TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2012

With
Independent Auditor's Report

MIKESKA
MONAHAN
PECKHAM
A Professional Corporation
Certified Public Accountants

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
August 31, 2012

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2012

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, 2012. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The Corporations total assets were $308.4 million; of this amount $288.8 million represent assets associated with the single family bond program, $6 million represents cash equivalents and investments and $5.3 million represents real estate held under the Neighborhood Stabilization Program ("NSP") and the Affordable Communities of Texas ("ACT") program. Total assets decreased approximately $16.5 million during 2012 primarily due to the use of cash to pay down the Corporation's bond debt.

- The Corporation's liabilities totaled $271.6 million of which $261.7 million related to the single family bond program, $4.6 million consisted of notes payable and $4.3 million related to the NSP debt owed to the Texas Department of Housing and Community Affairs. Total liabilities decreased approximately $16 million in 2012 primarily due to the repayment of the Corporation's bond debt.

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending August 31, 2012 by $36.8 million. Of this amount, $8.3 million may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $863,000 is invested in capital assets.

- The Corporation's operating expenses for 2012 totaled $15.5 million and exceeded operating revenues by approximately $500 thousand. The major revenue sources were interest and investment income of $11.5 million, federal grants of $1.4 million and single family program income of $1.8 million. Revenue was reduced in 2012 by approximately $1.4 million due to the decline in the fair market value of the mortgage backed securities held in the single family bond program. This represents an unrealized loss on mortgage-backed securities held in trust. The Corporation enjoyed an unrealized gain on these securities of $9.3 million in the prior year. 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 be reported at fair value on the balance sheet.

- Operating expenditures for fiscal year 2012 consisted primarily of interest expense on bonds and notes payable of $10.8 million and salary expense of $1.5 million.

- Management has deferred the implementation of GASB Statements No. 61, 62 and 63 until the fiscal year beginning September 1, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Corporation 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

	2012	2011	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Current Assts	$ 37,055,618	$ 54,110,886	$ (17,055,268)	-31.52%
Noncurrent Assets	271,347,080	270,760,447	586,633	0.22%
Total Assets	$ 308,402,698	$ 324,871,333	$ (16,468,635)	-5.07%
LIABILITIES:				
Current Liabilities	$ 28,457,317	$ 46,485,501	$ (18,028,184)	-38.78%
Noncurrent Liabilties	243,110,859	241,047,236	2,063,623	0.86%
Total Liabilities	$ 271,568,176	$ 287,532,737	$ (15,964,561)	-5.55%
NET ASSETS:				
Invested in Capital Assets	863,804	676,905	186,899	27.61%
Restricted Net Assets	27,641,564	28,774,967	(1,133,403)	-3.94%
Unrestricted Net Assets	8,329,154	7,886,754	442,400	5.61%
Total Net Assets	$ 36,834,522	$ 37,338,626	$ (504,104)	-1.35%

Net assets decreased from $37.3 million to $36.8 million in fiscal year 2012. Of total net assets, $863,804 is invested in capital assets. Restricted assets totaled $27,641,564, and the remaining balance of $8,329,154 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 $325 million to $308 million during fiscal year 2012. The largest single factor contributing to this decrease was the principal payments made to bondholders in the single family programs.

As of August 31, 2012 the Corporation's current assets totaled $37 million and current liabilities equaled $28 million resulting in available net working capital of $8.6 million.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $249,752,813; owned real estate totaling $5,314,361; down payment assistance of $5,204,207; capitalized bond issuance costs of $3,686,708; the Corporation's loan portfolio equaling $845,990; notes receivable of $3,288,937; and purchased mortgage servicing rights totaling $597,924. The Corporation's capital assets, consist of furniture, land, and equipment used in operations totaling $1,605,300, net of accumulated depreciation.

Noncurrent liabilities consisted of bonds payable totaling $233,866,351; notes payable of $4,542,401; due to Federal Programs of $4,335,201 and deferred revenue of $366,906.

Statement of Net Assets

	2012	2011	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Land Banking	$ 1,080,177	$ 3,136,605	$ (2,056,428)	-65.56%
Foreclosure Prevention	868,734	315,460	553,274	175.39%
Single Family	12,079,407	21,663,885	(9,584,478)	-44.24%
Multi Family	372,400	454,892	(82,492)	-18.13%
Asset Oversight & Compliance	230,926	246,190	(15,264)	-6.20%
Other	386,091	494,347	(108,256)	-21.90%
Total Income	$ 15,017,735	$ 26,311,379	$ (11,293,644)	-42.92%
EXPENSES:				
Land Banking	$ 1,086,777	$ 3,080,657	$ (1,993,880)	-64.72%
Foreclosure Prevention	820,070	310,692	509,378	163.95%
Single Family	12,098,625	12,637,779	(539,154)	-4.27%
Multi Family	314,933	426,245	(111,312)	-26.11%
Asset Oversight & Compliance	325,277	613,939	(288,662)	-47.02%
Other	876,157	744,368	131,789	17.70%
Total Expenses	$ 15,521,839	$ 17,813,680	$ (2,291,841)	-12.87%
Operating Gain/(Loss)	(504,104)	8,497,699	(9,001,803)	-105.93%
Beginning Net Assets	37,338,626	28,840,927	8,497,699	29.46%
Ending Net Assets	$ 36,834,522	$ 37,338,626	$ (504,104)	-1.35%

The Corporation reported $15 million in operating revenues during fiscal year 2012. Interest and Investment Income totaling $11,505,705, constitutes the largest source of income contributing 77% to total operating revenue for fiscal year 2012.

Down payment assistance provided to home buyers in association with the Corporation's single family mortgage revenue bond program is accounted for as an interest-free loan which is repaid to the Corporation by charging a higher interest rate on the mortgage loan. The amount of interest collected that was treated as repayment of down payment assistance in the current year was $987,428.

Net asset oversight and compliance fees totaled $230,926 and represented 1.5% of operating revenue for fiscal year 2012. Asset oversight and compliance fees are derived from contracts with properties financed with multifamily bonds issued by the Corporation. The Corporation is a conduit issuer of multifamily bonds.

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 $219,593 in revenue, reported net of subservicer fees of $94,183 and $14,974 in loan write-offs.

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 $364,766. Mortgage revenue bond program activity earned $122,861. This activity included premium income from the sale of bonds. Revenues from the single family TBA program (see Note 1) totaled $1,372,577. Together these fees totaled $1,774,544 and represent 12% of total operating revenues.

Multifamily bond fees contributed only $127,618 or 1% of total operating revenues for fiscal year 2012. Multifamily programs primarily consist of the multifamily bond program, direct lending activities, and other 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 approximately $15.5 million. The four largest expenses for fiscal year 2012 were interest expense on bonds and notes payable (69%); grant expenditures (9.6%); salaries, wages and payroll related expenses (9.7%); and amortization (3.9%). The Corporation recorded a net loss for fiscal year 2012 of ($504,104).

BOND PROGRAM DEBT

During fiscal year 2012 the Corporation converted $19.2 million in single family revenue bonds from taxable bonds to tax-exempt bonds and issued $32 million in single family mortgage revenue bonds. Single family debt retirements totaled approximately $30 million. Bonds payable decreased from $277 million to $259 million during the year.

BUSINESS TYPE ACTIVITIES

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

BUDGETARY HIGHLIGHTS

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

RELEVANT DECISIONS AND ECONOMIC FACTORS

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

LEGISLATIVE REPORTING REQUIREMENTS

- The number and amount of private grants, donations, or other funds applied for and received by the Corporation during fiscal year 2012 as well as the use of these funds were as follows:

Grant Applications Submitted	Status	Amount Requested	Amount Awarded	Program/Activity
Comerica Charitable Foundation	Declined	$ 10,000	N/A	Homebuyer and Financial Education
BBVA Compass Foundation	Declined	10,000	N/A	Homebuyer and Financial Education
State Farm	Declined	10,000	N/A	Homebuyer and Financial Education
Wells Fargo Housing Foundation	Received	250,000	50,000	Down Payment Assistance
Fannie Mae	Received	50,000	50,000	Foreclosure Prevention
Meadows Foundation	Received	100,000	100,000	Foreclosure Prevention
Applied Materials Foundation	Received	15,000	15,000	Foreclosure Prevention
Bank of America	Approved	30,000	30,000	Texas Statewide Homebuyer Ed.
Wells Fargo Housing Foundation	Declined	15,000	N/A	Texas Statewide Homebuyer Ed.
Insperity	Declined	5,000	N/A	Texas Financial Toolbox
Enterprise Pre-Development Design Gra	Declined	20,000	N/A	Affordable Communities of Texas
Drucker Institute Award	Declined	100,000	N/A	Affordable Communities of Texas
Harvard Innovations in American Govt Award	Declined	100,000	N/A	Affordable Communities of Texas
Green Mountain Energy Sun Club	Pending	undetermined	N/A	In kind application for solar panels
Fannie Mae	Approved	50,000	50,000	Foreclosure Prevention

- The number, amount, and purpose of loans provided to affordable housing developers, including Corporation funds and other funds accessed by the Corporation during fiscal year 2012 were as follows:

  Loan in the amount of $21,399.56 was provided to a non-profit developer for the purpose of acquiring and rehabilitating single family homes.

  Loan in the amount of $262,323.40 was provided to non-profit developer for the purpose acquiring & financing interim construction on single family homes.

  Loan in the amount of $31,905.51 was provided to non-profit developer for the purpose financing interim construction on single family homes.

  Loan in the amount of $31,385.00 was provided to non-profit developer for the purpose financing interim construction on single family homes.

- The amount and source of funds deposited into any fund created by the Corporation for the purpose of providing grants; and the amount and purpose of grants provided through a fund during fiscal year 2012 were as follows:

  $300,000 was set aside in the Texas Foundations Fund for the purpose of making grants to nonprofit organizations and rural government entities for the costs associated with the construction, rehabilitation, and/or critical repair of single family homes, as well as, the provision of supportive housing services within multifamily housing.

- The total amount of revenue expended beyond revenues generated during fiscal year 2012 was $504,104.

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.

MIKESKA • MONAHAN • PECKHAM • PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Texas State Affordable Housing Corporation

We have audited the accompanying statement of net assets of Texas State Affordable Housing Corporation (the "Corporation"), a nonprofit corporation that is a component unit of the State of Texas, as of August 31, 2012, 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 the 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, 2012, 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 13, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplemental information included in the schedule of revenues and expenses by individual activity on page 53 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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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.

Mikeska Monahan & Pedsham, PC

Austin, Texas
December 13, 2012

AUDITED FINANCIAL STATEMENTS

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET ASSETS
As of August 31, 2012

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 4,128,485
Restricted Assets Held by Bond Trustee:	
Cash and Cash Equivalents	28,907,638
Accrued Interest	395,473
Custodial Cash and Cash Equivalents	279,838
Investments, at Fair Market Value	2,005,198
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $801,230	265,092
Accrued Interest Receivable	30,557
Loans Receivable, Current Portion	65,000
Notes Receivable, Current Portion	66,025
Downpayment Assistance, Current Portion	881,000
Prepaid Expenses	31,312
Total Current Assets:	37,055,618
Noncurrent Assets	
Loans Receivable, Net of uncollectible amounts of $91,726	845,990
Notes Receivable	3,288,937
Investments, at Fair Market Value	1,050,840
Mortgage Servicing Rights, Net of Accumulated Amortization of $2,130,137	597,924
Fixed Assets, Net of Accumulated Depreciation of $296,598	1,605,300
Owned Real Estate, Federal & Other Programs	5,314,361
Bond Issuance Costs, Net of Amortization of $2,374,019	3,686,708
Downpayment Assistance	5,204,207
Restricted Investments Held by Bond Trustee, at Fair Market Value	249,752,813
Total Noncurrent Assets:	271,347,080
TOTAL ASSETS	**$ 308,402,698**

(continued)

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, 2012

LIABILITIES & NET ASSETS	
Current Liabilities	
Accounts Payable and Accrued Expenses	$ 187,969
Notes Payable, Current Portion	72,030
Multifamily Custodial and Reserve Funds	279,838
Other Current Liabilities	52,188
Payable from Restricted Assets Held by Bond Trustee:	
Bonds Payable, Current Portion	25,052,971
Accrued Interest on Bonds	2,812,321
Total Current Liabilities:	28,457,317
Noncurrent Liabilities	
Notes Payable	4,542,401
Revenue Bonds Payable	233,866,351
Due to Federal Programs	4,335,201
Deferred Revenue	366,906
Total Noncurrent Liabilities:	243,110,859
Total Liabilities:	271,568,176
Net Assets	
Invested in Capital Assets, Net of Related Debt	863,804
Restricted Assets	27,641,564
Unrestricted Net Assets	8,329,154
Total Net Assets:	36,834,522
TOTAL LIABILITIES & NET ASSETS	**$ 308,402,698**

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

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ending August 31, 2012

Operating Revenues		
Interest and Investment Income	$	11,505,705
Net Increase (Decrease) in Fair Value of Investments		(961,153)
Single Family Income, Net of uncollectible amounts of $85,660		1,774,544
Asset Oversight and Compliance Fees		230,926
Loan Servicing Fees, Net of subservicer fees of $94,183 and uncollectible amounts of $14,974		219,593
Multifamily Income		127,618
Federal Grants		1,436,481
Other Contributions and Public Support		504,752
Other Operating Revenue		179,268
Total Operating Revenues	$	15,017,734
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	10,761,819
Down Payment Assistance Program		317,035
Salaries, Wages and Payroll Related Costs		1,502,522
Professional Fees and Services		306,645
Amortization		604,466
Office and Equipment Rental and Maintenance		39,412
Travel and Meals		62,962
Depreciation		62,167
Program and Loan Administration		241,912
Grant Expenditures:		
Property Acquisitions and Related Costs		797,140
Foreclosure Prevention Counseling and Related Costs		693,781
Other Operating Expenses		131,977
Total Operating Expenses	$	15,521,838
Net Loss		(504,104)
Total Net Assets, Beginning		37,338,626
Total Net Assets, Ending	$	36,834,522

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, 2012

Cash Flows from Operating Activities		
Receipts from Customers & Users	$	5,923,856
Payments for Salaries and Benefits		(1,497,528)
Payments to Suppliers of Goods & Services		(3,547,587)
Net Cash Provided By Operating Activities		878,741
Cash Flows from Non-Capital Financing Activities		
Proceeds from the Sale of Bonds		32,000,000
Proceeds from Notes Payable		1,410,000
Payments of Principal on Notes Payable		(472,196)
Payments of Interest on Notes Payable		(146,493)
Payments of Interest on Single Family Bond Program		(11,092,504)
Payments of Principal related to Bond Maturities and Calls		(49,048,787)
Payments for Bond Issuance Costs		(319,819)
Net Cash Used For Non-Capital Financing Activities		(27,669,799)
Cash Flows from Capital and Related Financing Activities		
Payments for Additions to Fixed Assets		(221,687)
Payments of Principal on Capital Acquisition Note Payable		(26,732)
Net Cash Used for Capital and Related Financing Activities		(248,419)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income		12,493,133
Proceeds from Sale and Maturities of Investments by Bond Trustee		30,233,944
Proceeds from Sale of Unrestricted Investments		5,516,443
Purchase of Investments by Bond Trustee		(32,222,297)
Purchase of Unrestricted Investments		(5,559,771)
Net Cash Provided By Investing Activities		10,461,452
Net Decrease in Cash and Cash Equivalents		(16,578,025)
Cash and Cash Equivalents at Beginning of Year		49,893,986
Cash and Cash Equivalents at End of Year	$	33,315,961

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, 2012

Reconciliation of Operating Income to Net Cash Provided By Operating Activities

Net Loss from Operations	$	(504,104)
Adjustments To Reconcile to Net Cash from Operations:		
Unrealized Loss on Investments		1,481,325
Depreciation and Amortization Expense		666,633
Amortization of Down Payment Assistance		987,428
Provision for Estimated Losses		100,635
Income from Donated Properties		(235,000)
Cash Flow Categories Classification Differences		(1,423,595)
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		70,038
Decrease in Accrued Interest Receivable		271,666
Decrease in Loans Receivable		123,016
Decrease in Notes Receivable		23,275
Decrease in Accounts Payable & Accrued Expenses		(283,007)
Increase in Accrued Interest Payable		396,973
Increase (Decrease) in Other Assets & Liabilities, net		(796,542)
Net Cash Provided By Operating Activities	$	878,741

Noncash Transactions

Acquisition of Owned Real Estate Using Capital Financing	$	432,439

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

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 - 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.

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

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 Texas Department of Housing and Community Affairs' ("the Department") single-family mortgage revenue bond program issues 52, 53, and 54, and servicer of the Corporation's own portfolio of single and multifamily loans. The Corporation subcontracts the servicing related to the Department's single-family mortgage revenue bond programs.

Asset Oversight and Compliance

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

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'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 offers 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.

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

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

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

Interim Construction and Acquisition Program – The Interim Construction and Acquisition Program (ICAP) provides financing for the acquisition, construction and redevelopment of single family homes for low-income families in rural communities and high need areas. See Note 4.

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 owner must agree to restrict a certain number of the units so that they are affordable in their market place. Additionally, each property must provide significant resident and/or community services with excess revenues.

Multifamily Private Activity Bond Program – Under the Multifamily Private Activity Bond ("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 2012 program year the amount available for issuance was approximately $54 million. The Corporation's Multifamily PAB Program provides financing for new construction, or acquisition and rehabilitation of existing multifamily rental properties. The Corporation is required by statute to target areas, such as cities and counties, and to issue requests for proposals to developers to provide the type of housing requested by the target area. In exchange for receiving the lower tax-exempt revenue bond interest rate, multifamily complexes financed through this program must provide a minimum number of affordable units.

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

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

Significant Accounting Policies

Basis of Accounting – The Corporation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow. The Corporation has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

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

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

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 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 a net increase or decrease in the fair value of investments.

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

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

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

Notes Receivable – Notes receivable is comprised of loans made under the Multifamily Direct Lending Program, the Multifamily Private Activity Bond Program and the Single Family Interim Construction and Acquisition Program. Notes are carried at the unpaid principal balance outstanding.

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

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

Amortization of Bond Issuance Costs –Capitalized bond issuance costs related to the Single Family Bond Programs totaled $6.1 million. Bond issuance costs are amortized over the life of the bonds. 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 2012 totaled $526,000; accumulated amortization as of August 31, 2012 equaled $2.4 million.

Amortization of Bond Premium – The premiums related to the Single Family Bond totaled $16.7 million 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 2012 totaled $876,000; accumulated amortization as of August 31, 2012 equaled $7.6 million.

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

Amortization of Purchased Mortgage Servicing Rights - Purchase Mortgage Servicing Rights are recorded at cost and are amortized in relation to the remaining value of the related mortgage balances at the end of each period so that the value of the servicing rights equals the same percentage of the outstanding mortgage balance as when originally purchased. Amortization expense for Fiscal Year 2012 was $79,000; accumulated amortization as of August 31, 2012 equaled approximately $2.1 million.

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 $1,500 and a useful life of more than one year.

Compensated Absences - Employees of the Corporation earn annual leave on a monthly basis. Each employee is entitled to earned but unused annual leave pay up to a maximum 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, 2012 was approximately $58,000.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling approximately $280,000 for the benefit of three 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.

Operating and Nonoperating Revenues and Expenses – Operating revenues and expenses generally result from providing services in connection with the bond

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

programs, lending programs, and federal and other grants. Operating expenses are primarily related to interest expense on bonds and general administrative expenses. The Corporation considers all of its revenues and expenses to be operating revenues.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2012 consist of bank deposits totaling $3,334,840, deposits in the Federal Home Loan Bank totaling $491,892, and pooled investment funds totaling $301,753.

Restricted cash and cash equivalents at August 31, 2012 total $28,907,638 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains seven custodial accounts with a combined total of $279,838 pledged as reserves on three 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 - 11/15/12	0.648%	$ 245,000	$ 245,000	$ -
Certificate of Deposit - 3/14/13	0.750%	1,000,000	1,000,000	-
Certificate of Deposit - 3/14/13	0.500%	245,000	245,000	-
Federal Farm Credit Discount Note - 3/25/13	3.550%	516,459	515,198	(1,261)
Total Short Term Investments		2,006,459	2,005,198	(1,261)
Pass through securities GNMA - 10/20/2034	5.990%	16,709	18,838	2,129
State of Illinois Municipal Bond - 1/1/14	4.071%	1,039,100	1,032,002	(7,098)
Total Long Term Investments		1,055,809	1,050,840	(4,969)
Total Investments		$ 3,062,268	$ 3,056,038	$ (6,230)

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Guaranteed Investment Contract - 03/01/34	4.80%	$ 14,575	$ 14,575	$ -
Guaranteed Investment Contract - 03/01/34	3.75%	131,034	131,034	-
Guaranteed Investment Contract - 03/01/34	3.41%	42,468	42,468	-
GNMA/FNMA Investments - 2032/2033	6.71%	304,689	361,232	56,543
GNMA/FNMA Investments - 2032/2033	6.02%	1,342,993	1,527,922	184,929
GNMA/FNMA Investments - 2032/2033	5.74%	1,084,316	1,219,547	135,231
GNMA/FNMA Investments - 2035/2036	5.45%	13,557,612	15,111,292	1,553,680
GNMA/FNMA Investments - 2036	5.49%	9,808,587	10,921,297	1,112,710
GNMA/FNMA Investments - 2036	5.49%	11,927,844	13,288,068	1,360,224
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	10,116,305	11,259,854	1,143,549
GNMA/FNMA Investments - 2036/2037	5.75%	10,701,377	11,931,659	1,230,282
GNMA/FNMA Investments - 2037/2038	5.65%	21,476,607	23,871,916	2,395,309
GNMA/FNMA Investments – 2037/2038	5.75%	21,815,387	24,262,059	2,446,672
GNMA/FNMA Investments – 2037/2038	5.65%	13,903,667	15,448,713	1,545,046
GNMA/FNMA Investments – 2037/2038	6.10%	12,994,242	14,644,267	1,650,025
GNMA/FNMA Investments – 2037/2038	6.00%	11,666,567	13,101,085	1,434,518
GNMA/FNMA Investments – 2040/2041	3.5-4.75%	84,281,519	92,615,825	8,334,306
Total Restricted Investments		$ 225,169,789	$ 249,752,813	$ 24,583,024

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

Single Family Mortgage Revenue Bonds Series 2002	$ 166,900
Single Family Mortgage Revenue Bonds Series 2004	-
Single Family Mortgage Revenue Bonds Series 2005A & B	1,250,000
Single Family Mortgage Revenue Bonds Series 2006A ,B & C	1,830,000
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D	4,739,000
Single Family Mortgage Revenue Bonds Series 2009A/2011A, 2011A/2011B	3,294,000
	$ 11,279,900

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The net decrease in the fair value of investments held by the bond trustee totaled $1.5 million. 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 $250 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 $225 million and unrealized gain of $25 million as of August 31, 2012. The Corporation is susceptible to risk that the market for such mortgage backed securities could incur downgrades 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, 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.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are priced at market on a daily basis as a contractual responsibility of the bank. By adopted Policy and state law, repurchase agreements are limited to those with defined termination dates executed with a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed 90 days to stated maturity. Reverse repurchase agreements may not exceed 90 days after the term of the reverse and funds may be used only to acquire authorized investments matched to the reverse. State law and the adopted Policy require that commercial paper have a maximum stated maturity of 90 days or less and be rated A1/P1 or its equivalent by at least two nationally recognized rating agencies. The Corporation's adopted Investment Policy restricts investment in SEC registered mutual funds to money market mutual funds striving to maintain a $1 net asset value and with a WAM of 90 days as further defined by State law. Neither the state law nor the Policy requires a rating. Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The adopted Policy further restricts investments to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

As of August 31, 2012:

- Collateralized or insured certificates of deposit represented 20.74% 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 14.48% of the total portfolio,
- investment in an independent AAA-rated local government investment pool represented 4.20% of the total portfolio,
- holdings in AAA-rated money market funds represented 20.97 % of the total portfolio,
- funds invested in fully collateralized or insured interest bearing accounts represented 32.31% of the total portfolio,
- and holding in US Government securities rated AAA represented 7.30% of the total portfolio.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Concentration of Credit Risk

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

	Max % of Portfolio
US Obligations	80%
Obligations of US Agencies	80%
Certificates of Deposit	60%
By Institution	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper	30%
By Issuer	10%
Local Government Stable Net Asset Value Pools	75%
Banking Accounts	80%
Municipal Obligations	not stated

As of August 31, 2012:

Collateralized or insured certificates of deposit represented 20.74% of the total portfolio. Funds invested in fully collateralized or insured interest bearing accounts represented 32.31% of the total portfolio.

Concentration of Credit Risk – Funding

Approximately 9.51% 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.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, the Corporation's adopted Investment Policy sets a maximum stated maturity for US obligations of 3 years. 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, 2012, the portfolio contained:

- excluding the GNMA, no holding with a stated maturity date beyond 17, and
- including the GNMA, the dollar weighted average maturity of the total portfolio was 135 days.

As of August 31, 2012, 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 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

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Portfolio disclosure as of August 31, 2012:

- the portfolio contained 20.74% 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, 2012 is as follows:

Loans Receivable at September 1, 2011	$	1,125,732
Additions		-
Paydowns		(117,479)
Reduction due to Foreclosure and Short Sale		(5,537)
Loans Receivable at August 31, 2012		1,002,716
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2012	$	910,990

The current portion of loans receivable at August 31, 2012 is $65,000; the remaining balance of $845,990 is classified as noncurrent loans receivable.

The activity for allowance for loan losses for fiscal year 2012 is as follows:

Balance at September 1, 2011	$	(91,726)
Current Year Reduction		-
Loss Applied to the Allowance		-
Balance at August 31, 2012	$	(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 three notes totaling $2,442,778 which collateralize advances from Federal Home Loan Bank See Note 10.

A summary of notes receivable at August 31, 2012 is as follows:

Balance at September 1, 2011	$ 3,378,237
Additions	347,014
Collections	(370,289)
Provision for loan loss	-
Balance at August 31, 2012	$ 3,354,962

The current portion of notes receivable at August 31, 2012 is $66,025; the remaining balance of $3,288,937 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 2012 consist of the following:

	Cost or Basis In Property			
	Balance September 1, 2011	Additions	Deletions	Balance August 31, 2012
Building	$1,263,390	$ 9,432	-	$1,272,822
Land	232,241	-	-	232,241
Furniture & Fixtures	301,225	212,255	116,645	396,835
Total	$1,796,856	$ 221,687	$ 116,645	$1,901,898

	Accumulated Depreciation			
	Balance September 1, 2011	Additions	Deletions	Balance August 31, 2012
Building	$ 81,876	$ 41,637	$ -	$ 123,513
Land	-	-	-	-
Furniture & Fixtures	269,201	20,529	116,645	173,085
Total	$ 351,077	$ 62,166	$116,645	$ 296,598

Fixed Assets less accumulated depreciation at August 31, 2012 totaled $1,605,300.

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 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 three-year lease agreement which calls for monthly lease payments of $489.

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

Year Ended August 31,	Amount
2013	5,868
2014	5,868
2015	1,467
2016	-
Total Minimum Future Rental Payments	$ **13,203**

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 approximately $23,600.

NOTE 8: MULTIFAMILY RESERVES & CUSTODIAL ACCOUNTS

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

Reserve activity for the year ended August 31, 2012 is as follows:

Balance at September 1, 2011	$ 228,464
Deposits	51,374
Disbursements	-
Balance at August 31, 2012	$ 279,838

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 2012 totaled approximately $37,803. The remaining deferred revenue for this portfolio is $275,991.

The prepaid issuer fees from three multifamily bond properties are recognized as income throughout the year. As of August 31, 2012 deferred revenue related to these properties totaled $90,915.

A summary of deferred revenue activity for fiscal year 2012 is as follows:

Balance at September 1, 2011	$	392,828
Additions		240,282
Revenue Earned		(228,401)
Foreclosed Loans		-
Loan Payments Received		(37,803)
Balance at August 31, 2012	$	366,906

NOTE 10: NOTES PAYABLE

During Fiscal Year 2004 the Corporation provided permanent financing for: (1) the new construction of a 60-unit multifamily affordable housing development in Brady, Texas in the amount of $875,000; and, (2) the new construction of a 44-unit multifamily affordable housing development in Stephenville, Texas in the amount of $550,000. The Corporation used unrestricted assets to fund 25% of each loan. Advances from Federal Home Loan Bank ("FHLB") funded the remaining 75% resulting in two notes payable by the Corporation totaling $1,068,750 at 6.345% with a 30 year amortization and 20 year term (balloon payment). The Corporation utilized financing from FHLB in September of 2011 by pledging the note receivable for a multifamily apartment complex and taking an advance for 70% of the value. In June 2012, the Corporation further utilized FHLB financing by pledging a $500,000 security and taking a two year advance to fund a land trust project in Plano, Texas. The unpaid balance of the FHLB

NOTE 10: NOTES PAYABLE - Continued

advances at August 31, 2012 was $2,326,051. FHLB advances are collateralized by the related notes receivable which totaled $2,442,778 as of August 31, 2012. 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 in 10 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 $5,507 at 4.9% 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, 2012 was $738,380.

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, 2012 is as follows:

Balance at September 1, 2011	$	3,703,357
Advances		1,527,320
Repayments		(616,246)
Balance at August 31, 2012	$	4,614,431

The current portion of notes payable at August 31, 2012 is $72,030; the remaining balance of $4,542,401 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
2013	$ 72,030	$ 147,820	$ 219,850
2014	1,143,120	137,936	1,281,056
2015	76,787	132,624	209,411
2016	1,130,564	120,097	1,250,661
2017	84,718	103,693	188,411
2018 thru 2022	847,457	369,151	1,216,608
2023 thru 2027	1,259,755	119,805	1,379,560
Total	$ 4,614,431	$ 1,131,126	$ 5,745,557

NOTE 11: BONDED INDEBTEDNESS

The Corporation had fifteen (15) bond series outstanding as of August 31, 2012. 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.

NOTE 11: BONDED INDEBTEDNESS - Continued

The Corporation is in compliance with all significant limitations and restrictions at August 31, 2012.

A summary of deferred bond issuance costs for fiscal year 2012 follows:

Bonds Costs of Issuance

	Balance 09/01/2011	Additions	Deletions	Balance 08/31/2012
2002	$ 346,253	$ -	$ -	$ 346,253
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
2007D	415,107	-	-	415,107
2009A/B	888,711	319,817	-	1,208,532
	$ 5,740,908	$ 319,819	$ -	$ 6,060,727

Amortization of Bond Costs of Issuance

	Balance 09/01/2011	Additions	Deletions	Balance 08/31/2012
2002	$ 275,530	$ 13,951	$ -	$ 289,481
2005A	128,162	36,011	-	164,173
2005B	142,048	36,519	-	178,567
2006A	145,911	56,133	-	202,044
2006B	188,962	45,820	-	234,782
2006C	191,463	30,928	-	222,391
2007A-1	165,439	89,891	-	255,330
2007A-3	169,174	68,210	-	237,384
2007C	125,413	41,421	-	166,834
2007B	137,783	45,517	-	183,300
2007D	166,501	36,246	-	202,747
2009A/B	11,796	25,190	-	36,986
	$ 1,848,182	$ 525,837	$ -	$ 2,374,019

NOTE 11: BONDED INDEBTEDNESS – Continued

Description	Interest Rate	Bonds Outstanding 9/1/11	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/12	Amounts Due Within One Year
Single Family 2002							
Series 2002-1	6.01%-7.10%	$ 405,000	-	$ 85,000	-	$ 320,000	$ -
Series 2002-2	5.64%-6.20%	1,555,000	-	255,000	-	1,300,000	10,000
Series 2002-3	5.65%-5.70%	1,570,000	-	355,000	-	1,215,000	-
Single Family 2005							
Series 2005A	Variable	16,375,000	-	2,120,000	-	14,255,000	280,000
Series 2005B	Variable	12,240,000	-	1,995,000	-	10,245,000	-
Single Family 2006							
Series 2006A	Variable	15,420,538	-	3,227,061	-	12,193,477	141,716
Series 2006B	Variable	12,769,184	-	2,635,999	-	10,133,185	111,585
Series 2006C	5.30%	12,634,084	-	1,779,444	-	10,854,640	114,495
Single Family 2007							
Series 2007A-1	5.50%	26,469,836	-	4,677,198	-	21,792,638	231,717
Series 2007A-3	5.60%	26,348,843	-	4,389,223	-	21,959,620	221,109
Series 2007C	5.45%	16,414,118	-	2,349,862	-	14,064,256	145,655
Series 2007B	6.10%	15,700,000	-	2,580,000	-	13,120,000	120,000
Series 2007D	6.00%	14,095,000	-	2,055,000	-	12,040,000	115,000
Single Family 2009/2011							
Series 2009/2011A	Variable	94,910,000	-	1,190,000	19,200,000	74,520,000	22,290,000
Series 2009/2011B	3.61%	-	32,000,000	155,000	-	31,845,000	395,000
Total Principal		$266,906,603	$32,000,000	$29,848,787	$19,200,000	$249,857,816	$24,176,277
Unamortized Premium		9,602,695				9,061,506	876,694
Total:		$276,509,298				$258,919,322	$25,052,971

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2012 is $25,052,971. The remaining balance of $233,866,351 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
2013	$ 24,176,277	$ 8,288,371	$ 32,464,648
2014	3,909,290	10,831,243	14,740,533
2015	4,134,601	10,653,850	14,788,451
2016	4,201,907	10,461,725	14,663,632
2017	4,296,658	10,263,473	14,560,131
2018-2022	26,334,769	47,763,949	74,098,718
2023-2027	35,504,857	39,876,314	75,381,171
2028-2032	49,736,718	29,189,987	78,926,705
2033-2037	69,587,739	15,198,291	84,786,030
2038-2042	27,975,000	2,269,222	30,244,222
Total	$ 249,857,816	$ 184,796,425	$ 434,654,241

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 2012, the debt service requirement equaled $29,848,787 in bond principal and $10,613,648 in bond interest expense, totaling $40,462,435. During the year pledged revenues totaled $42,441,239.

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

Single Family New Issue Bond Program

The New Issue Bond Program (NIBP) was sponsored by the United States Treasury and bonds in the aggregate principal amount of $73,640,000 were issued on December 23, 2009. The bonds were issued as short-term, variable rate bonds to be converted from time to time to long-term bonds. During fiscal year 2012, one conversion occurred in which market rate bonds totaling $19,200,000 were converted and a total of $32,000,000 in bonds were issued for the series 2009/11B. 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. In November 2012 the Corporation redeemed the final $21.4 million. See Note 24.

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. With the issue of 2009B/11B, the warehouse line was no longer used. The net revenues derived from the warehousing arrangement are being shared between by the Corporation and the warehouse provider on a 50-50 basis. During fiscal year 2012, the Corporation completed a market sale transaction of approximately $9 million in mortgage-backed securities, which resulted in net revenue of $527,672.

NOTE 13: MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

The Mortgage Credit Certificate (MCC) Program was created 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 single family bond cap each year to issue MCCs. During the fiscal year ending August 31, 2012 the MCC program revenue totaled approximately $360,000.

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 has been awarded approximately $1.3 million in NFMC funding, and has administered these funds through 11 HUD-approved 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, 2012, the Corporation was able to acquire $569,626 in foreclosed properties.

As of August 31, 2012, the Corporation, through the Neighborhood Stabilization Program, owes the Department $4,335,201. This represents funds used to purchase real property for the purpose of establishing a land bank. As the properties are sold, the funds will be paid back to the Department. The effective due date of this obligation is August 31, 2019.

NOTE 16: TEXAS FOUNDATIONS FUND

The Texas Foundations Fund program provides 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. See Note 24.

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 3-5% down payment assistance.

NOTE 18: RELATED PARTY TRANSACTIONS

The Corporation received federal awards passed through the Department for the NFMC Program of $632,374 in 2012 and recorded a receivable from the Department of $25,508 as of August 31, 2012. See Note 14. The Corporation received federal awards passed through the Department for NSP of $772,640 in 2012 and recorded a receivable from the Department of $112,485 and a payable to the Department of $4,335,201 as of August 31, 2012. See Note 15.

NOTE 19: RESTRICTED GRANT INCOME

Significant grants received during the fiscal year ending August 31, 2012:

Grantor	Amount	Designation
Texas Department of Housing and Community Affairs	$773,000	Neighborhood Stabilization Program
	614,000	National Foreclosure Mitigation Counseling
FB Heron Foundation	50,000	Foundations Fund
Wells Fargo Foundation	50,000	Downpayment Assistance
Meadows Foundation	100,000	Foreclosure Counseling
Fannie Mae	50,000	Foreclosure Prevention
Applied Materials	15,000	Foreclosure Prevention

NOTE 20: EMPLOYEE BENEFITS

The Corporation offers a defined contribution 403(b) retirement plan to its employees. 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, 2012, were approximately $33,600.

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 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 $54 million of the State's volume cap allocation of private activity bonds for multifamily residential rental housing.

The 501(c) (3) and private activity revenue bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of August 31, 2012, there were fourteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $183 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 PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after June 15, 2012, improve financial reporting by enhancing guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The Corporation intends to implement the new requirements for the fiscal year ending August 31, 2013.

GASB Statement No. 62, *Codification of Accounting and financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA pronouncements,* effective for periods beginning after December 15, 2011, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. The Corporation intends to implement the new requirements for the fiscal year ending August 31, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for periods beginning after December 15, 2011, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Corporation intends to implement the new requirements for the fiscal year ending August 31, 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 13, 2012 (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.

Notes Receivable

On November 15, 2012 the Corporation's board approved a line of credit totaling $500,000 to a non-profit developer for the purpose of acquiring and rehabilitating single family homes to sell to low income individuals.

NOTE 24: SUBSEQUENT EVENTS – continued

Multifamily Bond Issue

Multifamily bonds totaling $71 million were issued on September 20, 2012 to facilitate the acquisition and rehabilitation of six properties with 1,400 units. The Corporation is a conduit issuer of multifamily bonds. See Note 21.

Redemption of Single Family New Issue Bond Program

On November 19, 2012, the Corporation redeemed the remaining $21,440,000 in market rate bonds to close out the 2009 New Issue Bond Program.

Texas Foundations Fund Grants Awarded

In November 2012 the Corporation awarded $300,000 in Foundations Fund Grants divided among 8 recipients.

Fair Market Value of Mortgage-Backed Securities

During the first three months of fiscal year 2013, the Corporation has recorded an unrealized loss of approximately $3.2 million due to the decline in fair market value of 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, 2012 and for the year then ended is as follows:

Summary Financial Information		Amount
Operating Revenue	$	15,017,734
Depreciation and Amortization		666,633
Net Loss		(504,104)
Net Working Capital*		8,598,301
Total Assets		308,402,698
Total Net Assets		36,834,522
Noncurrent Notes Payable		4,542,401
Noncurrent Bonds Payable		233,866,351
Deferred Revenue		366,906
Fixed Asset Additions		221,687
Due to Federal Programs	$	4,335,201

* Net Working Capital Calculation		Amount
Unrestricted Cash and Cash Equivalents	$	4,128,485
Restricted Assets Held by Bond Trustee		29,303,111
Multifamily Custodial & Reserve Accounts		279,838
Investments, Short-Term		2,005,198
Accounts Receivable & Accrued Revenue		265,092
Accrued Interest Receivable		30,557
Loans Receivable, Current Portion		65,000
Notes Receivable, Current Portion		66,025
Downpayment Assistance, Current Portion		881,000
Prepaid Expenses		31,312
Payables:		
Accounts & Accrued Expenses		(187,969)
Current Portion of Notes		(72,030)
Custodial Reserve Liability		(279,838)
Other Current Liabilities		(52,188)
Current Portion of Bonds & Accrued Interest		(27,865,292)
	$	8,598,301

ADDITIONAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
U.S. Department Housing and Urban Development			
CDBG - State-Administered Small Cities Program Cluster:			
Passed through the Texas Department of Housing and Community Affairs			
Neighborhood Stabilization Program	14.228	77090000101	$ 772,640
Total Department Housing and Urban Development			**772,640**
Department of the Treasury			
Passed through the Texas Department of Housing and Community Affairs			
National Foreclosure Mitigation Counseling Programs:			
Round 2	21.000	PL110-289:95X1350	(932)
Round 3	21.000	PL111-8:95X1350	(8,238)
Round 4	21.000	PL111-117:95X1350	504
Round 5	21.000	PL112-1095X1350	611,875
Round 6	21.000	PL112-55:95X1350	-
Total Department of the Treasury			**603,209**
Total Expenditures of Federal Awards			**$ 1,375,849**

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

TEXAS STATE AFFORDABLE HOUSING CORPORATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
August 31, 2012

NOTE 1: BASIS OF PRESENTATION

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

NOTE 2: MAJOR PROGRAM 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 $1.3 million in NFMC funding, which has been administered to 15 HUD-approved housing counseling organizations throughout the state of Texas.

NOTE 3: NONMAJOR 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, 2012, the Corporation was able to acquire approximately $570,000 in foreclosed properties.

NOTE 4: MATCHING EXPENDITURES

There were no matching funds from the Corporation spent during the fiscal year ending August 31, 2012.

MIKESKA MONAHAN and PECKHAM PC
CERTIFIED PUBLIC ACCOUNTANTS
100 Congress Avenue, Suite 990
Austin, Texas 78701

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

To the Board of Directors
Texas State Affordable Housing Corporation

We have audited the financial statements of Texas State Affordable Housing Corporation (a nonprofit organization) as of and for the year ended August 31, 2012, and have issued our report thereon dated December 13, 2012. 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

Management of Texas State Affordable Housing Corporation is responsible for establishing and maintaining effective 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, federal awarding agencies, and pass-through entities 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 13, 2012

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM

MIKESKA MONAHAN and PECKHAM PC
CERTIFIED PUBLIC ACCOUNTANTS
100 Congress Avenue, Suite 990
Austin, Texas 78701

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS 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, 2012. 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, 2012.

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, federal awarding agencies, and pass-through entities 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 13, 2012

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

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**
21.000	National Foreclosure Mitigation Counseling Program

Dollar threshold used to distinguish between type A and type B programs?	$300,000
Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes

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 question 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, 2012

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, 2012

	Land Banking	Foreclosure Prevention	Single Family	Multi Family	Asset Oversight/ Compliance	Other	Total
Operating Revenues							
Interest and Investment Income	$ -	$ -	$ 11,266,017	$ 194,054	$ -	$ 45,634	$ 11,505,705
Net Decrease in Fair Value of Inve	-	-	(961,153)	-	-	-	(961,153)
Single Family Income	-	-	1,774,543	-	-	-	1,774,543
Federal Grants	772,640	663,841	-	-	-	-	1,436,481
Other Operating Revenue	307,537	204,893	-	178,346	230,926	340,457	1,262,159
Total Operating Revenues	1,080,177	868,734	12,079,407	372,400	230,926	386,091	15,017,735
Operating Expenses							
Interest Expense on Bonds and No	-	-	10,613,648	106,296	-	41,874	10,761,818
Down Payment Assistance Prograr	-	-	317,035	-	-	-	317,035
Salaries, Wages and Payroll Relate	173,666	108,051	275,407	117,650	238,463	589,286	1,502,523
Grant Expenditures	797,140	693,781	-	-	-	-	1,490,921
Other Expenditures	115,971	18,238	892,535	90,987	86,814	244,997	1,449,542
Total Operating Expenses	$ 1,086,777	$ 820,070	$ 12,098,625	$ 314,933	$ 325,277	$ 876,157	$ 15,521,839
Net Income	$ (6,600)	$ 48,664	$ (19,218)	$ 57,467	$ (94,351)	$ (490,066)	$ (504,104)