Corporation awarded six $50,000 grants.

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 offers 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 2011 totaled $5,694. This contract was terminated in March 2009 and as of August 31, 2009 all services had been provided. Net revenues under that program totaled approximately $24,250 for fiscal year 2011.

The Corporation received federal awards passed through the Department for the NFMC Program of $204,492 in 2011 and recorded a receivable from the Department of $25,810 as of August 31, 2011. See Note 14. The Corporation received federal awards passed through the Department for NSP of $3,118,105 in 2011 and recorded a receivable from the Department of $180,855 and a payable to the Department of $3,765,595 as of August 31, 2011. See Note 15.

NOTE 19: RESTRICTED GRANT INCOME

Significant grants received during fiscal year ending August 31, 2011:

Grantor	Amount	Designation
Texas Department of Housing and Community Affairs	$3,118,105 241,022	Neighborhood Stabilization Program National Foreclosure Mitigation Counseling
FB Heron Foundation	50,000	Foundations Fund
Wells Fargo Foundation	15,000 15,000	Foundations Fund General Administration
Bank of America	15,000	Homebuyer Education Program
Fannie Mae	$50,000	Foreclosure Prevention

NOTE 20: EMPLOYEE BENEFITS

The Corporation is a co-employer with Insperity, a Professional Employer Organization (PEO) that serves as an off-site, payroll and human resources department. Insperity 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 employer contributions for the year ended August 31, 2011, were approximately $30,500.

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, 2011, there were sixteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $297 million.

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: PENDING ACCOUNTING PRONOUNCEMENT

In August 2011, the Governmental Accounting Standards Board (GASB), which is responsible for developing standards of state and local governmental accounting and financial reporting, issued an exposure draft of a proposed *Statement of Governmental Accounting Standards*. This new standard, which is expected to become effective in the fiscal year ending August 31, 2013, will change the method of accounting for bond issuance costs as well as other amounts previously recognized as assets. These costs will be expensed in the year incurred rather than capitalized and written off over the life of the bonds. In addition, all previously capitalized bond issue costs must be written off in fiscal year ending August 31, 2013 as a prior period adjustment. Bond issue costs as of August 31, 2011 totaled approximately $2.9 million. It is anticipated that the adjustment resulting from the implementation of the new standard will have a material negative impact on the Corporation's net assets in 2013.

NOTE 24: 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 14, 2011 (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 September 21, 2011 the Corporation sold certificates resulting in net cash of approximately $600,000. The certificate sales enable the Corporation to maximize its loan origination and down payment assistance under the 2009 Single Family Bond Program.

Notes Receivable
On November 10, 2011 the Corporation's board approved an agreement to loan an amount not to exceed $700,000 to PK Brookswoods Apartments LP, a Michigan nonprofit corporation. The purpose of the loan is to facilitate the rehabilitation of a 50 unit affordable multifamily housing development located in West Columbia, Texas. The note is secured by the development. Interest accrues and is payable in arrears on sums advanced at a rate of 6.75% and is payable in monthly installments of accrued interest on dates to be determined. Utilizing its relationship with Federal Home Loan Bank, the Corporation intends to borrow 70% of the total note amount drawn by Brookswoods Apartments and will fund the remaining 30% with unrestricted assets.

Single Family Bond Issue
The Corporation is planning to issue $32 million in single family mortgage revenue bonds under the New Issue Bond Program in December 2011.

NOTE 24: SUBSEQUENT EVENTS – Continued

Note Payable

In September 2011, the Corporation pledged the $1,200,000 Note Receivable for the Willows property as collateral to Federal Home Loan Bank of Dallas and drew down an advance of $840,000 that will be due in September 2027. By pledging the Notes Receivable and drawing down an advance, it allows the Corporation to further leverage funds and finance more projects.

Fair Market Value of Mortgage-Backed Securities

During the first three months of fiscal year 2012, the Corporation has recorded an unrealized loss of approximately $1.9 million on the mortgage-backed securities which are held by the bond trustee as collateral for the single family bond programs.

NOTE 25: CONTINUANCE SUBJECT TO REVIEW

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

NOTE 26: 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, 2011 and for the year then ended is as follows:

Summary Financial Information		Amount
Operating Revenue	$	26,476,937
Depreciation and Amortization		567,384
Net Income		8,497,699
Net Working Capital*		7,625,384
Total Assets		324,871,363
Total Net Assets		37,338,626
Noncurrent Notes Payable		3,219,982
Noncurrent Bonds Payable		233,668,831
Deferred Revenue		392,828
Fixed Asset Additions		27,310
Due to TDHCA, Federal Programs	$	3,765,595

* Net Working Capital Calculation		Amount
Unrestricted Cash and Cash Equivalents	$	2,865,652
Restricted Assets Held by Bond Trustee		47,180,833
Multifamily Custodial & Reserve Accounts		228,464
Investments		1,998,675
Accounts Receivable & Accrued Revenue		335,130
Accrued Interest Receivable		316,733
Loans Receivable, Current Portion		95,000
Notes Receivable, Current Portion		60,020
Downpayment Assistance, Current Portion		1,000,000
Prepaid Expenses		30,378
Payables:		
Accounts & Accrued Expenses		(470,976)
Current Portion of Notes		(483,375)
Custodial Reserve Liability		(228,464)
Other Current Liabilities		(46,871)
Current Portion of Bonds & Accrued Interest		(45,255,815)
	$	7,625,384

ADDITIONAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
U.S. Department Housing and Urban Development			
Community Development Block Grant - State-Administered Small Cities Program Cluster			
Passed through the Texas Department of Housing and Community Affairs			
Neighborhood Stabilization Program	14.228	77090000101	$ 3,118,105
Total Department Housing and Urban Development			**3,118,105**
Department of the Treasury			
Financial Education and Counseling Pilot Program			
Passed through the Texas Department of Housing and Community Affairs			
National Foreclosure Mitigation Counseling Programs:			
Round 2	21.000	PL110-289:95X1350	11,892
Round 3	21.000	PL111-8:95X1350	19,343
Round 4	21.000	PL111-117:95X1350	55,789
Round 5	21.000	PL112-1095X1350	7,055
Total Department of the Treasury			**94,079**
Total Expenditures of Federal Awards			**$ 3,212,184**

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

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: NONMAJOR PROGRAM DESCRIPTION

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 15 HUD-approved housing counseling organizations throughout the state of Texas.

NOTE 3: MAJOR PROGRAM DESCRIPTION

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, 2011, the Corporation was able to acquire approximately $2.9 million in foreclosed properties.

NOTE 4: MATCHING EXPENDITURES

The Schedule does not include matching expenditures paid by the Corporation and the Department of $11,659 for NFMC for the fiscal year ending August 31, 2011.

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

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

To the Board of Directors
Texas State Affordable Housing Corporation

We have audited the financial statements of Texas State Affordable Housing Corporation. (a nonprofit organization) as of and for the year ended August 31, 2011, and have issued our report thereon dated December 14, 2011. 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 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 14, 2011

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM

MIKESKA MONAHAN and PECKHAM PC
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Texas State Affordable Housing Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Texas State Affordable Housing Corporation's major federal programs for the year ended August 31, 2011. 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 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control over Compliance

Management of Texas State Affordable Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. 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 to determine the 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 that might be deficiencies, significant deficiencies, or material weaknesses. 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 14, 2011

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2011

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

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, 2011

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

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

None.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF REVENUES AND EXPENSES BY INDIVIDUAL ACTIVITY (Unaudited)
For the Year Ended August 31, 2011

	NSP & NFMC	Single Family	Multi Family	Asset Oversight/ Compliance	Other	Total
Operating Revenues						
Interest and Investment Income	$ -	$ 11,511,576	$ 187,346	$ -	$ 48,565	$ 11,747,487
Net Increase in Fair Value of Investments	-	9,330,776	-	-	-	9,330,776
Single Family Income	-	821,533	-	-	-	821,533
Federal and State Grants	3,360,286	-	-	-	-	3,360,286
Other Operating Revenue	91,779	-	267,546	246,190	445,782	1,051,297
Total Operating Revenues	3,452,065	21,663,885	454,892	246,190	494,347	26,311,379
Operating Expenses						
Interest Expense on Bonds and Notes Payable	-	10,566,512	82,649	16,431	13,575	10,679,167
Down Payment Assistance Program	-	520,124	-	-	-	520,124
Salaries, Wages and Payroll Related Costs	167,485	335,040	97,841	335,182	460,758	1,396,306
Grant Expenditures	3,223,843	281,234	-	-	-	3,505,077
Other Expenditures	21	934,869	245,755	262,326	270,035	1,713,006
Total Operating Expenses	$ 3,391,349	$ 12,637,779	$ 426,245	$ 613,939	$ 744,368	$ 17,813,680
Net Income	$ 60,716	$ 9,026,106	$ 28,647	$ (367,749)	$ (250,021)	$ 8,497,699