TEXAS STATE AFFORDABLE HOUSING CORPORATION

**Financial Statements
and Supplemental Information
as of and for the Year Ended
August 31, 2019 and
Independent Auditors' Report**

MAXWELL & LOCKE & RITTER

TEXAS STATE AFFORDABLE HOUSING CORPORATION

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INDEPENDENT
AUDITORS' REPORT

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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 the business-type activities of the Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2019, 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, 2019, 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 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 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 18, 2019 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 solely 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 effectiveness of the Corporation's 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 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

TEXAS STATE AFFORDABLE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended August 31, 2019

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, 2019. 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 $120.4 million; of this amount $76.4 million represent assets associated with the single-family bond program, $23.6 million represents unrestricted cash equivalents and investments and $11.6 million represents real estate held under the Neighborhood Stabilization Program ("NSP"), the Affordable Communities of Texas ("ACT") Program, and the Rental Program. Total assets increased approximately $44.3 million during 2019 primarily due to the expansion in single family bond activity.

- The Corporation's liabilities totaled $76.8 million of which $68 million related to the single-family bond program, $2.2 million consisted of notes payable and $1.8 million represented NSP funds owed to the Texas Department of Housing and Community Affairs. Total liabilities increased approximately $39.7 million in 2019 resulting primarily from the issuance of the Corporation's new single-family bond debt.

- At the close of the fiscal year ending August 31, 2019 the Corporation's assets exceeded it liabilities by $43.4 million. Of this amount, $33.2 million may be used to meet the Corporation's ongoing obligations to the public and creditors and $1.2 million is invested in capital assets.

- The Corporation's operating revenues for 2019 totaled $13.1 million and operating revenue exceeded operating expense by approximately $4.7 million. The major revenue sources were interest and investment income of $2.3 million, single family program income of $6.8 million, and contributions of $0.6 million. Revenue decreased in 2019 by approximately $2.6 million due to a decrease in revenue from Single Family programs. 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 balance sheet.

- Operating expenditures for fiscal year 2019 consisted primarily of interest expense on bonds and notes payable of $1.5 million, salary expense of $2.8 million, and program & loan administration expense of $1.4 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 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

<u>Statement of Net Position</u>

	2019	2018	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Current Assets	$ 49,573,003	$ 22,160,384	$ 27,412,619	123.70%
Noncurrent Assets	70,828,178	53,938,016	16,890,162	31.31%
Total Assets	120,401,181	76,098,400	44,302,781	58.22%
LIABILITIES:				
Current Liabilities	4,783,173	4,213,987	569,186	13.51%
Noncurrent Liabilities	72,003,728	32,910,885	39,092,843	118.78%
Total Liabilities	$ 76,786,901	$ 37,124,872	$ 39,662,029	106.83%
DEFERRED INFLOWS OF RESOURCES-				
Deferred Revenue	$ 177,987	$ 190,570	$ (12,583)	(6.60%)
NET POSITION:				
Invested in Capital Assets	1,220,452	1,250,602	(30,150)	(2.41%)
Restricted for Debt Service	5,114,533	2,267,518	2,847,015	125.56%
Restricted for Other Purposes	3,905,995	350,096	3,555,899	1015.69%
Unrestricted	33,195,313	34,914,742	(1,719,429)	(4.92%)
Total Net Position	$ 43,436,293	$ 38,782,958	$ 4,653,335	12.00%

Net position increased from $38.8 million to $43.4 million in fiscal year 2019. Of total net position, $1,220,452 is invested in capital assets. Restricted net position totaled $9,020,528, and the remaining balance of $33,195,313 is unrestricted and available for corporate programs, payment of obligations, and fulfillment of the Corporation’s public purpose.

The Corporation’s total assets increased from $76.1 million to $120.4 million during fiscal year 2019. The largest single factor contributing to this increase was the issuance of bonds in the Corporation’s single-family bond program.

As of August 31, 2019, the Corporation’s current assets totaled $49.6 million and current liabilities equaled $4.8 million resulting in available net working capital of $44.8 million.

Noncurrent assets consist of restricted investments held by the bond trustee of $45,051,245; owned real estate totaling $11,575,899; noncurrent investments of $8,486,436; notes receivable of $3,316,469; the Corporation’s loan portfolio equaling $422,812; downpayment assistance of $558,927; and purchased mortgage servicing rights totaling $195,938. The Corporation’s capital assets consist of furniture, land, and equipment used in operations totaling $1,220,452, net of accumulated depreciation.

Noncurrent liabilities consisted of bonds payable totaling $66,472,282; notes payable of $1,629,601; and unearned revenue of $3,901,845.

Statement Revenues, Expenses and Changes in Net Position

	2019	2018	Increase (Decrease) Amount	Increase (Decrease) Percentage
REVENUES:				
Interest and Investment Income	$ 2,330,852	$ 2,208,291	$ 122,561	5.55%
Net Increase (Decrease) in Fair Value of Investment	1,733,232	(279,811)	2,013,043	719.43%
Single Family Income	6,836,845	11,335,028	(4,498,183)	(39.68%)
Land Bank Income	273,292	244,571	28,721	11.74%
Public Support	706,937	725,570	(18,633)	(2.57%)
Other	1,252,282	1,477,277	(224,995)	(15.23%)
Total Income	$ 13,133,440	$ 15,710,926	$ (2,577,486)	(16.41%)
EXPENSES:				
Interest Expense on Bonds & Notes Payable	1,450,318	1,265,746	184,572	14.58%
Salaries, Wages & Payroll Related Costs	2,823,336	2,612,993	210,343	8.05%
Program and Loan Administration	1,366,577	908,483	458,094	50.42%
Foundations Fund/ Rebuild Texas Grants	1,223,000	568,000	655,000	115.32%
Other	1,616,874	1,927,770	(310,896)	(16.13%)
Total Expenses	$ 8,480,105	$ 7,282,992	1,197,113	16.44%
Operating Gain	4,653,335	8,427,934	(3,774,599)	(44.79%)
Beginning Net Position	38,782,958	30,355,024	8,427,934	27.76%
Ending Net Position	$ 43,436,293	$ 38,782,958	$ 4,653,335	12.00%

Interest and investment income increased $123 thousand from the previous year. This resulted primarily from the increase in general investments interest revenue.

The Corporation experienced a decrease in revenue during fiscal year 2019 compared to fiscal year 2018 resulting from a decrease in single family income. Single family income decreased approximately $4.5 million from 2018 due to a change in the Corporation's downpayment assistance program. 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.

Land Bank income increased approximately $28,700 from the previous year resulting primarily from an increase in activity related to the ACT Program. Public Support decreased approximately $18,600 from the previous fiscal year. This was due to fewer donations received in relation to the Homebuyer Education grant program.

Interest expense on bonds and notes payable increased $185,000 from the previous year. This is a direct result of the increase in single family bond activity.

Other expenses are comprised of professional fees, amortization, office and equipment rental and maintenance, travel, depreciation and grant expenditures.

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 2019, as well as the use of these funds, were as follows:

FY 2019 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
Insperity	Received	$ 5,000	$ 5,000	Housing Connection Program
Frost Bank	Received	$ 5,000	$ 5,000	Housing Connection Program
Bank of America	Received	$ 15,000	$ 15,000	Housing Connection Program
JP Morgan Chase	Received	$ 30,000	$ 30,000	Housing Connection Program
Capital Magnet Fund	Received	$ 5,250,000	$ 3,750,000	Texas Housing Impact Fund
Rebuild Texas Fund	Received	$ 550,000	$ 550,000	HEART Disaster Recovery Grant Program
BBVA	Received	$ 5,000	$ 5,000	Housing Connection Program
Texas Capital Bank	Received	$ 15,000	$ 15,000	Texas Housing Impact Fund

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2019 were as follows:

- Loan in the amount of $525,307 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.

- Loan in the amount of $181,580 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.

- Loan in the amount of $7,698 was provided to a non-profit developer for the purpose of financing interim construction on a multi-family project.

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 2019 were as follows:

- $348,000 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. During the year, twenty-five (25) such grants were made in the aggregate amount of $348,000.

- $100,000 was set aside in FY2018 for the HEART (Housing and Economic Assistance to Rebuild Texas) Program for the purpose of providing funding to organizations that are helping with the Hurricane Harvey relief effort. During the FY2019 fiscal year, $60,000 of these funds were spent.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled $4,653,335 for fiscal year 2019.

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, 2019

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	5,986,828
Restricted Assets:		
Cash and Cash Equivalents		13,605,894
Short-term Investments, at Fair Market Value		17,541,976
Accrued Interest		196,008
Custodial Cash and Cash Equivalents		154,091
Investments, at Fair Value		9,143,170
Accounts Receivable and Accrued Revenue		912,098
Accrued Interest Receivable		142,224
Loans Receivable, Current Portion		71,875
Notes Receivable, Current Portion		351,504
Downpayment Assistance, Current Portion		1,192,908
Prepaid Expenses		274,427
Total Current Assets		49,573,003
Noncurrent Assets		
Loans Receivable, Net of Uncollectible Amounts of $2,789		422,812
Notes Receivable, Net of Allowance for Loss of $500,000		3,316,469
Investments, at Fair Market Value		8,486,436
Mortgage Servicing Rights, Net of Accumulated Amortization of $2,532,123		195,938
Fixed Assets, Net of Accumulated Depreciation of $838,765		1,220,452
Owned Real Estate, Federal & Other Programs, Net of Accumulated Amortization of $696,983		11,575,899
Downpayment Assistance		558,927
Restricted Investments Held by Bond Trustee, at Fair Market Value		45,051,245
Total Noncurrent Assets		70,828,178
TOTAL ASSETS	$	120,401,181

(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, 2019

LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Expenses	$	468,223
Notes Payable, Current Portion		555,562
Custodial Reserve Funds		154,091
Due to Federal Programs		1,786,799
Other Current Liabilities		265,585
Payable from Restricted Assets Held by Bond Trustee:		
Revenue Bonds Payable, Current Portion		670,000
Accrued Interest on Revenue Bonds		882,913
Total Current Liabilities		4,783,173
Noncurrent Liabilities		
Notes Payable		1,629,601
Revenue Bonds Payable		66,472,282
Unearned Revenue		3,901,845
Total Noncurrent Liabilities		72,003,728
Total Liabilities		76,786,901
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue		177,987
Total Deferred Inflows of Resources		177,987
NET POSITION		
Invested in Capital Assets		1,220,452
Restricted for:		
Debt Service		5,114,533
Other Purposes		3,905,995
Unrestricted		33,195,313
Total Net Position	$	43,436,293
TOTAL LIABILITIES & NET POSITION	$	120,401,181

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, 2019

Operating Revenues		
Interest and Investment Income	$	2,330,852
Net Increase (Decrease) in Fair Value of Investments		1,733,232
Single Family Income		6,836,845
Asset Oversight and Compliance Fees		251,715
Rental Program Income		596,596
Multifamily Income		306,176
Land Bank Income		273,292
Federal and State Grants		60,879
Other Contributions and Public Support		646,059
Other Operating Revenue		97,794
Total Operating Revenues	$	13,133,440
Operating Expenses		
Interest Expense on Bonds and Notes Payable	$	1,450,318
Program and Loan Administration		1,366,577
Foundation Fund Grants		1,223,000
Salaries, Wages and Payroll Related Costs		2,823,336
Professional Fees and Services		424,093
Depreciation and Amortization		469,149
Office and Equipment Rental and Maintenance		105,315
Travel and Meals		106,940
Grant Expenditures		121,031
Other Operating Expenses		390,346
Total Operating Expenses	$	8,480,105
Net Income		4,653,335
Total Net Position, Beginning		38,782,958
Total Net Position, Ending	$	43,436,293

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, 2019

Cash Flows from Operating Activities	
Receipts from Customers and Users	$ 103,569,598
Payments to Employees	(2,119,651)
Payments of Benefits and Other Payroll Related Costs	(703,685)
Payments to Suppliers of Goods and Services	(93,023,017)
Net Cash Provided By Operating Activities	7,723,245
Cash Flows from Non-Capital Financing Activities	
Proceeds from Notes Payable	250,000
Payments of Principal on Notes Payable	(552,862)
Proceeds from Bonds Payable	41,743,027
Payments of Principal related to Bond Maturities and Calls	(5,670,000)
Net Cash Provided By Non-Capital Financing Activities	35,770,165
Cash Flows from Capital and Related Financing Activities	
Payments for Additions to Capital Assets	(46,983)
Purchase and Rehabilitation of Single Family Homes	(792,733)
Sale of Single Family Homes	211,964
Sale of Single Family Homes Under ACT Program	809,562
Rehabilitation of Multifamily Apartments	(22,330)
Purchase and Rehabilitation of Office Building	(2,401,682)
Net Cash Used For Capital and Related Financing Activities	(2,242,202)
Cash Flows from Investing Activities	
Proceeds from Sale and Maturities of Investments Held by Bond Trustee	30,746,598
Purchase of Investments Held by Bond Trustee	(59,240,893)
Proceeds from Sale of Unrestricted Investments	12,888,259
Purchase of Unrestricted Investments	(13,640,598)
Net Cash Used For Investing Activities	(29,246,634)
Net Increase in Cash and Cash Equivalents	12,004,574
Cash and Cash Equivalents at Beginning of Year	7,742,239
Cash and Cash Equivalents at End of Year	$ 19,746,813

(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, 2019

Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Net Income from Operations	$	4,653,335
Adjustments To Reconcile to Net Cash Provided By Operations:		
Depreciation and Amortization Expense		469,149
Unrealized Loss on Investments		(1,733,233)
Accretion on Investments		(46,087)
Gain on Sale of Property		(215,489)
Donated Property		(62,973)
Provision for Estimated Losses		9,468
In-kind grants		(3,923)
Amortization of Down Payment Assistance		3,226
Amortization of Bond Premium		(23,374)
Changes in Current Assets and Liabilities:		
Decrease in Accounts Receivable and Accrued Revenue		601,095
Increase in Accrued Interest Receivable		(104,179)
Decrease in Loans Receivable		70,448
Decrease in Notes Receivable		2,179,607
Increase in Down Payment Assistance Loans		(1,751,835)
Increase in Prepaid Expenses		(160,674)
Increase in Accounts Payable & Accrued Expenses		58,643
Increase in Accrued Interest Payable on Bonds		374,566
Increase in Deferred Revenue		3,756,167
Decrease in Due to Federal Programs		(350,692)
Net Cash Provided By Operating Activities	$	7,723,245

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS

Debt Forgiven - Affordable Communities of Texas Veterans’ Program	$	174,362

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

NOTES TO THE
FINANCIAL STATEMENTS

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 Governmental 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.

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.

Single Family TBA Program - Under the TBA Program, the Corporation finances first-lien mortgage loans to enable qualified borrowers 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.

Texas Housing Impact Fund - The Texas Housing Impact Fund ("THIF") provides financing for the acquisition, construction and redevelopment of single family and multifamily housing 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 and San Antonio Metropolitan Statistical Areas (the "MSA") to eligible low income families.

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 2019 program year, the amount available for issuance was approximately $66 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.

Rental Program - The Corporation's Multifamily Rental Program (the "MFR Program") consists of a 15 unit apartment complex, Rollins Martin Apartments in Austin, TX. Additionally, the Corporation owns an office building, which it leases to other 501(c)(3) nonprofits.

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 Financial Accounting Standards Board ("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 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 allowances for possible loan losses.

Notes Receivable - Notes receivable is comprised of loans made under the THIF Program and the MPAB 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. 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 Premium - As of August 31, 2019 the premium related to the SFB Programs totaled approximately $1,872,000. Bond premium amortization during fiscal year 2019 totaled approximately $23,000.

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.

Fair Value Measurements - The Corporation complies with 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 inputs 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.

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 2019 was approximately $36,000; accumulated amortization as of August 31, 2019 equaled approximately $2.5 million.

Capital Assets - All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. 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. The Corporation capitalizes 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 as of August 31, 2019 was approximately $228,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $154,000 as of August 31, 2019 for the benefit of two 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.

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.

Recently Issued Accounting Pronouncements - In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended August 31, 2021.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents at August 31, 2019 consisted of bank deposits totaling $373,949 and local government investment pool deposits totaling $5,612,879.

Restricted cash and cash equivalents at August 31, 2019 totaled $13,605,894. The bond trustee maintained $9,699,899 in money market mutual funds. The Corporation held $3,750,000 in a money market account, which was a grant received from the Capital Magnet Fund. The remaining $155,995 was related to various restricted grant funds maintained in the Federal Home Loan Bank. The Corporation also maintained two custodial accounts with a combined total of $154,091 pledged as reserves on two 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.

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, 2019, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 8,143,353	$ -	$ -	$ 8,143,353
US Agency MBS	-	3,486,253	-	3,486,253
Total Fair Value	$ 8,143,353	$ 3,486,253	$ -	$ 11,629,606
Investments not subject to GASB 72				6,000,000
Total Unrestricted Investments				$ 17,629,606

The Corporation's unrestricted investments consisted of the following at August 31, 2019:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Certificate of Deposit - 3/11/20	2.465%	$ 4,600,000	$ 4,600,000	$ -
Certificate of Deposit - 4/02/20	2.338%	400,000	400,000	-
Certificate of Deposit - 5/11/20	1.772%	1,000,000	1,000,000	-
Federal Agency Coupon Securities - 1/23/20	2.090%	1,988,879	2,000,145	11,266
Federal Agency Coupon Securities - 7/13/20	1.750%	1,139,639	1,143,025	3,386
Total Short Term Investments		9,128,518	9,143,170	14,652
Pass through securities GNMA - 10/20/2034	5.990%	3,577	4,022	445
Pass through securities GNMA - 2036-2038*	5.49 - 6.10%	1,216,270	1,311,318	95,048
Pass through securities FNMA - 2035-2037	5.49 - 5.75%	716,237	740,540	24,303
Pass through securities FHLMC - 2037-2038	5.65 - 6.1%	1,309,588	1,430,372	120,784
Federal Agency Coupon Securities - 10/09/20	2.520%	2,500,575	2,500,259	(316)
Federal Agency Coupon Securities -2/26/21	1.905%	2,500,000	2,499,925	(75)
Total Long Term Investments		$ 8,246,247	$ 8,486,436	$ 240,189
Total Investments		$ 17,374,765	$ 17,629,606	$ 254,841

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

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.

As of August 31, 2019, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Treasury Notes	$ 17,541,976	$ -	$ -	$ 17,541,976
US MBS	-	45,051,245	-	45,051,245
Total Fair Value	$ 17,541,976	$ 45,051,245	$ -	$ 62,593,221
Investments not subject to GASB 72				-
Total Restricted Investments				$ 62,593,221

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2019:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
US Treasury Notes - 2019	1.625%	$ 9,110,000	9,110,000	-
US Treasury Notes - 2019	1.75%	8,434,000	8,431,976	(2,024)
Total Short Term Investments		$ 17,544,000	17,541,976	(2,024)
GNMA/FNMA Investments - 2040/2042	3.5-4.75%	$ 26,166,009	$ 27,517,737	$ 1,351,728
GNMA/FNMA Investments - 2049	4.8%	16,335,943	17,533,508	1,197,565
Total Long Term Investments		$ 42,501,952	$ 45,051,245	$ 2,549,293
Total Investments		$ 60,045,952	$ 62,593,221	$ 2,547,269

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

Single Family Mortgage Revenue Bonds Series 2009A, B/2011A, B/2013A	$ 1,234,483
Single Family Mortgage Revenue Bonds Series 2019A	197,657
	$ 1,432,140

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2019 has increased by approximately $30.3 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 $45 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 $42.5 million and unrealized gain of approximately $2.5 million as of August 31, 2019. 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” 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 2017, 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 mortgage-backed securities.

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 CD’s 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 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 adopted Investment Policy further restricts investments to AAA-rated, “2a-7 like” (constant dollar) local government investment pools.

As of August 31, 2019, holdings in the General Portfolio and Surplus Portfolio had total fair market values of $24,371,905 and $3,482,231 respectively and included:

- collateralized or insured certificates of deposit represented 21.54% of the total portfolio,
- funds held in a Federal Home Loan Bank account represented 1.52% of the total portfolio,
- funds invested in fully insured or collateralized bank accounts represented 15.04% of the total portfolio,
- holdings in a AAA-rated local government pool represented 20.15% of the total portfolio,
- holdings in US Government agency securities represented 29.24% of the total portfolio, and
- holdings in US mortgage backed securities represented 12.51% 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 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	60%
Certificates of Deposit By Institution	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper	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 government obligations and mortgage-backed securities.

In the total portfolio certificates of deposit are restricted to a maturity of one (1) year and commercial paper 90 days. 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, 2019, the general portfolio, excluding the one GNMA, held no security with a stated maturity date beyond 544 days. With the inclusion of the one GNMA the dollar weighted average maturity of the total general portfolio was 175 days.

The Surplus Funds portfolio had a dollar weighted average maturity of 6,526 days and the longest security was 6,989 days.

As of August 31, 2019, the General Portfolio contained four (4) US agency structured notes (quarterly callables) which might be affected by interest rate risk with a fair market value of $8,143,353.

As of August 31, 2019, the Surplus Portfolio contained mortgage-backed securities which might be affected by interest rate risk.

Custodial Credit Risk
To control custody and safekeeping risk state law and the Corporation's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the Corporation and held in the Corporation's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of Financial Institutions Reform, Recovery, and Enforcement Act. The counter-party of each type of 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, 2019:

- the portfolio contained 21.54% 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

3. LOANS RECEIVABLE

Loans receivable are carried at the unpaid principal balance, net of loss allowances. A summary of loans receivable at August 31, 2019 is as follows:

Loans Receivable at September 1, 2018	$ 569,969
Additions	-
Paydowns	(72,493)
Loans Receivable at August 31, 2019	497,476
Allowance for possible loan losses	(2,789)
Net Balance at August 31, 2019	$ 494,687

The current portion of loans receivable at August 31, 2019 is $71,875; the remaining balance of $422,812 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2019 is as follows:

Balance at September 1, 2018	$ (4,834)
Current Year Reduction	2,045
Loss Applied to the Allowance	-
Balance at August 31, 2019	$ (2,789)

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

4. NOTES RECEIVABLE

Notes receivable were comprised of loans made under the THIF Program, the MPAB Program, and the 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 notes receivable which are forgiven over 10 years. Notes are carried at the unpaid principal balance outstanding. Included in notes receivable is one note totaling $1,027,794 which collateralizes an advance from FHLB. See Note 10.

A summary of activity for notes receivable for the year ended August 31, 2019 is as follows:

Balance at September 1, 2018	$ 5,847,581
Additions	714,586
Collections	(2,803,667)
Accumulated Amortization	(90,527)
Balance at August 31, 2019	$ 3,667,973

The current portion of notes receivable at August 31, 2019 is $351,504; the remaining balance of $3,316,469 is classified as non-current notes receivable. Management considers these loans fully collectible. Accordingly, no provision has been made for uncollectible amounts.

5. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2019 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2018	Additions	Deletions	Balance August 31, 2019
Land	$ 232,241	$ -	$ -	$ 232,241
Building	1,301,442	3,985	1,070	1,304,357
Furniture & Fixtures	495,615	42,997	15,993	522,619
Total	$ 2,029,298	$ 46,982	$ 17,063	$ 2,059,217

	Accumulated Depreciation			
	Balance September 1, 2018	Additions	Deletions	Balance August 31, 2019
Building	$ 358,622	$ 39,815	$ 964	$ 397,473
Furniture & Fixtures	420,074	37,108	15,890	441,292
Total	$ 778,696	$ 76,923	$ 16,854	$ 838,765

Capital assets, less accumulated depreciation, at August 31, 2019 totaled $1,220,452.

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.

7. OPERATING LEASES

The Corporation leases certain office equipment under a three-year lease agreement which calls for monthly lease payments of $595 and any applicable overages. Lease expense under this agreement was $7,799.

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

Year Ended August 31,	Amount
2020	7,140
2021	2,380
Total Minimum Future Rental Payments	$ 9,520

The Corporation owns rental property consisting of single family homes, a multifamily apartment complex and an office building.

Based on current agreements the future operating lease income is:

Year Ended August 31,	Amount
2020	$ 371,336
2021	106,610
2022	13,660
Total Future Rental Income	$ 491,606

Total operating lease income for the year ended August 31, 2019 was $521,558.

8. CUSTODIAL RESERVE FUNDS

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

Reserve activity for the year ended August 31, 2019 was as follows:

Balance at September 1, 2018	$ 126,751
Deposits	27,340
Disbursements	-
Balance at August 31, 2019	$ 154,091

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 2019 totaled approximately $12,583. The remaining deferred revenue for this portfolio was $177,987 at August 31, 2019.

The prepaid issuer fees from thirteen (13) multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2019, unearned revenue related to these properties totaled $152,756.

In the fiscal year ended August 31, 2019, the Corporation received $3.75 million from the Capital Magnet Fund in the form of a grant. The revenue will be earned as it is expended.

A summary of deferred inflows of resources and unearned revenue activity for fiscal year 2019 is as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2018	$ 190,570	$ 133,095
Additions	-	4,165,548
Revenue Earned	-	(396,798)
Loan Payments Received	(12,583)	-
Balance at August 31, 2018	$ 177,987	$ 3,901,845

10. NOTES PAYABLE

As of August 31, 2019 notes payable consisted of:

Note Payable to Federal Home Loan Bank, installment note with equal payments of $2,568.65 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	$	288,634
Note Payable to Federal Home Loan Bank, installment note with equal payments of $4,086.48 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.		459,201
Note Payable to Federal Home Loan Bank, installment note with equal payments of $3,538.30 monthly, 2.993% interest, due October 2026, secured by note receivable.		687,328
Note Payable to Texas Community Bank, interest only at 2.00% payable quarterly, due in full May 2020, unsecured.		500,000
Note Payable to Austin Community Foundation, interest only at 2.0% payable quarterly, due in full January 1, 2022, unsecured.		250,000
Total Notes Payable	$	2,185,163
Current Portion of Notes Payable		555,562
Noncurrent Notes Payable	$	1,629,601

The summary of notes payable for the year ended August 31, 2019 is as follows:

Balance at September 1, 2018	$	2,488,025
Advances		250,000
Repayments		(552,862)
Balance at August 31, 2019	$	2,185,163

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

Year Ended August 31,	Principal	Interest	Total
2020	$ 555,562	$ 78,431	$ 633,993
2021	58,415	68,912	127,327
2022	311,431	62,560	373,991
2023	64,620	57,707	122,327
2024	625,702	34,483	660,185
2025 thru 2029	569,433	35,178	604,611
Total	$ 2,185,163	$ 337,271	$ 2,522,434

11. BONDED INDEBTEDNESS

The Corporation had four (4) bond series outstanding as of August 31, 2019. 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.

On May 9, 2019, the Corporation issued $40,000,000 in Single Family Mortgage Revenue to make funds available to finance qualifying mortgage loans for single family residences located in the State of Texas. The net proceeds of $41,118,027 (after payment of $625,000 in underwriting fees and other issuance costs) were invested by the Corporation to fund future qualifying mortgage loans.

The Corporation is in compliance with all significant limitations and restrictions at August 31, 2019.

Description	Interest Rate	Bonds Outstanding 9/1/18	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/19	Amounts Due Within One Year
Single Family 2009-2013							
Series 2011A	Variable	$ 5,160,000	$ -	$1,315,000	$ -	$ 3,845,000	$ 340,000
Series 2009/2011B	Variable	14,595,000	-	2,235,000	-	12,360,000	330,000
Series 2013A	Variable	11,185,000	-	2,120,000	-	9,065,000	-
Single Family 2019							
Series 2019A	Variable	-	40,000,000	-	-	40,000,000	-
Total Principal		$30,940,000	$40,000,000	$5,670,000	$ -	$65,270,000	$ 670,000
Unamortized Premium		152,627				1,872,282	
Total		$31,092,627				$67,142,282	

The current portion of bonds payable at August 31, 2019 was $670,000. The remaining balance of $66,472,282 is classified as noncurrent bonds payable.

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

Year Ended August 31,	Principal	Interest	Total
2020	$ 670,000	$ 2,331,203	$ 3,001,203
2021	1,210,000	2,301,039	3,511,039
2022	1,300,000	2,257,589	3,557,589
2023	1,335,000	2,209,222	3,544,222
2024	1,410,000	2,157,724	3,567,724
2025 thru 2029	8,125,000	9,899,299	18,024,299
2030 thru 2034	10,800,000	8,308,082	19,108,082
2035 thru 2039	14,095,000	6,391,638	20,486,638
2040 thru 2044	12,540,000	3,951,038	16,491,038
2045 thru 2049	11,170,000	1,832,316	13,002,316
2050 thru 2054	2,615,000	78,800	2,693,800
Total	$ 65,270,000	$ 41,717,950	$ 106,987,950

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 2019, the debt service requirement equaled $5,670,000 in bond principal and $997,334 in bond interest expense, totaling $6,677,334. As of August 31, 2019, pledged revenues totaled $34,109,662.

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.

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 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, 2019, the MCC Program revenue totaled approximately $1,863,000 and is included in single family income in the statement of revenues, expenses, and changes in net position.

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, 2019, the Corporation, through the NSP, owed the Department $1,786,799. 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, 2020.

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, 2019, the Corporation, through the Texas Foundation Fund, made grants totaling $348,000.

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 or an interest-free 30 year non-forgivable second lien. The 2009-2019 programs offer 3-6% in down payment assistance.

17. RELATED PARTY TRANSACTIONS

The Corporation received federal grant awards passed through the Department for the NSP Program during fiscal year 2019. Receivables and payables related to this grant as of August 31, 2019 totaled $52,263 and $1,786,799, respectively. See Note 14.

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, 2019, were $66,636.

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 $66 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, 2019, there were fourteen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $212 million.

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.

21. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through December 18, 2019 (the date the financial statements were available for issue) and has determined that there were no subsequent events that have occurred that require additional disclosure.

22. NON-CASH CONTRIBUTIONS

During the year ended August 31, 2019, the Corporation received six new donated properties, valued at $62,973, to be utilized in the ACT Housing Initiative. See Note 12. Additionally, Google, Inc. made an in-kind donation of $3,923 for advertising.

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.

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, 2019 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	$ 13,133,440
Depreciation and Amortization	469,149
Net Income	4,653,335
Net Working Capital*	44,789,830
Total Assets	120,401,181
Total Net Position	43,436,293
Noncurrent Notes Payable	1,629,601
Noncurrent Bonds Payable	66,472,282
Deferred Inflows of Resources	177,987
Unearned Revenue	3,901,845
Capital Asset Additions	46,982

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	$ 5,986,828
Restricted Assets Held by Bond Trustee	31,343,878
Custodial Cash and Cash Equivalents	154,091
Investments, Short-Term	9,143,170
Accounts Receivable and Accrued Revenue, net	912,098
Accrued Interest Receivable	142,224
Loans Receivable, Current Portion	71,875
Notes Receivable, Current Portion	351,504
Downpayment Assistance, Current Portion	1,192,908
Prepaid Expenses	274,427
Payables:	
Accounts Payable and Accrued Expenses	(468,223)
Notes Payable, Current Portion	(555,562)
Custodial Reserve Funds	(154,091)
Due to Federal Programs	(1,786,799)
Other Current Liabilities	(265,585)
Bonds Payable and Accrued Interest on Bonds, Current Portion	(1,552,913)
Total Net Working Capital	$ 44,789,830

GOVERNMENT
AUDITING STANDARDS

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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 the business-type activities of the Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2019, 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 18, 2019.

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 18, 2019

OTHER SUPPLEMENTAL INFORMATION

TEXAS STATE AFFORDABLE HOUSING CORPORATION

SCHEDULE OF REVENUES AND EXPENSES BY ACTIVITY
FOR THE YEAR ENDED AUGUST 31, 2019

	NSP	Single Family	Multi Family	ACT	Asset Management	Other	Total
Income							
Interest and Investment Income	$ -	$ 1,752,528	$ 89,671	$ -	$ -	$ 488,653	$ 2,330,852
Net Increase (Decrease) in Fair Value of Investments	-	1,733,232	-	-	-	-	1,733,232
Single Family Income	-	6,836,845	-	-	-	-	6,836,845
Federal and State Grants	59,969	-	910	-	-	-	60,879
Other Operating Revenue	27,285	80,954	306,264	273,591	848,311	635,227	2,171,632
Total Income	87,254	10,403,559	396,845	273,591	848,311	1,123,880	13,133,440
Expenses							
Interest Expense on Bonds and Notes Payable	-	1,367,493	72,825	10,000	-	-	1,450,318
Salaries, Wages and Payroll Related Costs	54,783	1,072,906	95,680	145,430	458,079	996,458	2,823,336
Grant Expenditures	59,968	61,063	-	-	-	-	121,031
Other Expenditures	-	1,605,854	79,368	170,427	511,388	1,718,383	4,085,420
Total Expense	114,751	4,107,316	247,873	325,857	969,467	2,714,841	8,480,105
Net Income							$ 4,653,335