TEXAS STATE AFFORDABLE HOUSING CORPORATION

Financial Statements and Supplemental Information as of and for the Year Ended August 31, 2016 and Independent Auditors' Report

MAXWELL LOCKE & RITTER

TEXAS STATE AFFORDABLE HOUSING CORPORATION

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INDEPENDENT AUDITORS' REPORT

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

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") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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.

Auditors' 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 from 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 auditors' 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of August 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance 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 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 financial statements that collectively comprise the Corporation's basic financial statements. The schedule of revenues and expenses by activity is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of revenues and expenses by activity 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 15, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
December 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2016

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, 2016. Please read it in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The Corporation's total assets were $118.2 million; of this amount $87.1 million represent assets associated with the single family bond program, $10.2 million represents unrestricted cash equivalents and investments and $10.9 million represents real estate held under the Neighborhood Stabilization Program ("NSP"), the Affordable Communities of Texas ("ACT") Program, and the Rental Program. Total assets decreased approximately $34.9 million during 2016 primarily due to the repayment of the Corporation's bond debt.

- The Corporation's liabilities totaled $90 million of which $82.9 million related to the single family bond program, $3.1 million consisted of notes payable and $3.3 million represented NSP funds owed to the Texas Department of Housing and Community Affairs. Total liabilities decreased approximately $34.7 million in 2016 resulting primarily from the repayment of the Corporation's bond debt.

- At the close of the fiscal year ending August 31, 2016 the Corporation's assets exceeded it liabilities and deferred inflows of resources by $28.0 million. Of this amount, $22.4 million may be used to meet the Corporation's ongoing obligations to the public and creditors and $1.4 million is invested in capital assets.

- The Corporation's operating revenues for 2016 totaled $8.7 million and operating expenses exceeded operating revenues by approximately $0.2 million. The major revenue sources were interest and investment income of $4.3 million, single family program income of $2.6 million, and contributions of approximately $0.5 million. Revenue increased in 2016 by approximately $1.2 million due to an increase in the fair value of mortgage-backed securities held in the single family bond program. The Corporation follows the provisions of GASB Statements No. 31 and 72, which require that certain types of investments be reported at fair value on the statement of net position.

- Operating expenditures for fiscal year 2016 consisted primarily of interest expense on bonds and notes payable of $3.8 million, salary expense of $2.3 million, and program and loan administration expense of $0.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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, liabilities, and deferred inflows of resources 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, liabilities, and deferred inflows of resources, 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

			Increase (Decrease)	
	2016	2015	Amount	Percentage
ASSETS:				
Current Assets	$ 12,589,103	$ 23,951,677	$ (11,362,574)	(47.44%)
Noncurrent Assets	105,646,917	129,214,757	(23,567,840)	(18.24%)
Total Assets	118,236,020	153,166,434	(34,930,414)	(22.81%)
LIABILITIES:				
Current Liabilities	6,576,465	16,816,186	(10,239,721)	(60.89%)
Noncurrent Liabilities	83,406,972	107,873,554	(24,466,582)	(22.68%)
Total Liabilities	$ 89,983,437	$ 124,689,740	$ (34,706,303)	(27.83%)
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	$ 213,003	$ 224,380	$ (11,377)	(5.07%)
NET POSITION:				
Invested in Capital Assets	1,375,572	1,477,231	(101,659)	(6.88%)
Restricted for Debt Service	4,185,165	7,558,753	(3,373,588)	(44.63%)
Restricted for Other Purposes	50,311	88,941	(38,630)	(43.43%)
Unrestricted	22,428,532	19,127,389	3,301,143	17.26%
Total Net Position	$ 28,039,580	$ 28,252,314	$ (212,734)	(0.75%)

Net position decreased from $28.3 million to $28.0 million in fiscal year 2016. Of total net position, $1,375,572 is invested in capital assets. Restricted assets totaled $4,235,476, and the remaining balance of $22,428,532 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 $153.2 million to $118.2 million during fiscal year 2016. The largest single factor contributing to this decrease was the repayment of principal on the Corporation's bond debt.

As of August 31, 2016, the Corporation's current assets totaled $12.6 million and current liabilities equaled $6.6 million resulting in available net working capital of $6 million.

Noncurrent assets consist of restricted investments held by the bond trustee of $81,907,719; owned real estate totaling $10,933,042; noncurrent investments of $4,546,745; notes receivable of $4,711,235; down payment assistance of $1,243,590; the Corporation's loan portfolio equaling $608,741; and purchased mortgage servicing rights totaling $320,273. The Corporation's capital assets consist of furniture, land, and equipment used in operations totaling $1,375,572, net of accumulated depreciation.

Noncurrent liabilities consisted of bonds payable totaling $76,944,856; notes payable of $3,088,333; due to federal programs of $3,258,678 and unearned revenue of $115,105.

Statement Revenues, Expenses and Changes in Net Position

			Increase (Decrease)	
	2016	2015	Amount	Percentage
REVENUES:				
Interest and Investment Income	$ 4,320,661	$ 6,099,221	$ (1,788,560)	(29.16%)
Net Increase (Decrease) in Fair Value of Investment	(354,453)	(3,324,456)	2,970,003	89.34%
Single Family Income	2,623,323	2,863,048	(239,725)	(8.37%)
Land Bank Income	352,280	300,890	51,390	17.08%
Public Support	748,159	608,362	139,797	22.98%
Other	1,057,747	991,094	66,653	6.73%
Total Income	$ 8,747,717	$ 7,538,159	$ 1,209,558	16.05%
EXPENSES:				
Interest Expense on Bonds & Notes Payable	3,795,189	5,387,603	(1,592,414)	(29.56%)
Salaries, Wages & Payroll Related Costs	2,288,482	2,181,880	106,602	4.89%
Program and Loan Administration	836,523	1,318,284	(481,761)	(36.54%)
Texas Foundation Fund Grant Expenditures	360,500	343,000	17,500	5.10%
Other	1,679,757	1,456,712	223,045	15.31%
Total Expenses	$ 8,960,451	$ 10,687,479	$ (1,727,028)	(16.16%)
Operating Loss	(212,734)	(3,149,320)	2,936,586	93.25%
Beginning Net Position	28,252,314	31,401,634	(3,149,320)	(10.03%)
Ending Net Position	$ 28,039,580	$ 28,252,314	$ (212,734)	(0.75%)

Interest and investment income decreased $1.8 million from the previous year. This resulted primarily from the decrease in single family bond activity. No new single family bonds were issued during fiscal year 2016. All of the existing bond programs, however, continued to pay down resulting in decreased cash and mortgage-backed security balances and a corresponding decrease in interest income.

The Corporation experienced an increase in revenue during fiscal year 2016 compared to fiscal year 2015 resulting from an increase in the fair value of investments totaling $3.0 million. The Corporation's investments consist primarily of mortgage-backed securities. The increases and decreases associated with mortgage-backed securities represent unrealized gains and losses and are required to be recorded in compliance with the provisions of GASB Statements No. 31 and 72. Single family income decreased approximately $240,000 from 2015 reflecting the overall decrease in single family bond activity.

Land Bank income increased approximately $51,000 from the previous year resulting primarily from an increase in activity related to the ACT Program.

Public Support increased approximately $140,000 from the previous fiscal year. This was due to an increase in donated property.

Interest expense on bonds and notes payable decreased $1.6 million from the previous year. This is a direct result of the decrease in single family bond activity.

Other expenses are comprised of professional fees, amortization, office and equipment rental and maintenance, travel, depreciation and grant expenditures. The increase of $223,045 from 2015 to 2016 is related primarily to an increase in amortization and depreciation.

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 2016, as well as the use of these funds, were as follows:

FY 2016 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
Bank of America	Received	$ 30,000	$ 20,000	Texas Statewide Homebuyer Education Program
Insperity	Received	$ 5,000	$ 2,500	Texas Financial Toolbox
Frost Bank	Received	$ 5,000	$ 2,500	Texas Financial Toolbox
JPMorgan Chase	Received	$ 20,000	$ 20,000	Texas Statewide Homebuyer Education Program
BBVA Compass	Received	$ 20,000	$ 7,500	Texas Statewide Homebuyer Education Program
Google Grants	Received	In-kind (Google Ad Marketing)	6,808	Homeownership Programs/Texas Financial Toolbox
Texas Financial Education Foundation	Approved	$ 40,000	$ 32,000	Texas Statewide Homebuyer Education Program

- The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2016 were as follows:

  Loan in the amount of $170,068 was provided to a non-profit developer for the purpose of acquiring & financing interim construction on single family homes.

  Loan in the amount of $331,139 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.

  Loan in the amount of $257,450 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.

- The amount and source of funds deposited into a fund created by the Corporation for the purpose of providing grants and the number, amount and purpose of any grants provided during fiscal year 2016 were as follows:

  $360,500 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. During the year, sixteen (16) such grants were made in the aggregate amount of $360,500.

- The total amount of expenditures spent by the Corporation in excess of its revenues equaled $212,734 for fiscal year 2016.

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 Jr. Blvd., Austin, Texas 78702, phone 512-477-3555.

BASIC
FINANCIAL STATEMENTS

TEXAS STATE AFFORDABLE HOUSING CORPORATION

STATEMENT OF NET POSITION
AS OF AUGUST 31, 2016

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	999,171
Restricted Assets Held by Bond Trustee:		
Cash and Cash Equivalents		3,213,009
Accrued Interest		130,215
Custodial Cash and Cash Equivalents		323,208
Investments, at Fair Value		4,652,847
Accounts Receivable and Accrued Revenue		528,144
Accrued Interest Receivable		56,909
Loans Receivable, Current Portion		75,376
Notes Receivable, Current Portion		739,344
Down Payment Assistance, Current Portion		1,783,707
Prepaid Expenses		87,173
Total Current Assets		12,589,103
Noncurrent Assets		
Loans Receivable, Net of Uncollectible Amounts of $22,102		608,741
Notes Receivable, Net of Accumulated Amortization of $462,133		4,711,235
Investments, at Fair Value		4,546,745
Mortgage Servicing Rights, Net of Accumulated Amortization of $2,407,788		320,273
Capital Assets, Net of Accumulated Depreciation of $683,520		1,375,572
Owned Real Estate, Net of Accumulated Depreciation of $210,962		10,933,042
Down Payment Assistance		1,243,590
Restricted Investments Held by Bond Trustee, at Fair Value		81,907,719
Total Noncurrent Assets		105,646,917
TOTAL ASSETS	$	118,236,020

(continued)

The notes to the financial statements are an integral part of this statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

STATEMENT OF NET POSITION (Continued)
AS OF AUGUST 31, 2016

LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Expenses	$	530,089
Notes Payable, Current Portion		47,888
Custodial Reserve Funds		323,208
Other Current Liabilities		73,360
Payable from Restricted Assets Held by Bond Trustee:		
Bonds Payable, Current Portion		4,713,228
Accrued Interest on Bonds		888,692
Total Current Liabilities		6,576,465
Noncurrent Liabilities		
Notes Payable		3,088,333
Revenue Bonds Payable		76,944,856
Due to Federal Programs		3,258,678
Unearned Revenue		115,105
Total Noncurrent Liabilities		83,406,972
Total Liabilities		89,983,437
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue		213,003
Total Deferred Inflows of Resources		213,003
NET POSITION		
Invested in Capital Assets		1,375,572
Restricted for:		
Debt Service		4,185,165
Other Purposes		50,311
Unrestricted		22,428,532
Total Net Position	$	28,039,580

The notes to the financial statements are an integral part of this statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2016

Operating Revenues		
Interest and Investment Income	$	4,320,661
Net Increase (Decrease) in Fair Value of Investments		(354,453)
Single Family Income		2,623,323
Asset Oversight and Compliance Fees		230,347
Loan Servicing Fees		177,163
Multifamily Income		205,055
Land Bank Income		352,280
Public Support:		
Federal & State Grants		208,447
Contributions		539,712
Other Operating Revenue		445,182
Total Operating Revenues	$	8,747,717
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	3,795,189
Salaries, Wages and Payroll Related Costs		2,288,482
Professional Fees and Services		291,727
Amortization		261,504
Office and Equipment Rental and Maintenance		94,723
Travel and Meals		104,678
Depreciation		244,519
Program and Loan Administration		836,523
Grant Expenditures		328,950
Texas Foundation Fund Grants		360,500
Other Operating Expenses		353,656
Total Operating Expenses	$	8,960,451
Net Loss		(212,734)
Total Net Position, Beginning		28,252,314
Total Net Position, Ending	$	28,039,580

The notes to the financial statements are an integral part of this statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

Cash Flows from Operating Activities	
Receipts from Customers and Users	$ 6,276,185
Payments to Employees	(1,774,734)
Payments of Benefits and Other Payroll Related Costs	(509,649)
Payments to Suppliers of Goods and Services	(2,911,907)
Net Cash Provided By Operating Activities	1,079,895
Cash Flows from Non-Capital Financing Activities	
Payments of Principal on Notes Payable	(615,598)
Payments of Principal related to Bond Maturities and Calls	(31,717,864)
Net Cash Used For Non-Capital Financing Activities	(32,333,462)
Cash Flows from Capital and Related Financing Activities	
Payments for Additions to Capital Assets	(9,886)
Purchase and Rehabilitation of Single Family Homes	(196,802)
Proceeds from Sale of Single Family Homes Under ACT Program	390,763
Proceeds from Sale of Single Family Homes	175,544
Rehabilitation of Multifamily Rental Property	(184,399)
Rehabilitation of Office Building	(132,234)
Net Cash Provided By Capital and Related Financing Activities	42,986
Cash Flows from Investing Activities	
Proceeds from Sale and Maturities of Investments Held by Bond Trustee	19,877,320
Proceeds from Sale of Unrestricted Investments	15,701,192
Purchase of Unrestricted Investments	(17,118,579)
Net Cash Provided By Investing Activities	18,459,933
Net Decrease in Cash and Cash Equivalents	(12,750,648)
Cash and Cash Equivalents at Beginning of Year	17,286,036
Cash and Cash Equivalents at End of Year	$ 4,535,388

(continued)

The notes to the financial statements are an integral part of this statement.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2016

Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Net Loss from Operations	$	(212,734)
Adjustments To Reconcile to Net Cash from Operations:		
Depreciation and Amortization Expense		485,286
Unrealized Loss on Investments		1,364,677
Amortization of Down Payment Assistance		420,038
Amortization of Bond Premium		(1,289,938)
Provision for Estimated Losses		150,674
Income from Donated Properties		(453,749)
Changes in Current Assets and Liabilities:		
Decrease in Accounts Receivable and Accrued Revenue		2,768
Decrease in Accrued Interest Receivable		44,166
Decrease in Loans Receivable		75,375
Decrease in Notes Receivable		178,864
Increase in Prepaid Expenses		(679)
Decrease in Down Payment Assistance Loans		899,402
Increase in Accounts Payable & Accrued Expenses		114,908
Decrease in Accrued Interest Payable on Bonds		(340,832)
Decrease in Deferred Revenue and Other Liabilities		(358,331)
Net Cash Provided By Operating Activities	$	1,079,895

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Acquisition of Donated Real Estate	$	453,749
Debt Forgiven - Affordable Communities of Texas Veterans' Program	$	202,287

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Reporting Entity - Texas State Affordable Housing Corporation (the "Corporation") was incorporated on May 6, 1994 under the Texas Non-Profit Corporation Act, Article 1396.1.01 et seq., Vernon's Annotated Texas Civil Statutes as amended, and is legally separate from the State of Texas and does not receive State appropriated funding. Under Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, the Corporation is a special purpose government and a component unit of the State of Texas for financial reporting purposes. In addition, there are no component units included within the reporting entity of the Corporation.

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* (the "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 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" or "TDHCA") 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.

Single Family Programs

Single Family Bond Program - Through the Single Family Bond Program (the "SFB 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 SFB 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 Program (the "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.

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

TBA Program - Under the To Be Announced Program (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 Program (the "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.

Interim Construction and Acquisition Program - The Interim Construction and Acquisition Program (the "ICAP Program") 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.

Rental Program - The Corporation's Single Family Rental Program (the "SFR Program") provides affordable, below-market rental homes in high opportunity neighborhoods in the Austin Metropolitan Statistical Area (the "MSA") to eligible low income families. The Corporation's Multifamily Rental Program ("the "MFR Program") consists of a 15 unit apartment complex, Rollins Martin Apartments in Austin, TX.

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

Multifamily Programs

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 Program (the "MPAB 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 2016 program year, the amount available for issuance was approximately $60 million. The Corporation's MPAB 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 the MPAB Program must provide a minimum number of affordable units.

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

Significant Accounting Policies

Basis of Accounting - The Corporation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flows. GASB Statement No. 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.

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

Cash and 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.

Investments - The Corporation's investment policies and types of investments are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act"). The Corporation's management believes that it complied with the requirements of the Public Funds Investment Act and the Corporation's investment policy. The Corporation follows the provisions of GASB Statement No. 31 and 72, which requires certain types of investments to be reported at fair value on the statement of net position. 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 and 72, 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.

Notes Receivable - Notes receivable is comprised of loans made under the MDL Program, the MPAB 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.

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

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 Premium - The premiums related to the SFB Programs totaled $10.5 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 2016 totaled approximately $1,290,000, $1,270,000 of which was recognized upon the optional redemption of Single Family Bond Issues 2005B, 2006A, and 2006B; accumulated amortization as of August 31, 2016 equaled $4,400,000.

Deferred Outflows and Deferred Inflows of Resources - The Corporation complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the Corporation's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the Corporation's acquisition of net position applicable to a future reporting period.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 9 for additional information on deferred inflows of resources.

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

Fair Value Measurements - The Corporation adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Implementation of GASB Statement No. 72 did not have a significant impact on the Corporation's financial statements for the year ended August 31, 2016.

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 2016 was approximately $59,000; accumulated amortization as of August 31, 2016 equaled approximately $2.4 million.

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

Capital Assets - All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The Corporation capitalizes assets with a cost greater than $1,500 and a useful life of more than one year. Donated capital assets are valued at their estimated acquisition value on the date donated. Expenses for betterments that materially extend the useful life of an asset are capitalized at cost. Land owned by the Corporation is not depreciated. 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 30 years.

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 as of August 31, 2016 was approximately $139,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $323,000 as of August 31, 2016 for the benefit of four multifamily projects that are financed by the Corporation.

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.

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.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net position.

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

Donated Property Valuation - When the Corporation receives donated property, a Broker's Price Opinion (the "BPO") is obtained, which estimates the acquisition value. The BPO typically offers a range of 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 and expenses.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2016 consisted of bank deposits totaling $720,108, deposits in the Federal Home Loan Bank totaling $11,776, and money market accounts totaling $267,287.

Restricted cash and cash equivalents at August 31, 2016 totaled $3,213,009 and were maintained in money market mutual funds by the bond trustee. The Corporation also maintained eight custodial accounts with a combined total of $323,208 pledged as reserves on four multifamily projects. These funds were maintained in interest bearing demand accounts.

Investments

GASB Statement 72 regarding *Fair Value Measurement and Application* for financial reporting purposes categorizes financial instruments within three different levels of risk dependent upon the measure of their fair value and pricing.

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

The *exit* or fair market prices used for these fair market valuations of the portfolio are all Level 1 and Level 2 and represent unadjusted quoted prices in active markets for identical assets and liabilities that have been accessed at the measurement date.

As of August 31, 2016 the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 3,002,672	$ -	$ -	$ 3,002,672
US Agency MBS	-	2,546,817	-	2,546,817
Commercial Paper	1,998,404	-	-	1,998,404
Total Fair Value	$ 5,001,076	$ 2,546,817	$ -	$ 7,547,893
Investments not subject to GASB 72				1,651,699
Total Unrestricted Investments				$ 9,199,592

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

The Corporation's unrestricted investments consisted of the following at August 31, 2016:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Certificate of Deposit - 1/26/17*	0.486%	$ 50,000	$ 50,000	$ -
Certificate of Deposit - 7/31/16	1.000%	245,000	245,000	-
Certificate of Deposit - 5/9/17	1.000%	245,618	245,618	-
Certificate of Deposit - 1/8/17	0.750%	245,000	245,000	-
Certificate of Deposit - 2/25/17	0.600%	500,000	500,000	-
Brokered CD - 7/5/17	0.750%	118,000	118,081	81
Brokered CD - 9/23/16	0.750%	248,000	248,000	-
Federal Agency Coupon Securities - 4/17/17	0.875%	999,896	1,002,744	2,848
Commercial Paper Disc. - 10/18/16	0.800%	1,497,300	1,498,433	1,133
Commercial Paper Disc. - 11/15/16	0.950%	498,983	499,971	988
Total Short Term Investments		4,647,797	4,652,847	5,050
Pass through securities GNMA - 10/20/2034	5.990%	6,131	7,233	1,102
Pass through securities GNMA - 2036-2037	5.49 & 5.75%	538,651	596,582	57,931
Pass through securities FNMA - 2035-2037	5.49 - 5.75%	1,365,059	1,433,136	68,077
Pass through securities FHLMC - 2036-2037	5.49 - 5.75%	455,479	509,866	54,387
Federal Agency Coupon Securities - 8/23/18	1.100%	1,000,300	1,000,208	(92)
Federal Agency Coupon Securities - 8/23/19	1.300%	1,000,750	999,720	(1,030)
Total Long Term Investments		$ 4,366,370	$ 4,546,745	$ 180,375
Total Investments		$ 9,014,167	$ 9,199,592	$ 185,425

*Pledged as collateral against cash advances from the Federal Home Loan Bank of Dallas. See Note 10.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

Mortgage-backed securities are valued using Level 2 inputs that are based on market data obtained from independent sources. The investments are reported by the Corporation at fair value in accordance with GASB Statement No. 72.

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2016:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
GNMA/FNMA Investments - 2036/2037	5.75%	$ 3,294,259	$ 3,669,482	$ 375,223
GNMA/FNMA Investments - 2037/2038	5.65%	6,171,150	6,900,046	728,896
GNMA/FNMA Investments - 2037/2038	5.75%	6,972,147	7,817,986	845,839
GNMA/FNMA Investments - 2037/2038	5.65%	4,169,596	4,648,081	478,485
GNMA/FNMA Investments - 2037/2038	6.10%	4,390,568	4,992,909	602,341
GNMA/FNMA Investments - 2037/2038	6.00%	4,648,583	5,250,351	601,768
GNMA/FNMA Investments - 2040/2042	3.5-4.75%	45,089,709	48,628,864	3,539,155
Total Restricted Investments		$ 74,736,012	$ 81,907,719	$ 7,171,707

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

Single Family Mortgage Revenue Bonds Series 2005A & B	$ 9
Single Family Mortgage Revenue Bonds Series 2006A, B & C	439,713
Single Family Mortgage Revenue Bonds Series 2007A-1, A-3, B, C, D	1,747,585
Single Family Mortgage Revenue Bonds Series 2009A, B/2011A, B/2013A	2,028,101
	$ 4,215,408

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2016 has decreased by approximately $21.3 million. The Corporation follows GASB Statement No. 31 and 72, whereby investments are required to be reported at fair value at the statement of net position 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 No. 31 also affects the way in which unrealized gains and losses are recognized for financial reporting purposes.

The Corporation holds approximately $81.9 million (valued under GASB Statement No. 72 at fair value) in mortgage backed securities issued by Ginnie Mae (“GNMA”), Fannie Mae (“FNMA”) and Freddie Mac (“FMCC”) through the Corporation’s SFB Programs. These securities have a face value of approximately $74.7 million and unrealized gain of approximately $7.2 million as of August 31, 2016. 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 Corporation’s adopted Investment Policy (“Investment Policy”) is the safety of principal and avoidance of principal loss. Credit risk within the Corporation's portfolio, among the authorized investments approved by the Corporation’s adopted Investment Policy, is represented only in time and demand deposits, repurchase agreements, commercial paper, municipal obligations and non-rated SEC registered money market mutual funds. In 2015, the Corporation received surplus funds from a bond buy-back and established a separate portfolio (“Surplus Funds”) with the same authorized investments but a longer maximum maturity of ten (10) years for CMO and thirty (30) years for governmental pass-through mortgage-backed securities. The maximum weighted average maturity (“WAM”) for the Surplus Funds portfolio is fifteen (15) years.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

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. Brokered CDs must be FDIC insured and delivered versus payment to the Corporation's depository with a further restriction on maximum maturity to one year. The FDIC insurance must be verified before purchase. On all time and demand deposits collateral at a 102% margin is required and collateral is limited to obligations of the US Government, its agencies or instrumentalities. Independent safekeeping for collateral 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.

In accordance with the adopted policy and state law, repurchase agreements are limited to those with defined termination dates and 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 Investment 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 nationally recognized rating agencies.

State law and the Corporation's adopted Investment 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 adopted Investment Policy restricts money market mutual fund investment to SEC registered 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 Investment Policy requires a rating on money market funds.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The Corporation's adopted investment 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, 2016 holding in the General Portfolio included:

- collateralized or insured certificates of deposit represented 16.08 % of the General Portfolio,
- brokered certificate of deposit securities represented 4.58% of the General Portfolio,
- investment in a FHLB money market mutual fund represented 0.15% of the General Portfolio,
- funds invested in fully insured or collateralized bank accounts represented 16.49% of the General Portfolio,
- A1/P1 commercial paper represented 25.02% of the General Portfolio,
- one mortgage backed US GNMA security represented 0.09 % of the General Portfolio, and
- holding in US Government agency securities represented 37.59 % of the General Portfolio.

As of August 31, 2016 holding in the Surplus Funds Portfolio included:

- GNMA pass-through mortgage securities represented 23.49% of the Surplus Portfolio,
- FNMA pass-through mortgage securities represented 56.43% of the Surplus Portfolio, and
- FHLMC pass-through mortgage securities represented 20.08% of the Surplus Portfolio.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

Concentration of Credit Risk

The Corporation recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The Corporation's adopted Investment Policy establishes diversification as a major objective of the investment program. The Investment 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 the Investment Policy are:

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

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 in the General Portfolio. The Investment Policy sets a maximum weighted average maturity of one (1) year.

Surplus bond funds have a maximum maturity limitation of ten (10) years for CMO and thirty (30) years for governmental mortgage-backed securities. The Surplus Fund portfolio as a stand-alone portfolio has a maximum weighted average portfolio limitation of fifteen (30) years.

In the total portfolio certificates of deposit are restricted to a maturity of one (1) year and commercial paper 90 days.

As of August 31, 2016, the General Portfolio, excluding the GNMA, held one (1) security with a stated maturity date beyond 24 months (August 2018). With the inclusion of the one GNMA the weighted average maturity of the total general portfolio was 313 days.

The Surplus Funds Portfolio had a dollar weighted average maturity of 7,351 days and the longest security was 7,732 days.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

As of August 31, 2016, the General Portfolio contained one (1) MBS and three (3) US agency structured notes which might be affected by interest rate risk.

As of August 31, 2016, the Surplus Funds Portfolio contained 29 MBS which might be affected by interest rate risk.

Custodial Credit Risk
To control custody and safekeeping risk, state law and the Corporation's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Corporation and held in the Corporation's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of the Financial Institutions Reform Recovery and 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.

The Corporation's portfolio disclosure as of August 31, 2016:

- the portfolio contained 16.08% in fully insured or collateralized 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, 2016 is as follows:

Loans Receivable at September 1, 2015	$ 781,594
Additions	-
Paydowns	(75,375)
Loans Receivable at August 31, 2016	706,219
Allowance for possible loan losses	(22,102)
Net Balance at August 31, 2016	$ 684,117

NOTE 3: LOANS RECEIVABLE - Continued

The current portion of loans receivable at August 31, 2016 is $75,376; the remaining balance of $608,741 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2016 is as follows:

Balance at September 1, 2015	$ (91,726)
Current Year Reduction	69,624
Loss Applied to the Allowance	-
Balance at August 31, 2016	$ (22,102)

The Corporation considers loans receivable to be delinquent when they become more than 60 days past due.

NOTE 4: NOTES RECEIVABLE

Notes receivable were comprised of loans made under the MDL Program, the MPAB Program, the Single Family Direct Lending Program and ACT Veterans Housing Initiative (see Note 12). Under the ACT Veterans Housing Initiative, donated properties are sold to Veterans at 75% of the appraised value and the remaining 25% is carried as forgivable notes receivable which are forgiven over 10 years. Notes are carried at the unpaid principal balance outstanding. Included in notes receivable are three notes totaling $2,249,520 which collateralize advances from FHLB. See Note 10.

A summary of activity for notes receivable for the year ended August 31, 2016 is as follows:

Balance at September 1, 2015	$ 5,810,992
Additions	1,141,507
Collections	(1,320,371)
Accumulated Amortization	(181,549)
Balance at August 31, 2016	$ 5,450,579

The current portion of notes receivable at August 31, 2016 is $739,344; the remaining balance of $4,711,235 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts.

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2016 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2015	Additions	Deletions	Balance August 31, 2016
Land	$ 232,241	$ -	$ -	$ 232,241
Building	1,297,784	1,863	1,830	1,297,817
Furniture & Fixtures	$ 547,039	$ 9,886	$ 27,891	$ 529,034
Total	$ 2,077,064	$ 11,749	$ 29,721	$ 2,059,092

	Accumulated Depreciation			
	Balance September 1, 2015	Additions	Deletions	Balance August 31, 2016
Building	$ 242,251	$ 39,454	$ 1,647	$ 280,058
Furniture & Fixtures	$ 357,582	$ 73,771	$ 27,891	$ 403,462
Total	$ 599,833	$ 113,225	$ 29,538	$ 683,520

Capital assets, less accumulated depreciation, at August 31, 2016 totaled $1,375,572.

NOTE 6: INCOME TAX STATUS

The Corporation, a non-profit 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 non-profit organization other than a private foundation. Tax returns for the past three years are open to examination by the Internal Revenue Service. There are no examinations currently in process. 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 $590. Lease expense under this agreement was $7,080.

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

Year Ended August 31,	Amount
2017	$ 7,080
2018	1,770
Total Minimum Future Rental Payments	$ 8,850

NOTE 8: CUSTODIAL RESERVE FUNDS

The Corporation holds certain cash reserves for the benefit of four multifamily projects that were financed by the Corporation through the MDL Program. See Note 4.

Reserve activity for the year ended August 31, 2016 was as follows:

Balance at September 1, 2015	$ 286,868
Deposits	54,735
Disbursements	(18,395)
Balance at August 31, 2016	$ 323,208

NOTE 9: DEFERRED INFLOWS OF RESOURCES AND UNEARNED 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 2016 totaled approximately $11,377. The remaining deferred revenue for this portfolio was $213,003 at August 31, 2016.

The prepaid issuer fees from seven multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2016, unearned revenue related to these properties totaled $115,105.

NOTE 9: DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued

A summary of deferred inflows of resources and unearned revenue activity for fiscal year 2016 is as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2015	$ 224,380	$ 104,600
Additions	-	307,493
Revenue Earned	-	(296,988)
Loan Payments Received	$ (11,377)	$ -
Balance at August 31, 2016	$ 213,003	$ 115,105

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, 2016 totaled $1,586,220. FHLB advances are collateralized by the related notes receivable which totaled $2,249,520 as of August 31, 2016. 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 came due during the year and was extended until May 2018. Interest at 2% is accrued and paid quarterly.

NOTE 10: NOTES PAYABLE - Continued

In May 2015 the Corporation entered into an agreement with Texas Community Bank 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 May 2020. Interest payments of 2% are made quarterly.

The summary of notes payable for the year ended August 31, 2016 is as follows:

Balance at September 1, 2015	$ 3,751,819
Advances	-
Repayments	(615,598)
Balance at August 31, 2016	$ 3,136,221

The current portion of notes payable at August 31, 2016 was $47,888; the remaining balance of $3,088,333 was classified as noncurrent notes payable.

The debt service requirements on notes payable for the next five years and thereafter are as follows:

Year Ended August 31,	Principal	Interest	Total
2017	$ 47,888	$ 105,437	$ 153,325
2018	1,100,308	96,016	1,196,324
2019	52,862	79,463	132,325
2020	555,562	73,430	628,992
2021	58,415	63,910	122,325
2022 thru 2026	804,068	178,123	982,191
2027 thru 2031	517,118	2,574	519,692
Total	$ 3,136,221	$ 598,953	$ 3,735,174

NOTE 11: BONDED INDEBTEDNESS

The Corporation had nine (9) bond series outstanding as of August 31, 2016. The Corporation issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes.

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

NOTE 11: BONDED INDEBTEDNESS - Continued

The Corporation is in compliance with all significant limitations and restrictions at August 31, 2016.

Description	Interest Rate	Bonds Outstanding 9/1/15	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/16	Amounts Due Within One Year
Single Family 2005							
Series 2005B	Variable	$ 4,795,000	$ -	$ 4,795,000	$ -	$ -	$ -
Single Family 2006							
Series 2006A	Variable	6,905,520	-	6,905,520	-	-	-
Series 2006B	Variable	4,400,335	-	4,400,335	-	-	-
Series 2006C	5.30%	4,955,033	-	1,583,376	-	3,371,657	3,371,657
Single Family 2007							
Series 2007A-1	5.50%	8,479,378	-	2,028,202	-	6,451,176	95,414
Series 2007A-3	5.60%	9,018,258	-	1,780,742	-	7,237,516	102,775
Series 2007C	5.45%	5,478,256	-	1,099,689	-	4,378,567	63,382
Series 2007B	6.10%	5,385,000	-	905,000	-	4,480,000	55,000
Series 2007D	6.00%	5,725,000	-	975,000	-	4,750,000	60,000
Single Family 2009/2011							
Series 2011A	Variable	10,620,000	-	1,940,000	-	8,680,000	535,000
Series 2009/2011B	Variable	22,745,000	-	2,810,000	-	19,935,000	430,000
Series 2013A	Variable	18,815,000	-	2,495,000	-	16,320,000	-
Total Principal		$107,321,780	$ -	$ 31,717,864	$ -	$ 75,603,916	$ 4,713,228
Unamortized Premium		7,344,106				6,054,168	
Total		$114,665,886				$ 81,658,084	

The current portion of bonds payable at August 31, 2016 was $4,713,228. The remaining balance of $76,944,856 is classified as noncurrent bonds payable.

NOTE 11: BONDED INDEBTEDNESS - Continued

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

Year Ended August 31,	Principal	Interest	Total
2017	$ 4,713,228	$ 2,407,993	$ 7,121,221
2018	1,690,920	2,952,379	4,643,299
2019	1,770,907	2,873,883	4,644,790
2020	1,857,806	2,789,583	4,647,389
2021	1,941,733	2,698,916	4,640,649
2022 thru 2026	11,508,234	11,886,734	23,394,968
2027 thru 2031	15,116,169	8,593,017	23,709,186
2032 thru 2036	20,116,811	4,911,708	25,028,519
2037 thru 2041	15,718,108	1,246,622	16,964,730
2042 thru 2046	1,170,000	15,933	1,185,933
Total	$ 75,603,916	$ 40,376,768	$115,980,684

The sources of pledged revenue to pay the principal and interest on the bonds is derived from the principal and interest collected from the GNMA, FHLMC and FNMA mortgage-backed securities as well as reserves set up at the bond closing. For fiscal year 2016, the debt service requirement equaled $31,717,864 in bond principal and $4,043,980 in bond interest expense, totaling $35,761,844. As of August 31, 2016, pledged revenues totaled $82,195,479.

NOTE 12: ACT VETERANS HOUSING INITIATIVE

The ACT Veterans Housing Initiative is a pilot initiative funded primarily through the donation of foreclosed homes from banks and other mortgage servicers. The intent of the initiative is to provide low and no-cost housing to U.S. military veterans who are disabled or low-income. The Corporation coordinates the initiative on a statewide basis within Texas using the Affordable Communities of Texas Land Banking program. The Corporation currently has a network of more than twenty locally based non-profit housing providers that manage rehabilitation of the properties and qualification of eligible homebuyers within their local communities.

Properties are made available to qualified veteran households either at a significant discount or as a fully donated home. If discounted, the property is sold for 75% of its post-rehab appraised value with the Corporation placing a deferred forgivable second lien for the remaining 25% of value. If donated, the property is provided at no cost with the Corporation placing a deferred forgivable lien for 100% of the post-rehab appraised value.

NOTE 13: MORTGAGE CREDIT CERTIFICATE PROGRAM

The MCC Program was created to assist low and moderate income first time homebuyers. Under the MCC 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 ended August 31, 2016, the MCC Program revenue totaled approximately $541,000 and is included in single family income in the statement of revenues, expenses, and changes in net position.

NOTE 14: NEIGHBORHOOD STABILIZATION PROGRAM

The Corporation was awarded approximately $5 million in Neighborhood Stabilization Program (the "NSP") funds in November 2009 by the Department. The NSP's goal is to help stabilize communities hardest hit by foreclosures by working with locally based non-profit and government agencies to acquire and rehabilitate foreclosed homes, vacant land and tax foreclosed properties, which are then 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, 2016, the Corporation, through the NSP, owed the Department $3,258,678. 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 15: TEXAS FOUNDATIONS FUND

The Texas Foundation Fund program provides grants to non-profit organizations and rural government entities for the costs associated with the construction, rehabilitation, or repair of single family homes, or the provision of supportive housing services within multifamily housing. During the fiscal year ended August 31, 2016, the Corporation, through the Texas Foundation Fund, made grants totaling $360,500.

NOTE 16: 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 to be 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% in down payment assistance.

NOTE 17: RELATED PARTY TRANSACTIONS

The Corporation received federal grant awards passed through the Department for the NSP Program during fiscal year 2016. Receivables and payables related to this grant as of August 31, 2016 totaled $284,734 and $3,258,678, respectively. See Note 14.

NOTE 18: EMPLOYEE BENEFITS

The Corporation offers a defined contribution 403(b) retirement plan to its employees. Under the plan, 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 fiscal year ended August 31, 2016, were $60,763.

NOTE 19: 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 MPAB Program, the Corporation administers 10 percent or approximately $60 million of the State's volume cap allocation of private activity bonds for multifamily residential rental housing.

The 501(c)(3) and private activity revenue bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of August 31, 2016, there were thirteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $166 million.

NOTE 20: RISK FINANCING AND RELATED ISSUANCE 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 21: SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through December 15, 2016 (the date the financial statements were available for issue), and has determined that the following subsequent events have occurred that require additional disclosure.

Redemption of Single Family Bonds
On October 3, 2016, the 2006C Single Family Mortgage Revenue Bonds were redeemed with a payment of approximately $3.3 million.

NOTE 22: NON-CASH CONTRIBUTIONS

During the year ended August 31, 2016, the Corporation received approximately $454,000 in donated property from Bank of America and Wells Fargo to be utilized in the ACT Housing Initiative and is included in owned real estate. See Note 12. Additionally, Google, Inc. made an in-kind donation of $6,800 for advertising.

NOTE 23: 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 24: 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, 2016 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	$ 8,747,717
Depreciation and Amortization	506,023
Net Loss	(212,734)
Net Working Capital*	6,012,638
Total Assets	118,236,020
Total Net Position	28,039,580
Noncurrent Notes Payable	3,088,333
Noncurrent Bonds Payable	76,944,856
Deferred Inflows of Resources	213,003
Unearned Revenue	115,105
Capital Asset Additions	11,749
Due to Federal Programs	3,258,678

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	$ 999,171
Restricted Assets Held by Bond Trustee	3,343,224
Custodial Cash and Cash Equivalents	323,208
Investments, Short-Term	4,652,847
Accounts Receivable and Accrued Revenue, net	528,144
Accrued Interest Receivable	56,909
Loans Receivable, Current Portion	75,376
Notes Receivable, Current Portion	739,344
Downpayment Assistance, Current Portion	1,783,707
Prepaid Expenses	87,173
Payables:	
Accounts Payable and Accrued Expenses	(530,089)
Notes Payable, Current Portion	(47,888)
Custodial Reserve Funds	(323,208)
Other Current Liabilities	(73,360)
Bonds Payable and Accrued Interest on Bonds, Current Portion	(5,601,920)
Total Net Working Capital	$ 6,012,638

GOVERNMENT AUDITING STANDARDS

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' 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*

The Board of Directors of
Texas State Affordable Housing Corporation:

We have audited, 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, the financial statements of Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maxwell Locke + Ritter LLP

Austin, Texas
December 15, 2016

OTHER SUPPLEMENTAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION

SCHEDULE OF REVENUES AND EXPENSES BY ACTIVITY
FOR THE YEAR ENDED AUGUST 31, 2016

	NSP & NFMC	Single Family	Multi Family	ACT	Asset Management	Other	Total
Income							
Interest and Investment Income	$ -	$ 4,041,531	$ 213,212	$ -	$ -	$ 65,918	$ 4,320,661
Net Increase (Decrease) in Fair Value of Investments	-	(354,453)	-	-	-	-	(354,453)
Single Family Income	-	2,623,323	-	-	-	-	2,623,323
Federal and State Grants	158,447	50,000	-	-	-	-	208,447
Other Operating Revenue	37,666	-	205,055	806,029	635,268	265,721	1,949,739
Total Income	196,113	6,360,401	418,267	806,029	635,268	331,639	8,747,717
Expenses							
Interest Expense on Bonds and Notes Payable	-	3,696,747	86,977	11,465	-	-	3,795,189
Salaries, Wages and Payroll Related Costs	103,100	695,698	144,249	106,987	388,957	849,491	2,288,482
Grant Expenditures	158,447	163,695	-	-	-	6,808	328,950
Other Expenditures	100	545,233	45,241	686,032	396,094	875,130	2,547,830
Total Expense	$ 261,647	$ 5,101,373	$ 276,467	$ 804,484	$ 785,051	$ 1,731,429	$ 8,960,451
Net Loss							$ (212,734)