TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

August 31, 2013

With
Independent Auditor's Report

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDITED FINANCIAL STATEMENTS
August 31, 2013

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2013

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, 2013. 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 $236.8 million; of this amount $208.7 million represent assets associated with the single family bond program, $7.1 million represents cash equivalents and investments and $10 million represents real estate held under the Neighborhood Stabilization Program ("NSP") and the Affordable Communities of Texas ("ACT") program. Total assets decreased approximately $74.6 million during 2013 primarily due to the use of cash to pay down the Corporation's bond debt.

- The Corporation's liabilities totaled $205.2 million of which $195.8 million related to the single family bond program, $3.8 million consisted of notes payable and $4.2 million related to the NSP debt owed to the Texas Department of Housing and Community Affairs. Total liabilities decreased approximately $66.3 million in 2013 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, 2013 by $31.9 million. Of this amount, $14.1 million may be used to meet the Corporation's ongoing obligations to the public and the Corporation's creditors and $1.5 million is invested in capital assets.

- The Corporation's operating expenses for 2013 totaled $15.9 million and exceeded operating revenues by approximately $5 million. The major revenue sources were interest and investment income of $10 million, contributions of $6.6 million and single family program income of $3.9 million. Revenue was reduced in 2013 by approximately $11.4 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 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 2013 consisted primarily of interest expense on bonds and notes payable of $9 million, salary expense of $2 million, and program & loan administration expense of $1.4 million.

- Management has deferred the implementation of GASB Statements No. 65 until the fiscal year beginning September 1, 2013. This will require the recognition of $3 million in capitalized Bond Issuance Costs as an expense as well as all future Bond Issuance Costs.

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 Position, Statement of Revenues, Expenses and Changes in Net Position, 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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 Position and the Statement of Revenues, Expenses and Changes in Net Position report the Corporation's *net position* and changes in it. Net position is 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 position 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 Position

Condensed Statement of Net Position

	2013	2012	Increase (Decrease) Amount	Percentage
ASSETS:				
Current Assts	$ 23,073,449	$ 37,055,618	$ (13,982,169)	-37.73%
Noncurrent Assets	213,723,449	271,347,080	(57,623,631)	-21.24%
Total Assets	$ 236,796,898	$ 308,402,698	$ (71,605,800)	-23.22%
LIABILITIES:				
Current Liabilities	$ 5,883,906	$ 28,457,317	$ (22,573,411)	-79.32%
Noncurrent Liabilties	199,038,416	243,110,859	(44,072,443)	-18.13%
Total Liabilities	$ 204,922,322	$ 271,568,176	$ (66,645,854)	-24.54%
NET POSITION:				
Invested in Capital Assets	1,543,574	863,804	679,770	78.69%
Restricted Net Assets	16,252,887	27,641,564	(11,388,677)	-41.20%
Unrestricted Net Assets	14,078,115	8,329,154	5,748,961	69.02%
Total Net Assets	$ 31,874,576	$ 36,834,522	$ (4,959,946)	-13.47%

Net position decreased from $36.8 million to $31.9 million in fiscal year 2013. Of total net position, $1,543,574 is invested in capital assets. Restricted assets totaled $16,252,887, and the remaining balance of $14,078,115 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 $308 million to $237 million during fiscal year 2013. The largest single factor contributing to this decrease was the principal payments made to bondholders in the single family programs.

As of August 31, 2013 the Corporation's current assets totaled $23.1 million and current liabilities equaled $5.9 million resulting in available net working capital of $17.2 million.

Noncurrent assets consist primarily of restricted investments held by the bond trustee of $189,702,251; owned real estate totaling $9,955,400; down payment assistance of $4,005,273; notes receivable of $3,773,930; bond issuance costs of $2,980,626; the Corporation's loan portfolio equaling $747,005; noncurrent investments of $509,560 and purchased mortgage servicing rights totaling $505,830. The Corporation's capital assets consist of furniture, land, and equipment used in operations totaling $1,543,574, net of accumulated depreciation.

Noncurrent liabilities consisted of bonds payable totaling $191,179,816; notes payable of $3,295,247; due to Federal Programs of $4,195,370 and deferred revenue of $367,983.

Statement of Net Position

	2013	2012	Amount	Percentage
REVENUES:				
Land Banking	$ 6,977,525	$ 1,080,177	$ 5,897,348	545.96%
Foreclosure Prevention	584,171	868,734	(284,563)	-32.76%
Single Family	2,622,476	12,079,407	(9,456,931)	-78.29%
Multi Family	195,063	372,400	(177,337)	-47.62%
Asset Oversight & Compliance	292,054	230,926	61,128	26.47%
Other	307,854	386,091	(78,237)	-20.26%
Total Income	$ 10,979,143	$ 15,017,735	$ (4,038,592)	-26.89%
EXPENSES:				
Land Banking	$ 1,730,862	$ 1,086,777	$ 644,085	59.27%
Foreclosure Prevention	733,964	820,070	(86,106)	-10.50%
Single Family	11,618,389	12,098,625	(480,236)	-3.97%
Multi Family	237,036	314,933	(77,897)	-24.73%
Asset Oversight & Compliance	430,227	325,277	104,950	32.26%
Other	1,188,611	876,157	312,454	35.66%
Total Expenses	$ 15,939,089	$ 15,521,839	$ 417,250	2.69%
Operating Gain/(Loss)	(4,959,946)	(504,104)	(4,455,842)	883.91%
Beginning Net Position	36,834,522	37,338,626	(504,104)	-1.35%
Ending Net Position	$ 31,874,576	$ 36,834,522	$ (4,959,946)	-13.47%

The Corporation reported $11 million in operating revenues during fiscal year 2013. Interest and Investment Income totaling $10,000,892, constitutes the largest source of income contributing 91% to total operating revenue for fiscal year 2013. This is primarily related to the Single Family Bond Programs.

Down payment assistance (DPA) 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 $781,128. In addition, as loans are paid off ahead of schedule a portion of the DPA is written off and netted against Single Family Income. The amount written off during the fiscal year ended August 31, 2013 was approximately $418,000.

Net asset oversight and compliance fees totaled $292,054 and represented 2.7% of operating revenue for fiscal year 2013. 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 $191,059 in revenue and reported net of subservicer fees of $84,853.

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. The significant sources of income for this program are MCC issuer and participation fees totaled $595,478. Revenues from the single family TBA program (see Note 1) totaled $3,472,764. Total single family program totaled $3,902,390 and represent 35.5% of total operating revenues.

Multifamily bond fees contributed $195,063 or 1.8% of total operating revenues for fiscal year 2013. 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 $15.9 million. The four largest expenses for fiscal year 2013 were interest expense on bonds and notes payable (56.5%); salaries, wages and payroll related expenses (12.6%); program and loan administration expense (8.7%); and amortization (8.0%). The Corporation recorded a net loss for fiscal year 2013 of ($4,959,946).

BOND PROGRAM DEBT

During fiscal year 2013 the Corporation refunded the 2011A bond series and issued the 2013A bonds totaling $30.7 million. Bonds payable decreased from $259 million to $194 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 2013 as well as the use of these funds were as follows:

Grant Applications Submitted	Status	Amount Requested	Amount Awarded	Program/Activity
Bank of America	Received	$ 30,000	30,000	Texas Statewide Homebuyer Ed.
Fannie Mae	Received	50,000	50,000	Foreclosure Prevention
Insperity	Received	5,000	5,000	Texas Financial Toolbox
Frost Bank	Received	5,000	2,500	Texas Financial Toolbox
Wells Fargo Housing Foundation	Received	15,000	5,000	Texas Foundations Fund
Bank of America	Approved	30,000	40,000	Texas Statewide Homebuyer Ed.
Wells Fargo Priority Markets Initiative	Approved	250,000	150,000	Affordable Communities of Texas
Lola Wright Foundation	Pending	10,000	N/A	Texas Financial Toolbox
Entergy Charitable Foundation	Declined	5,000	N/A	Texas Statewide Homebuyer Ed.
Ford Foundation	Declined	500,000	N/A	Direct Lending
Captital One	Declined	30,000	N/A	Texas Statewide Homebuyer Ed.
Amergy Bank	Declined	3,500	N/A	Texas Financial Toolbox
Google Grants	Received	In-Kind	In-Kind	Homeownership Programs/Texas Fina

- 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 2013 were as follows:

  Loan in the amount of $47,455 was provided to a non-profit developer for the purpose of acquiring and rehabilitating single family homes.

  Loan in the amount of $135,774 was provided to non-profit developer for the purpose acquiring & financing interim construction on single family homes.

  Loan in the amount of $77,742 was provided to non-profit developer for the purpose financing interim construction on single family homes.

  Loan in the amount of $93,514 was provided to non-profit developer for the purpose financing interim construction on single family homes.

  Loan in the amount of $76,738 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 2013 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 2013 was $4,959,946.

CONTINUANCE SUBJECT TO REVIEW

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

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

AUDITED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Texas State Affordable Housing Corporation

Report on the Financial Statements
We have audited the accompanying financial statements of Texas State Affordable Housing Corporation (the "Corporation"), a nonprofit corporation that is a component unit of the State of Texas, which comprise the statement of net position as of August 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, 2013, and the changes in net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
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. 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic 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 basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare basic the financial statements. Such 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The schedule of revenues and expenses by individual activity on page 53 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, 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* in considering Texas State Affordable Housing Corporation's internal control over financial reporting and compliance.

Austin, Texas
December 12, 2013

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET POSITION (unaudited)
As of August 31, 2013

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	3,099,267
Restricted Assets Held by Bond Trustee:		
Cash and Cash Equivalents		12,237,478
Accrued Interest		299,803
Custodial Cash and Cash Equivalents		300,675
Investments, at Fair Market Value		3,511,917
Accounts Receivable & Accrued Revenue, Net of uncollectible amts. of $874,372		515,811
Accrued Interest Receivable		55,106
Loans Receivable, Current Portion		81,000
Notes Receivable, Current Portion		194,924
Downpayment Assistance, Current Portion		2,710,129
Prepaid Expenses		67,339
Total Current Assets:		23,073,449
Noncurrent Assets		
Loans Receivable, Net of uncollectible amounts of $91,726		747,005
Notes Receivable		3,773,930
Investments, at Fair Market Value		509,560
Mortgage Servicing Rights, Net of Accumulated Amortization of $2,222,231		505,830
Fixed Assets, Net of Accumulated Depreciation of $392,170		1,543,574
Owned Real Estate, Federal & Other Programs		9,955,400
Bond Issuance Costs, Net of Amortization of $4,273,812		2,980,626
Downpayment Assistance		4,005,273
Restricted Investments Held by Bond Trustee, at Fair Market Value		189,702,251
Total Noncurrent Assets:		213,723,449
TOTAL ASSETS	$	236,796,898

(continued)

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF NET POSITION - Continued (unaudited)
As of August 31, 2013

LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Expenses	$ 334,519
Notes Payable, Current Portion	541,375
Custodial Reserve Funds	302,136
Other Current Liabilities	67,345
Payable from Restricted Assets Held by Bond Trustee:	
Bonds Payable, Current Portion	2,419,020
Accrued Interest on Bonds	2,219,511
Total Current Liabilities:	5,883,906
Noncurrent Liabilities	
Notes Payable	3,295,247
Revenue Bonds Payable	191,179,816
Due to Federal Programs	4,195,370
Deferred Revenue	367,983
Total Noncurrent Liabilities:	199,038,416
Total Liabilities:	204,922,322
NET POSITION	
Net Investment in Capital Assets	1,543,574
Restricted Assets for Debt Service	16,252,887
Unrestricted Net Assets	14,078,115
Total Net Position:	$ 31,874,576

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (unaudited)
for the year ending August 31, 2013

Operating Revenues		
Interest and Investment Income	$	10,000,892
Net Increase (Decrease) in Fair Value of Investments		(11,403,663)
Single Family Income		3,902,390
Asset Oversight and Compliance Fees		292,054
Loan Servicing Fees, Net of subservicer fees of $84,853		191,059
Multifamily Income		195,062
Public Support		
Federal Grants		577,894
Contributions		6,601,892
Other Operating Revenue		621,563
Total Operating Revenues	$	10,979,143
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	9,006,077
Salaries, Wages and Payroll Related Costs		2,003,360
Professional Fees and Services		303,615
Amortization		1,279,368
Office and Equipment Rental and Maintenance		39,754
Travel and Meals		86,703
Depreciation		96,430
Program and Loan Administration		1,393,162
Grant Expenditures		1,128,775
Foundation Fund Grants		300,000
Other Operating Expenses		301,845
Total Operating Expenses	$	15,939,089
Net Loss		(4,959,946)
Total Net Position, Beginning		36,834,522
Total Net Position, Ending	$	31,874,576

TEXAS STATE AFFORDABLE HOUSING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2013

Cash Flows from Operating Activities		
Receipts from Customers & Users	$	6,290,831
Payments to Employees		(1,472,190)
Payments of Benefits & Other Payroll Related Costs		(459,043)
Payments to Suppliers of Goods & Services		(3,643,770)
Net Cash Provided By Operating Activities		715,828
Cash Flows from Non-Capital Financing Activities		
Proceeds from the Sale of Bonds		30,700,000
Proceeds from Notes Payable		-
Payments of Principal on Notes Payable		(777,809)
Payments of Interest on Notes Payable		(131,753)
Payments of Interest on Single Family Bond Program		(8,903,163)
Payments of Principal related to Bond Maturities and Calls		(95,093,613)
Payments of Bond Issuance Costs		(467,568)
Net Cash Used For Non-Capital Financing Activities		(74,673,906)
Cash Flows from Capital and Related Financing Activities		
Payments for Additions to Fixed Assets		(34,704)
Payments of Principal on Capital Acquisition Note Payable		(738,380)
Net Cash Used for Capital and Related Financing Activities		(773,084)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income		9,847,392
Proceeds from Sale and Maturities of Investments by Bond Trustee		48,170,667
Proceeds from Sale of Unrestricted Investments		3,309,288
Purchase of Investments by Bond Trustee		-
Purchase of Unrestricted Investments		(4,274,726)
Net Cash Provided By Investing Activities		57,052,621
Net Decrease in Cash and Cash Equivalents		(17,678,541)
Cash and Cash Equivalents at Beginning of Year		33,315,961
Cash and Cash Equivalents at End of Year	$	15,637,420

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, 2013

Reconciliation of Operating Income to Net Cash Provided By Operating Activities

Net Loss from Operations	$	(4,959,946)
Adjustments To Reconcile to Net Cash from Operations:		
Depreciation and Amortization Expense		2,302,671
Unrealized Loss on Investments		11,403,663
Amortization of Down Payment Assistance		1,198,934
Provision for Estimated Losses		417,807
Income from Donated Properties		(6,662,835)
Changes in Current Assets and Liabilities:		
Increase in Accounts Receivable		(250,719)
Decrease in Accrued Interest Receivable		71,121
Decrease in Loans Receivable		82,985
Increase in Notes Receivable		(613,892)
Increase in Accounts Payable & Accrued Expenses		146,550
Decrease in Accrued Interest Payable		(592,810)
Increase (Decrease) in Other Assets & Liabilities, net		(1,827,701)
Net Cash Provided By Operating Activities	$	715,828

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

TEXAS STATE AFFORDABLE HOUSING CORPORATION
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2013

INDEX TO THE NOTES TO THE FINANCIAL STATMENTS

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Reporting Entity - Texas State Affordable Housing Corporation (the "Corporation") was incorporated on May 6, 1994 under the Texas Non-Profit Corporation Act, Article 1396.1.01 et seq., Vernon's Annotated Texas Civil Statutes as amended, is legally separate from the State of Texas and does not receive State appropriated funding. Under Government Accounting Standards Board ("GASB") Statement 14, *The Financial Reporting Entity*, the Corporation is a special purpose government and component unit of the State of Texas for financial reporting purposes.

The Governing Board consists of five directors, all of which are appointed by the Governor of the State of Texas. The public purpose of the Corporation is to perform such activities and services that the Corporation's Board of Directors determines will promote public health, safety, and welfare through the provision of adequate, safe and sanitary housing primarily for individuals and families of low, very low and extremely low income, and to perform activities and services related to this purpose and for other purposes as set forth in Chapter 2306, Subchapter Y, of the Government Code, as amended.

The Corporation is organized, operated and administered as a non-profit organization in accordance with Section 501(c)(3) of the Internal Revenue Code.

Dissolution of Entity - 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 2013 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. GASB Statement 62, which was adopted in 2013, codifies all FASB and AICPA pronouncements issued before November 30, 1989 that do not conflict with GASB pronouncements. As a result, the Corporation no longer has to consider pre-1989 FASB or AICPA pronouncements nor will it be permitted to apply "new" FASB pronouncements issued after November 30, 1989.

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 Position - 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 position 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 $7.3 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 2013 totaled $1,174,000; accumulated amortization as of August 31, 2013 equaled $4.3 million.

Amortization of Bond Premium – The premiums related to the Single Family Bond totaled $15 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 2013 totaled $927,000; accumulated amortization as of August 31, 2013 equaled $6.9 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 2013 was $92,000; accumulated amortization as of August 31, 2013 equaled approximately $2.2 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, 243 hours if employed less than five years, 329 if employed less than ten years, 444 hours if employed less than 15 years, and 599 if employed more than 15 years as compensation upon termination of employment. The total compensated absences accrued liability for the year ended August 31, 2013 was approximately $82,000.

Reserve and Custodial Accounts – The Corporation holds certain cash reserves totaling approximately $300,000 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.

Donated Property Valuation – When the Corporation receives donated property, a Broker's Price Opinion (BPO) is obtained. The BPO typically offers a range of

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

values. The property is booked at the lowest value in the range offered in the BPO.

Operating and Nonoperating Revenues and Expenses – Operating revenues and expenses generally result from providing services in connection with the bond 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, 2013 consist of bank deposits totaling $2,785,746, deposits in the Federal Home Loan Bank totaling $12,316, and pooled investment funds totaling $301,205.

Restricted cash and cash equivalents at August 31, 2013 total $12,237,478 and are maintained in money market mutual funds by the bond trustee. The Corporation also maintains seven custodial accounts with a combined total of $300,675 pledged as reserves on three multifamily projects. These funds are maintained in interest bearing demand accounts.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Investments

The Corporation's unrestricted investments consist of the following:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Certificate of Deposit - 11/15/13	0.499%	$ 246,596	$ 246,596	$ -
Certificate of Deposit - 7/12/14	0.500%	750,000	750,000	-
Certificate of Deposit - 9/3/13	0.100%	10,000	10,000	-
Federal Agency Coupon Securities - 11/26/13	0.350%	500,000	500,181	181
Municipal Obligation - 11/15/13	2.000%	2,000,000	2,005,140	5,140
Total Short Term Investments		3,506,596	3,511,917	5,321
Pass through securities GNMA - 10/20/2034**	5.990%	10,167	11,106	939
Federal Agency Coupon Securities-10/29/15**	0.375%	500,000	498,455	(1,546)
Total Long Term Investments		510,167	509,560	(607)
Total Investments		$ 4,016,763	$ 4,021,477	$ 4,714

**Pledged at Federal Home Loan Bank of Dallas

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
GNMA/FNMA Investments - 2032/2033	6.71%	-	-	-
GNMA/FNMA Investments - 2032/2033	6.02%	-	-	-
GNMA/FNMA Investments - 2032/2033	5.74%	-	-	-
GNMA/FNMA Investments - 2035/2036	5.45%	9,894,728	10,741,527	846,799
GNMA/FNMA Investments - 2036	5.49%	7,299,531	7,922,824	623,293
GNMA/FNMA Investments - 2036	5.49%	9,450,959	10,262,686	811,727
GNMA/FNMA Investments - 2036/2037	5.49-5.75%	7,557,494	8,235,863	678,369
GNMA/FNMA Investments - 2036/2037	5.75%	8,036,087	8,764,255	728,168
GNMA/FNMA Investments - 2037/2038	5.65%	15,835,260	17,274,264	1,439,004
GNMA/FNMA Investments – 2037/2038	5.75%	17,325,613	18,897,664	1,572,051
GNMA/FNMA Investments – 2037/2038	5.65%	10,075,026	10,985,773	910,747
GNMA/FNMA Investments – 2037/2038	6.10%	9,665,211	10,645,312	980,101
GNMA/FNMA Investments – 2037/2038	6.00%	9,057,534	9,935,261	877,727
GNMA/FNMA Investments – 2040-2042	3.5-4.75%	72,613,602	76,036,822	3,423,220
Total Restricted Investments		$ 176,811,045	$ 189,702,251	$ 12,891,206

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

Single Family Mortgage Revenue Bonds Series 2002	$	74,400
Single Family Mortgage Revenue Bonds Series 2005A & B		1,019,000
Single Family Mortgage Revenue Bonds Series 2006A ,B & C		1,460,000
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3 , B, C, D		3,733,000
Single Family Mortgage Revenue Bonds Series 2009A, B/2011A,B/2013A		3,453,000
	$	9,739,400

The net decrease in the fair value of investments held by the bond trustee totaled $11.4 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 $190 million (valued under GASB #31 at fair market value) in mortgage backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac through the Corporation's Single Family Bond Programs. These securities have a face value of approximately $177 million and unrealized gain of approximately $13 million as of August 31, 2013. The Corporation is susceptible to risk that the market for such mortgage backed securities could decline, 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

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

represented in time and demand deposits, repurchase agreements, commercial paper, and municipal obligations and non-rated SEC registered money market mutual funds.

State law and the Corporation's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the State of Texas and further requires full insurance and/or collateralization from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of one year. Collateral, with a 102% margin, is required and collateral is limited to obligations of the US Government, its agencies or instrumentalities. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are priced at market on a daily basis as a contractual responsibility of the bank.

By adopted Policy and state law, repurchase agreements are limited to those with defined termination dates executed with a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed 90 days to stated maturity. Reverse repurchase agreements may not exceed 90 days after the term of the reverse and funds may be used only to acquire authorized investments matched to the reverse.

State law and the adopted Policy require that municipal obligations have a maximum stated maturity of 3 years or less and be rated at least A or its equivalent by at least two national recognized rating agencies. State law and the adopted Policy require that commercial paper have a maximum stated maturity of 90 days or less and be rated A1/P1 or its equivalent by at least two nationally recognized rating agencies.

The Corporation's adopted Investment Policy restricts investment in SEC registered mutual funds to money market mutual funds striving to maintain a $1 net asset value and with a WAM of 90 days as further defined by State law. Neither the state law nor the Policy requires a rating.

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

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

As of August 31, 2013:

- Collateralized or insured certificates of deposit represented 14.13% 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 28.37% of the total portfolio,
- investment in an independent AAA-rated local government investment pool represented 4.26% of the total portfolio,
- holdings in AAA-rated money market funds represented .17% of the total portfolio,
- funds invested in fully collateralized or insured interest bearing accounts represented 38.78% of the total portfolio,
- and holding in US Government securities rated AAA represented 14.29% of the total portfolio.

Concentration of Credit Risk

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

	Max % of Portfolio
US Obligations	80%
Obligations of US Agencies	80%
Certificates of Deposit	60%
By Institution	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper	30%
By Issuer	10%
Local Government Stable Net Asset Value Pools	75%
Banking Accounts	80%
Municipal Obligations	50%

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

As of August 31, 2013:

Collateralized or insured certificates of deposit represented 14.13% of the total portfolio. Funds invested in fully collateralized or insured interest bearing accounts represented 38.78% of the total portfolio.

Concentration of Credit Risk – Funding
Approximately 5.02% of the Corporation's revenues were received under federal grants passed through other sources. These grants have certain compliance requirements and, should audits by the grantor agencies disclose any areas of substantial noncompliance, the agency may be required to refund any disallowed costs.

Interest Rate Risk
In order to limit interest and market rate risk from changes in interest rates, the Corporation's adopted Investment Policy sets a maximum stated maturity for US obligations of 3 years. Certificates of deposit are restricted to a maturity of one (1) year and commercial paper 90 days. The Policy sets a maximum weighted average maturity of one (1) year. On 2/17/11, the Corporation received $22,957 in a GNMA participation certificate #586163 as payment of an obligation due from the Federal National Mortgage Association. The stated maturity is 10/20/2034. State law does not require securities obtained in this manner to be liquidated and keeping the security until maturity is permitted.

As of August 31, 2013, the portfolio contained:
- excluding the GNMA, no holding with a stated maturity date beyond 15 months, and
- including the GNMA, the dollar weighted average maturity of the total portfolio was 116 days.

As of August 31, 2013, the portfolio contained one MBS and two structured notes which might be affected by interest rate risk.

Custodial Credit Risk
To control custody and safekeeping risk State law and the Corporation's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Corporation and held in the

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS – Continued

Corporation's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of Financial Institutions Resource and Recovery Enforcement Act. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis

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Portfolio disclosure as of August 31, 2013:

- the portfolio contained 14.13% 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, 2013 is as follows:

Loans Receivable at September 1, 2012	$	1,002,716
Additions		-
Paydowns		(82,985)
Loans Receivable at August 31, 2013		919,731
Allowance for possible loan losses		(91,726)
Net Balance at August 31, 2013	$	828,005

The current portion of loans receivable at August 31, 2013 is $81,000; the remaining balance of $747,005 is classified as noncurrent loans receivable.

NOTE: 3 LOANS RECEIVABLE – Continued

The activity for allowance for loan losses for fiscal year 2013 is as follows:

Balance at September 1, 2012	$	(91,726)
Current Year Reduction		-
Loss Applied to the Allowance		-
Balance at August 31, 2013	$	(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, the Single Family Direct Lending Program and Affordable Communities of Texas Vet Program Forgivable notes (see Note 12). Under this program donated properties are sold to Veterans at 75% of the appraised value and the remaining 25% is carried as a forgivable note receivable that is forgiven over 10 years. Notes are carried at the unpaid principal balance outstanding. Included in notes receivable are three notes totaling $2,399,089 which collateralize advances from Federal Home Loan Bank. See Note 10.

A summary of notes receivable at August 31, 2013 is as follows:

Balance at September 1, 2012	$	3,354,961
Additions		1,207,848
Collections		(580,331)
Accum. Amortization		(13,624)
Provision for loan loss		-
Balance at August 31, 2013	$	3,968,854

The current portion of notes receivable at August 31, 2013 is $194,924; the remaining balance of $3,773,930 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 2013 consist of the following:

	Cost or Basis In Property			
	Balance September 1, 2012	**Additions**	**Deletions**	**Balance August 31, 2013**
Building	$1,272,822	$ 17,054	-	$1,289,876
Land	232,241	-	-	232,241
Furniture & Fixtures	396,835	17,650	859	413,626
Total	$1,901,898	$ 34,704	$ 859	$1,935,743

	Accumulated Depreciation			
	Balance September 1, 2012	**Additions**	**Deletions**	**Balance August 31, 2012**
Building	$ 123,513	$ 38,376	$ -	$ 161,889
Land	-	-	-	-
Furniture & Fixtures	173,085	58,054	859	230,280
Total	$ 296,598	$ 96,430	$ 859	$ 392,169

Fixed Assets less accumulated depreciation at August 31, 2013 totaled $1,543,574.

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
2014		5,868
2015		1,467
2016		-
2017		-
Total Minimum Future Rental Payments	$	**7,335**

In November 2012, the Corporation and its tenant amended the lease so that the Corporation could regain 127 square feet of office space and the tenant received a total reduction of $203.96 per month. The lease expired on August 31, 2013 and the tenant is now leasing month to month.

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, 2013 is as follows:

Balance at September 1, 2012	$	279,838
Deposits		42,235
Disbursements		(21,398)
Balance at August 31, 2013	$	300,675

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 2013 totaled approximately $21,846. The remaining deferred revenue for this portfolio is $254,144.

The prepaid issuer fees from four multifamily bond properties are recognized as income throughout the year. As of August 31, 2013 deferred revenue related to these properties totaled $130,356.

A summary of deferred revenue activity for fiscal year 2013 is as follows:

Balance at September 1, 2012	$	366,906
Additions		363,398
Revenue Earned		(340,475)
Loan Payments Received		(21,846)
Balance at August 31, 2013	$	367,983

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. The Corporation has further utilized FHLB financing by pledging approximately $500,000 in securities and taking a two year advance. The unpaid balance of the FHLB advances at August 31, 2013 was

NOTE 10: NOTES PAYABLE - Continued

$2,286,622. FHLB advances are collateralized by the related notes receivable which totaled $2,399,089 as of August 31, 2013. 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 quarterly.

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 was paid in full on April 12, 2013.

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

The summary of notes payable for the year ended August 31, 2013 is as follows:

Balance at September 1, 2012	$	4,614,431
Advances		-
Repayments		(777,809)
Balance at August 31, 2013	$	3,836,622

The current portion of notes payable at August 31, 2013 is $541,375; the remaining balance of $3,295,247 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
2014	$ 541,375	$ 106,880	$ 648,255
2015	613,429	101,538	714,967
2016	1,095,598	88,976	1,184,574
2017	47,888	74,437	122,325
2018	50,306	72,016	122,322
2019 thru 2023	292,889	318,734	611,624
2024 thru 2028	1,195,137	62,100	1,257,237
Total	$ 3,836,622	$ 824,681	$ 4,661,303

NOTE 11: BONDED INDEBTEDNESS

The Corporation had thirteen (13) bond series outstanding as of August 31, 2013. 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.

In February 2013, the 2002 Teacher's Home Loan Program Bond Issue's mortgage-backed securities were sold, which resulted in a net loss of approximately $27,000 to the Corporation.

NOTE 11: BONDED INDEBTEDNESS - Continued

The Corporation is in compliance with all significant limitations and restrictions at August 31, 2013.

A summary of deferred bond issuance costs for fiscal year 2013 follows:

Bonds Costs of Issuance

	Balance 09/01/2012	Additions	Deletions	Balance 08/31/2013
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	1,208,532	467,568	-	1,676,100
	$ 6,060,727	$ 467,568	$ -	$ 6,528,295

Amortization of Bond Costs of Issuance

	Balance 09/01/2012	Additions	Deletions	Balance 08/31/2013
2002	$ 289,481	$ 56,772	$ -	$ 346,253
2005A	164,173	60,302	-	224,475
2005B	178,567	44,024	-	222,591
2006A	202,044	45,570	-	247,614
2006B	234,782	37,159	-	271,941
2006C	222,391	33,795	-	256,186
2007A-1	255,330	107,255	-	362,585
2007A-3	237,384	67,070	-	304,454
2007C	166,834	68,569	-	235,403
2007B	183,300	56,366	-	239,666
2007D	202,747	43,742	-	246,489
2009A/B	36,986	563,916	10,890	590,012
	$ 2,374,019	$ 1,184,540	$ 10,890	$ 3,547,669

NOTE 11: BONDED INDEBTEDNESS – Continued

Description	Interest Rate	Bonds Outstanding 9/1/12	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/13	Amounts Due Within One Year
Single Family 2002							
Series 2002	Variable	-	-	-	-	-	-
Series 2002-1	6.01%-7.10%	$ 320,000	-	$ 25,000	$ 295,000	$ -	$ -
Series 2002-2	5.64%-6.20%	1,300,000	-	205,000	1,095,000	-	-
Series 2002-3	5.65%-5.70%	1,215,000	-	330,000	885,000	-	-
Single Family 2005							
Series 2005A	Variable	14,255,000	-	3,550,000	-	10,705,000	55,000
Series 2005B	Variable	10,245,000	-	2,405,000	-	7,840,000	-
Single Family 2006							
Series 2006A	Variable	12,193,477	-	2,619,816	-	9,573,661	122,315
Series 2006B	Variable	10,133,185	-	2,137,724	-	7,995,461	95,602
Series 2006C	5.30%	10,854,640	-	1,944,430	-	8,910,210	102,593
Single Family 2007							
Series 2007A-1	5.50%	21,792,638	-	5,580,758	-	16,211,880	186,731
Series 2007A-3	5.60%	21,959,620	-	4,315,872	-	17,643,748	191,156
Series 2007C	5.45%	14,064,256	-	3,890,013	-	10,174,243	115,624
Series 2007B	6.10%	13,120,000	-	3,195,000	-	9,925,000	100,000
Drawdown Program	Variable	-	-		-	-	-
Series 2007D	6.00%	12,040,000	-	2,480,000	-	9,560,000	95,000
Single Family 2009/2011							
Series 2009/11A	Variable	74,520,000	-	2,790,000	52,140,000	19,590,000	820,000
Series 2011B	Variable	31,845,000	-	1,955,000	-	29,890,000	535,000
Series 2013A	Variable	-	30,700,000	3,255,000	-	27,445,000	-
Total Principal		$249,857,816	$30,700,000	$40,678,613	$54,415,000	$185,464,203	$2,419,020
Unamortized Premium		9,061,506				8,134,633	
Total:		$258,919,322				$193,598,836	

NOTE 11: BONDED INDEBTEDNESS - Continued

The current portion of bonds payable at August 31, 2013 is $2,419,020. The remaining balance of $191,179,816 is classified as noncurrent bonds payable.

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

Year Ended 31-Aug	Principal	Interest	Total
2014	$ 2,419,020	$ 6,425,533	$ 8,844,553
2015	3,480,229	8,386,589	11,866,818
2016	3,638,151	8,237,444	11,875,595
2017	3,801,970	8,077,161	11,879,131
2018	4,007,056	7,904,366	11,911,422
2019-2023	22,930,284	36,427,152	59,357,436
2024-2028	30,388,944	29,735,729	60,124,673
2029-2033	41,456,322	20,914,101	62,370,423
2034-2038	54,092,227	9,389,913	63,482,140
2039-2043	19,050,000	1,061,652	20,111,652
Total	$ 185,264,203	$ 136,559,640	$ $321,823,843

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 2013, the debt service requirement equaled $40,678,613 in bond principal and $10,331,380 in bond interest expense, totaling $51,009,993. During the year pledged revenues totaled $58,783,407.

NOTE 12: AFFORDABLE COMMUNITIES OF TEXAS (ACT)

The ACT Program's goal is to take unwanted properties from entities within Texas and eventually dispose of them in a way that provides affordable housing to low-income Texans. During the fiscal year ended August 31, 2013, the Corporation received approximately $6.7 million in donated properties.

Part of the ACT Program is the Veteran's Home Initiative where Bank of America donates foreclosed homes to the Corporation. The Corporation, through its local partners, finds qualified veterans to purchase the homes at 75% of the appraised value. The proceeds, once they sufficiently accumulate and a qualified disabled veteran is found, go toward the rehabilitation of a home that is given to the veteran. The Corporation carries a forgivable note receivable for either 25% or 100% of the value of the homes that are sold and given away, respectively.

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, 2013 the MCC program revenue totaled approximately $595,000.

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 $2.3 million in NFMC funding, and has administered these funds through 15 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.

As of August 31, 2013, the Corporation, through the Neighborhood Stabilization Program, owes the Department $4,195,370. 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. During the year ended August 31, 2013, the Texas Foundations Fund made grants totaling $300,000.

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 2009-13 program offers 3-5% down payment assistance.

NOTE 18: RELATED PARTY TRANSACTIONS

The Corporation earned federal awards passed through the Department for the NFMC Program of $481,053 in 2013 including a receivable from the Department of $7,412 as of August 31, 2013. See Note 14. The Corporation received federal awards passed through the Department for NSP of $239,962 in 2013 and recorded a receivable from the Department of $11,828 and a payable to the Department of $4,195,370 as of August 31, 2013. See Note 15.

NOTE 19: RESTRICTED GRANT INCOME

Significant grants received during the fiscal year ending August 31, 2013:

Grantor	Amount	Designation
Bank of America	$30,000	TSHEP Education training session
Fannie Mae	50,000	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, 2013, were approximately $46,233.

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.

NOTE 21: CONDUIT DEBT - Continued

The 501(c) (3) and private activity revenue bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of August 31, 2013, there were twenty series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $252 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. 65, *Items previously reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, requires debt issuance costs to be recognized as an expense in the period incurred. Amounts capitalized in prior years must be expensed during the fiscal year ended August 31, 2014. The effect on the financial statements will be the recognition of approximately $3 million in expenses. Statements No. 62 and 63 were adopted in the fiscal year ended August 31, 2013 and Statement No. 65 will be adopted in the fiscal year ended August 31, 2014.

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 12, 2013 (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.

Multifamily Bond Issue

Multifamily bonds totaling $11.5 million were issued in September 2013 to facilitate the acquisition and rehabilitation of one property with 180 units. The Corporation is a conduit issuer of multifamily bonds. See Note 21.

NOTE 25: NON-CASH CONTRIBUTIONS

Between Bank of America and Wells Fargo, the Corporation received approximately $6.7 million in donated property to be utilized in the ACT and ACT – Vet Program. See Note 12. Google, Inc. made an in-kind donation of $3,117 in Google Ads.

NOTE 26: 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 27: 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, 2013 and for the year then ended is as follows:

Summary Financial Information		Amount
Operating Revenue	$	10,979,143
Depreciation and Amortization		1,375,798
Net Loss		(4,959,946)
Net Working Capital*		17,189,543
Total Assets		236,796,898
Total Net Position		31,874,576
Noncurrent Notes Payable		3,295,247
Noncurrent Bonds Payable		191,179,816
Deferred Revenue		367,983
Fixed Asset Additions		36,692
Due to Federal Programs	$	4,195,370

* Net Working Capital Calculation		Amount
Unrestricted Cash and Cash Equivalents	$	3,099,267
Restricted Assets Held by Bond Trustee		12,537,281
Multifamily Custodial & Reserve Accounts		300,675
Investments, Short-Term		3,511,917
Accounts Receivable & Accrued Revenue		515,811
Accrued Interest Receivable		55,106
Loans Receivable, Current Portion		81,000
Notes Receivable, Current Portion		194,924
Downpayment Assistance, Current Portion		2,710,129
Prepaid Expenses		67,339
Payables:		
Accounts & Accrued Expenses		(334,519)
Current Portion of Notes		(541,375)
Custodial Reserve Liability		(302,136)
Other Current Liabilities		(67,345)
Current Portion of Bonds & Accrued Interest		(4,638,531)
	$	17,189,543

ADDITIONAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2013

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	$	98,745
Total Department Housing and Urban Development				**98,745**
Department of the Treasury				
Passed through the Texas Department of Housing and Community Affairs				
National Foreclosure Mitigation Counseling Programs:				
Round 6	21.000	PL112-55:95X1350		379,438
Round 7	21.000	PL113-6X1350		97,379
Total Department of the Treasury				**476,817**
Total Expenditures of Federal Awards			$	**575,562**

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

NOTE 1: BASIS OF PRESENTATION

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

NOTE 2: 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 $2.3 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.

NOTE 4: MATCHING EXPENDITURES

There were no matching funds from the Corporation spent during the fiscal year ending August 31, 2013.

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, in accordance with the 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, the financial statements of Texas State Affordable Housing Corporation (a nonprofit organization), which comprise the statement of net position as of August 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statement, and have issued our report thereon dated December 12, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Texas State Affordable Housing Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Austin, Texas
December 12, 2013

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Texas State Affordable Housing Corporation

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Texas State Affordable Housing Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Texas State Affordable Housing Corporation's compliance.

Opinion of Each Major Federal Program

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, 2013.

Report on Internal Control over Compliance

Management of Texas State Affordable Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Texas State Affordable Housing Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Austin, Texas
December 12, 2013

TEXAS STATE AFFORDABLE HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013

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, 2013

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

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

None.