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State Affordable Housing Corporation

December Audit Committee Meeting

To be held via Webinar Located:

https://webinar.ringcentral.com/webinar/register/WN_3p3XEob7SauxIaQMv5M73A

Dial-in number: +1 (888) 391-5458

Webinar ID: 148 687 9462

Participant ID: Receive Upon Registration

Wednesday, December 16, 2020

9:00 a.m.

AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION

The Governing Board of the Texas State Affordable Housing Corporation (TSAHC) will meet ONLINE:

December 16, 2020
9:00 A.M.

MEETING LOCATION:

Considering the March 13, 2020, disaster declaration by the Office of the Governor, and the subsequent waivers of portions of Tex. Gov't Code, Ch. 551*, this meeting of the TSAHC governing Board will be accessible to the public via the telephone and web link information, below. In order to engage in two-way communication during the meeting, persons must first register (at no cost) to attend the webinar via the link provided. Anyone who calls into the meeting without registering online will not be able to ask questions or provide comments, but the meeting will still be audible. A recording of the meeting will be made available to the public as soon as possible following the meeting.

GOVERNING BOARD WEBINAR REGISTRATION:

Location: https://webinar.ringcentral.com/webinar/register/WN_3p3XEob7SauxIaQMv5M73A
Dial-in number: +1(888) 391-5458**, Webinar ID:** 148 687 9462; **Participant ID:** Received upon registration. (Persons who use the dial-in number and access code without registering online will only be able to hear the Board Meeting and will not be able to ask questions or provide comments). Note, this meeting will be proceeding as a teleconference under Tex. Gov't Code §551.125, as modified by waiver, and video will not be available.

CALL TO ORDER, ROLL CALL	**Valerie Cardenas**
CERTIFICATION OF QUORUM	**Committee Chair**

The Audit Committee of the Texas State Affordable Housing Corporation will meet to consider and possibly act on the following:

PUBLIC COMMENT

ACTION ITEMS IN OPEN MEETING:

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 12, 2020.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2020.

CLOSED MEETING:
Consultation with legal counsel on legal matters – Texas Government Code § 551.071
Deliberation regarding purchase, exchange, lease, or value of real property – Texas Government Code § 551.072
Deliberation regarding prospective gift or donation to the state or Texas State Affordable Housing Corporation – Texas Government Code § 551.073
Personnel Matters – Texas Government Code § 551.074
Implementation of security personnel or devices – Texas Government Code § 551.076
Other matters authorized under the Texas Government Code

OPEN MEETING:
Action in Open Meeting on Items Discussed in Closed Meeting

ADJOURN:

Individuals who require auxiliary aids or services for this meeting should contact Rebecca DeLeon, ADA Responsible Employee, at 512-220-1174 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that the appropriate arrangements can be made.

Section 46.035 of the Texas Penal Code prohibits handgun licensees from carrying their handguns at government meetings such as this one. This prohibition applies to both concealed carry and open carry by handgun licensees. Handgun licensees are required by law to refrain from carrying their handguns at this meeting.

Texas State Affordable Housing Corporation reserves the right to recess this meeting (without adjourning) and convene at a later stated time, if and to the extent allowed by law. If Texas State Affordable Housing Corporation adjourns this meeting and reconvenes at a later time, the later meeting will be held in the same location as this meeting. Texas State Affordable Housing Corporation also reserves the right to proceed into a closed meeting during the meeting in accordance with the Open Meetings Act, Chapter 551 of the Texas Government Code. If permitted by the Open Meetings Act, Chapter 551 of the Texas Government Code, any item on this Agenda to be discussed in open meeting may also be discussed by the Board (and any other authorized persons) in closed meeting.

Tab 1

Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 12, 2020.

AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION

The Governing Board of the
Texas State Affordable Housing Corporation (TSAHC) will meet ONLINE:

August 12, 2020
9:30 A.M.

Summary of Minutes

CALL TO ORDER ROLL CALL
CERTIFICATION OF QUORUM

The Audit Committee of the Texas State Affordable Housing Corporation (the "Corporation") was called to order by Valerie Cardenas, Audit Committee Chair, at 9:34 am on August 12, 2020, at the offices of Texas State Affordable Housing Corporation, 2200 E. Martin Luther King Jr. Blvd., Austin TX 78702. Roll Call was taken, and four members were present.

Committee Members Present remotely via teleconferencing

Valerie Cardenas, (Board Member), Vice Chair
Courtney Johnson-Rose, (Board Member), Member
David Long, (President), Ad Hoc Member
Melinda Smith, (Chief Financial Officer), Ad Hoc Member

Special Guests remotely via teleconferencing

Routt Thornhill, Coats Rose
Tim Rittenhouse, CSG Advisors

Public Comment

None was given.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 13, 2019.

Ms. Rose made a motion to approve the minutes of the Audit Committee Meeting held on December 13, 2019. Ms. Smith seconded the motion. A vote was taken, and the motion passed unanimously.

See page 4 in the official transcript.

Tab 2 **Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.**

Presented by Melinda Smith, Chief Financial Officer

Ms. Rose made a motion to recommend approval of the Audit Committee Guidelines. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 5 in the official transcript.

Tab 3 **Presentation, Discussion and Possible Approval of the Fiscal Year 2021 Operating Budget.**

Presented by Melinda Smith, Chief Financial Officer

Ms. Rose made a motion to recommend approval of the Fiscal Year 2021 Operating Budget. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 8 in the official transcript.

Tab 4 **Presentation, Discussion and Possible Approval of Financial Auditors for Fiscal Years 2020, 2021 and 2022.**

Presented by Melinda Smith, Chief Financial Officer

Ms. Rose made a motion to recommend approval of the Financial Auditors for Fiscal Years 2020, 2021 and 2022. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 11 in the official transcript.

Adjournment

Ms. Cardenas adjourned the meeting at 9:56am.

Respectfully submitted by___________________________________
Rebecca DeLeon, Corporate Secretary

Tab 2

Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2020.

December 16, 2020

To the Board of Directors of
Texas State Affordable Housing Corporation:

We have audited 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, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated September 14, 2020. Professional standards also require that we communicate to you the following information related to our audit.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2020. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimates of the allowance for doubtful loans receivable and the useful lives of capital assets used to calculate depreciation expense. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the attached management representation letter dated December 16, 2020.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES RELEVANT TO THE OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. Therefore, while this issue may negatively impact the Corporation's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time. The Corporation is actively managing its operations to maintain its cash flow and management believes that the Corporation has adequate liquidity.

OTHER MATTERS

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental data required by the U.S. Department of Housing and Urban Development ("HUD") ("supplementary information"), which is not RSI. With respect to this supplementary information required by HUD, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information required by HUD to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the schedule of operating revenues and operating expenses by activity, which accompanies the financial statements but is not RSI. Such information 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.

RESTRICTION ON USE

This information is intended solely for the use of the Board of Directors and management of the Corporation and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

Enclosure 1: Management Representation Letter

Texas State Affordable Housing Corporation

Financial Statements and Supplemental Information as of and for the Year Ended August 31, 2020 and Independent Auditors' Report

Texas State Affordable Housing Corporation

Table of Contents

Independent Auditors' Report

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, 2020, 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 business-type activities of the Corporation as of August 31, 2020, and the respective 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 9 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 expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and the schedule of revenues and expenses by activity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole

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 16, 2020 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.

Austin, Texas
December 16, 2020

Management's
Discussion and Analysis

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, 2020. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- At August 31, 2020 the Corporation's total assets equaled $152.6 million; of this amount $66.8 million represents assets associated with the single-family bond program; $29.3 million represents unrestricted cash, cash equivalents and investments; $34 million consists of loans and notes receivable; and $14.7 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 $32.2 million during 2020 primarily due to the increase in second lien notes receivable associated with the Single Family TBA Program.

- The Corporation's liabilities totaled $69.5 million of which $60.4 million relates to the single-family bond program, $2.3 million consists of notes payable and $1.6 million represents NSP funds owed to the Texas Department of Housing and Community Affairs. Total liabilities decreased approximately $7.3 million in 2020 resulting primarily from the payment of the Corporation's single-family bond debt.

- At the close of the fiscal year ending August 31, 2020 the Corporation's assets exceeded its liabilities by $82.9 million. Of this amount, $71.7 million may be used to meet the Corporation's ongoing obligations to the public and creditors, $10 million is restricted and $1.2 million is invested in capital assets.

- The Corporation's operating revenues for 2020 totaled $48.3 million and operating revenues exceeded operating expenses by approximately $39.4 million. The major revenue sources were interest and investment income totaling $6 million, single family program income equaling $36.5 million, and grants/contributions of $3.5 million. Revenue increased in 2020 by approximately $35.1 million due to an increase in income 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 2020 consist primarily of interest expense on bonds and notes payable of $2.2 million, salary expense of $3.1 million, and Foundations Fund/Rebuild Texas Grants of $1.2 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

Statement of Net Position

	2020	2019	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets:				
Current assets	$ 32,469,376	$ 49,573,004	$ (17,103,628)	(34.50%)
Noncurrent assets	120,087,270	70,828,178	49,259,092	69.55%
Total assets	152,556,646	120,401,182	32,155,464	26.71%
Liabilities:				
Current liabilities	5,391,932	4,783,174	608,758	12.73%
Noncurrent liabilities	64,126,309	72,003,728	(7,877,419)	(10.94%)
Total liabilities	$ 69,518,241	$ 76,786,902	$ (7,268,661)	(9.47%)
Deferred Inflows of Resources-				
Deferred Revenue	$ 165,126	$ 177,987	$ (12,861)	(7.23%)
Net Position:				
Invested in capital assets	1,214,725	1,220,452	(5,727)	(0.47%)
Restricted for debt service	6,623,541	5,022,860	1,600,681	31,87%
Restricted for other purposes	3,309,346	3,905,995	(596,649)	(15.28%)
Unrestricted	71,725,667	33,286,986	38,438,681	115.48%
Total net position	$ 82,873,279	$ 43,436,293	$ 39,436,986	90.79%

The Corporation's net position increased from $43.4 million to $82.9 million in fiscal year 2020. Of this amount, restricted assets totaled $10 million, capital assets equaled $1.2 million and the remaining balance of $71.7 million was unrestricted and available for corporate programs, payment of obligations, and fulfillment of the Corporation's public purpose.

The Corporation's total assets increased from $120.4 million to $152.6 million during fiscal year 2020. The largest single factor contributing to this increase was the issuance of second lien notes receivable in the Corporation's single-family program.

As of August 31, 2020, the Corporation's current assets totaled $32.5 million and current liabilities equaled $5.4 million resulting in available net working capital of $27.1 million.

Noncurrent assets consisted of restricted investments held by the bond trustee of $61 million; owned real estate totaling $14.7 million; noncurrent investments of $9.5 million; notes and loans receivable of $32.3 million; and capital assets net of accumulated depreciation of $1.2 million.

Noncurrent liabilities consisted of bonds payable totaling $58.3 million; notes payable of $2.3 million; and unearned revenue of $3.6 million.

Statement Revenues, Expenses and Changes in Net Position

	2020	2019	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues:				
Interest and investment income	$ 3,489,217	$ 2,330,852	$ 1,158,365	49.70%
Net increase in fair value of investment	2,518,590	1,733,232	785,358	45.31%
Single family income	36,489,699	6,836,845	29,652,854	433.72%
Asset oversight & compliance fees	837,352	251,715	585,637	232.66%
Land bank income	130,640	273,292	(142,652)	(52.20%)
Public support	3,529,768	706,937	2,822,831	399.30%
Other	1,258,739	1,000,567	258,172	25.80%
Total income	$ 48,254,005	$ 13,133,440	$ 35,120,565	267.41%
Expenses:				
Interest expense on bonds & notes payable	2,236,052	1,450,318	785,734	54.18%
Salaries, wages & payroll related costs	3,091,966	2,823,336	268,630	9.51%
Program and loan administration	761,099	1,366,577	(605,478)	(44.31%)
Foundations fund/ Rebuild Texas grants	1,164,000	1,223,000	(59,000)	(4.82%)
Other	1,563,902	1,616,874	(52,972)	(3.28%)
Total expenses	$ 8,817,019	$ 8,480,105	336,914	3.97%
Net income	39,436,986	4,653,335	34,783,651	747.50%
Beginning net position	43,436,293	38,782,958	4,653,335	12.00%
Ending net position	$ 82,873,279	$ 43,436,293	$ 39,436,986	90.79%

Interest and investment income increased $1.2 million from the previous year. This resulted primarily from the increase in interest earned on general investments. 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.

The Corporation experienced an increase in overall revenue of $35 million during fiscal year 2020 resulting primarily from a $29.7 million increase in single family income. The increase can be attributed to the addition of a second lien loan program.

Land bank income decreased approximately $143,000 from the previous year resulting primarily from a decrease in activity related to the ACT Program. Public Support increased approximately $2.8 million from the previous fiscal year. This was due to the receipt of a Capital Magnet Fund grant.

Interest expense on bonds and notes payable increased $786,000 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 2020, as well as the use of these funds, were as follows:

FY 2020 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
BBVA	Received	$ 5,000	$ 5,000	Housing Connection Program
BBVA	Received	$ 5,000	$ 5,000	HEART Disaster Recovery Grant Program
BBVA	Received	$ 5,000	$ 5,000	PSH Institute
Wells Fargo	Received	$ 15,000	$ 5,000	Housing Connection Program
Frost	Received	$ 5,000	$ 5,000	Housing Connection Program
Insperity	Received	$ 5,000	$ 5,000	PSH Institute
Money Follows the Person/ Affordable Housing Partnership	Received	$ 2,458,736	$ 2,314,999	Texas Housing Impact Fund
Austin Community Foundation	Received	$ 10,000	$ 10,000	Texas Housing Impact Fund
Texas Capital Bank	Received	$ 45,000	$ 15,000	Texas Housing Impact Fund and PSH Institute
Rebuild Texas Fund	Received	$ 1,100,000	$ 550,000	HEART Disaster Recovery Grant Program

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2020 were as follows:

- Loan in the amount of $812,829 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $303,737 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $388,403 was provided to a non-profit developer for the purpose of financing interim construction on a multi-family project.
- Loan in the amount of $3,500,000 was provided to a non-profit developer for the purpose of financing interim construction on multi-family projects.

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 2020 were as follows:

- $504,000 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-four (24) such grants were made in the aggregate amount of $504,000.
- $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 FY2020 fiscal year, the remaining $40,000 of these funds were spent.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled $39,436,986 for fiscal year 2020.

There were no significant changes to operations due to COVID-19 during the pandemic.

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 6701 Shirley Avenue, Austin, Texas 78752, phone 512-477-3555.

Basic Financial Statements

Texas State Affordable Housing Corporation

Statement of Net Position
As of August 31, 2020

Assets		
Current assets:		
Cash and cash equivalents	$	13,334,546
Restricted assets:		
Cash and cash equivalents		7,854,348
Accrued interest		76,400
Custodial cash and cash equivalents		181,431
Investments, at fair value		6,496,640
Accounts receivable and accrued revenue		2,370,440
Accrued interest receivable		72,508
Loans receivable, current portion		73,704
Notes receivable, current portion		1,600,246
Downpayment assistance, current portion		167,547
Prepaid expenses		241,566
Total current assets		32,469,376
Noncurrent assets:		
Loans receivable, net of uncollectible amounts of $5,703		344,430
Notes receivable		31,915,031
Investments, at fair market value		9,474,210
Mortgage servicing rights, net of accumulated amortization of $2,563,277		164,785
Capital assets, net of accumulated depreciation of $922,839		1,214,725
Owned real estate, federal & other programs, net of amortization of $868,076		14,721,538
Down payment assistance		1,214,869
Restricted investments held by bond trustee, at fair market value		61,037,682
Total noncurrent assets		120,087,270
Total assets	$	152,556,646

(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, 2020

Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	805,841
Notes payable, current portion		58,415
Custodial reserve funds		181,431
Due to federal programs		1,562,821
Other current liabilities		639,063
Payable from restricted assets held by bond trustee:		
Revenue bonds payable, current portion		1,105,000
Accrued interest on revenue bonds		1,039,361
Total current liabilities		5,391,932
Noncurrent liabilities:		
Notes payable		2,271,185
Revenue bonds payable		58,272,923
Unearned revenue		3,582,201
Total noncurrent liabilities		64,126,309
Total liabilities		69,518,241
Deferred Inflows of Resources		
Deferred revenue		165,126
Total deferred inflows of resources		165,126
Net Position		
Invested in capital assets		1,214,725
Restricted for:		
Debt service		6,623,541
Other purposes		3,309,346
Unrestricted		71,725,667
Total net position		82,873,279
Total liabilities and net position	$	152,556,646

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, 2020

Operating Revenues:		
Interest and investment income	$	3,489,217
Net increase in fair value of investments		2,518,590
Single family income		36,489,699
Asset oversight and compliance fees		837,352
Rental program income		744,444
Multifamily income		436,713
Land bank income		130,640
Public support:		
Federal & state grants		2,889,188
Contributions		640,580
Other operating revenue		77,582
Total operating revenues	$	48,254,005
Operating Expenses:		
Interest expense on bonds and notes payable	$	2,236,052
Program and loan administration		761,099
Foundation Fund/Rebuild Texas Grants		1,164,000
Salaries, wages and payroll related costs		3,091,966
Professional fees and services		368,577
Depreciation and amortization		475,026
Office and equipment rental and maintenance		99,443
Travel and meals		68,743
Other operating expenses		552,113
Total operating expenses		8,817,019
Net income		39,436,986
Total net position, beginning		43,436,293
Total net position, ending	$	82,873,279

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, 2020

Cash Flows from Operating Activities	
Receipts from customers and users	$ 68,243,420
Payments to employees	(2,330,355)
Payments of benefits and other payroll related costs	(761,610)
Payments to suppliers of goods and services	(58,337,140)
Net cash provided by operating activities	6,814,315
Cash Flows from Non-Capital Financing Activities	
Proceeds from notes payable	200,000
Payments of principal on notes payable	(55,563)
Payments of principal related to bond maturities and calls	(7,764,359)
Net cash used in non-capital financing activities	(7,619,922)
Cash Flows from Capital and Related Financing Activities	
Payments for additions to capital assets	(78,440)
Purchase and rehabilitation of single family homes	(1,158,468)
Sale of single family homes	434,641
Sale of single family homes under ACT Program	1,257,019
Rehabilitation of single family homes under ACT Program	(596,486)
Rehabilitation of multifamily apartments	(208,683)
Purchase and rehabilitation of office building	(2,235,217)
Net cash used in capital and related financing activities	(2,585,634)
Cash Flows from Investing Activities	
Proceeds from sale and maturities of investments held by bond trustee	26,323,519
Purchase of investments held by bond trustee	(22,283,473)
Proceeds from sale of unrestricted investments	27,798,508
Purchase of unrestricted investments	(29,300,165)
Interest earned on investments	2,476,364
Net cash provided by investing activities	5,014,753
Net increase in cash and cash equivalents	1,623,512
Cash and cash equivalents at beginning of year	19,746,813
Cash and cash equivalents at end of year	$ 21,370,325

(continued)

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

Statement of Cash Flows (continued)
For the Year Ended August 31, 2020

Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Net income	$	39,436,986
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization expense		475,026
Unrealized gain on investments		(2,518,590)
Accretion on restricted investments		(41,732)
Gain on sale of property		(265,248)
Provision for estimated losses and chargeoffs		3,160
In-kind grants		(18,130)
Amortization of down payment assistance		167,547
Amortization of bond premium		(98,276)
Changes in current assets and liabilities:		
Increase in accounts receivable and accrued revenue		(1,458,342)
Decrease in accrued interest receivable		189,324
Decrease in loans receivable		76,553
Increase in notes receivable		(29,847,304)
Decrease in down payment assistance loans		369,419
Decrease in prepaid expenses		32,861
Increase in accounts payable & accrued expenses		337,618
Increase in accrued interest payable on bonds		156,448
Increase in deferred revenue and other liabilities		40,973
Decrease in due to federal programs		(223,978)
Net cash provided by operating activities	$	6,814,315
Supplemental Disclosure of Noncash Transactions -		
Debt forgiven - Affordable Communities of Texas Veterans' Program	$	148,662

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 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 a dual-purpose Section 115 governmental entity 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 consists of 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 - 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 Bond Program - Through the Single-Family Bond Program (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.

Single Family Mortgage Credit Certificate Program - 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 and second-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 trust 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.

Texas Housing Impact Fund - The Texas Housing Impact Fund ("THIF") provides financing for the acquisition, construction and redevelopment of single and multifamily housing units for low-income families in rural communities and high need areas. See Note 4.

Rental Program - The Corporation's Rental Program provides affordable, below-market rental homes and apartments in high opportunity neighborhoods in various Metropolitan Statistical Areas (the "MSA") to eligible low-income families. Additionally, the Corporation owns an office building, which it leases to other 501(c)(3) nonprofits.

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 marketplace. 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 2020 program year, the amount available for issuance was approximately $80 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.

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 must 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 ACT, THIF, MPAB and Single Family Second Lien Programs. 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 occurs or when a determination is made that a loss is likely to occur. During the year, management estimates the level of future losses to determine whether the allowance is adequate to absorb anticipated losses in the existing mortgage loans. Based on these estimates, a provision for possible losses on loans is credited to the allowance in order to adjust the allowance to levels estimated to be adequate to absorb reasonably foreseeable losses.

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

Amortization of Bond Premium - As of August 31, 2020 the premium related to the SFB Programs totaled approximately $1,723,000. Bond premium amortization during fiscal year 2020 totaled approximately $98,000.

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 2020 was approximately $31,000; accumulated amortization as of August 31, 2020 equaled approximately $2.6 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 as compensation upon termination of employment. The total compensated absences accrued liability as of August 31, 2020 was approximately $296,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $181,000 as of August 31, 2020 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 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 June 15, 2021. 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, 2022.

2. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents - Cash and cash equivalents at August 31, 2020 consisted of bank deposits totaling $1,203,858 and local government investment pool deposits totaling $12,130,688.

Restricted cash and cash equivalents at August 31, 2020 totaled $7,854,348. The bond trustee maintained $4,544,326 in money market mutual funds. The Corporation held $950,633 in a checking account, which was a grant received from the Capital Magnet Fund. The remaining $2,359,389 of restricted cash and cash equivalents was held in a local government investment pool. The Corporation also maintained two custodial accounts with a combined total of $181,431 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, 2020, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 2,499,848	$ -	$ -	$ 2,499,848
Municipal Obligations	6,358,960	-	-	6,358,960
Commercial Paper	-	3,996,640	-	3,996,640
US Agency MBS	-	3,115,402	-	3,115,402
Total Fair Value	$ 8,858,808	$ 7,112,042	$ -	$ 15,970,850
Investments not subject to GASB 72				-
Total Unrestricted Investments				$ 15,970,850

The Corporation's unrestricted investments consisted of the following at August 31, 2020:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Coca Cola CP	1.635%	$ 1,984,089	$ 1,998,844	$ 14,755
Pfizer CP	2.545%	1,975,476	1,997,796	22,320
FHLMC Call Note	0.500%	2,500,000	2,500,000	-
Total Short Term Investments		6,459,565	6,496,640	37,075
Pass through securities GNMA - 10/20/2034	5.971%	3,269	3,763	467
Pass through securities GNMA - 2036-2038*	5.49 - 6.10%	1,081,842	1,192,011	110,169
Pass through securities FNMA - 2035-2037	5.49 - 5.75%	677,806	712,839	35,033
Pass through securities FHLMC - 2036-2038	5.49 - 6.10%	1,087,669	1,206,637	118,968
Irving ISD	1.120%	2,156,582	2,139,500	(17,082)
Marshall ISD	1.090%	2,440,448	2,439,378	(1,070)
Texas State University	1.107%	1,777,011	1,780,082	3,071
Total Long Term Investments		$ 9,224,627	$ 9,474,210	$ 249,556
Total Investments		$ 15,684,192	$ 15,970,850	$ 286,631

*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.

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.

As of August 31, 2020, the restricted *securities* to be priced in the portfolio were as follows:

	Level 1	Level 2	Level 3	Total
US Treasury Notes	$ -	$ -	$ -	$ -
US Agency MBS	-	61,037,682	-	61,037,682
Total Fair Value	$ -	$ 61,037,682	$ -	$ 61,037,682
Investments not subject to GASB 72				-
Total Restricted Investments				$ 61,037,682

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2020:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain
GNMA/FNMA Investments - 2040/2042	3.5-4.75%	$ 26,233,157	$ 22,729,835	$ 1,496,678
GNMA/FNMA Investments - 2049	4.3-4.8%	34,770,726	38,307,847	3,537,121
Total Investments		$ 56,003,883	$ 61,037,682	$ 5,033,799

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

Single Family Mortgage Revenue Bonds Series 2009A, B/2011A, B/2013A	$ 998,871
Single Family Mortgage Revenue Bonds Series 2019A	1,742,827
	$ 2,741,698

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2020 has decreased by approximately $1.6 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 $61 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 $56 million and unrealized gain of approximately $5 million as of August 31, 2020. 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 Collateralized Mortgage Obligations 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, 2020, holdings in the General Portfolio and Surplus Portfolio had total fair market values of $29,508,120 and $3,111,639 respectively and included:

- A1/P1 commercial paper represented 12.25% of the total portfolio,
- funds held in a Federal Home Loan Bank account represented .96% of the total portfolio,
- funds invested in fully insured or collateralized bank accounts represented 5.66% of the total portfolio,
- holdings in a AAA-rated local government pool represented 44.42% of the total portfolio,
- holdings in state and local debt obligations represented 19.49% of the total portfolio,
- holdings in US Government agency securities represented 7.67% of the total portfolio, and
- holdings in US mortgage-backed securities represented 9.55% 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, 2020, the general portfolio, excluding the one GNMA, held no security with a stated maturity date beyond 1,046 days. With the inclusion of the one GNMA the dollar weighted average maturity of the total general portfolio was 237 days.

The Surplus Funds portfolio had a dollar weighted average maturity of 6,146 days and the longest security was 6,624 days.

As of August 31, 2020, the general portfolio contained one (1) MBS and one (1) US agency structured note (quarterly callable) which might be affected by interest rate risk. Their total fair market value was $2,499,848.

As of August 31, 2020, 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, 2020:

- 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, 2020 were as follows:

Loans Receivable at September 1, 2019	$	497,476
Additions		-
Paydowns		(73,639)
Loans Receivable at August 31, 2020		423,837
Allowance for possible loan losses		(5,703)
Net Balance at August 31, 2020	$	418,134

The current portion of loans receivable at August 31, 2020 was $73,704; the remaining balance of $344,430 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2020 was as follows:

Balance at September 1, 2019	$	(2,789)
Current Year Addition		(2,914)
Loss Applied to the Allowance		-
Balance at August 31, 2020	$	(5,703)

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 ACT Program and the Single Family TBA Program. 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. Under the Single Family TBA Program, the second-liens are forgiven after three years if the homebuyers meet the criteria. Notes are carried at the unpaid principal balance outstanding.

A summary of activity for notes receivable for the year ended August 31, 2020 was as follows:

Balance at September 1, 2019	$	3,667,973
Additions		31,254,680
Collections		(1,370,400)
Accumulated Amortization		(36,976)
Balance at August 31, 2020	$	33,515,277

The current portion of notes receivable at August 31, 2020 is $1,600,246; the remaining balance of $31,915,031 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, 2020 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2019	Additions	Deletions	Balance August 31, 2020
Land	$ 232,241	$ -	$ -	$ 232,241
Building	1,304,357	-	-	1,304,357
Vehicles	-	29,738	-	29,738
Furniture & Fixtures	522,619	48,702	93	571,228
Total	$ 2,059,217	$ 78,440	$ 93	$ 2,137,564

	Accumulated Depreciation			
	Balance September 1, 2019	Additions	Deletions	Balance August 31, 2020
Building	$ 397,473	$ 40,054	$ -	$ 437,527
Vehicles	-	206	-	206
Furniture & Fixtures	441,292	43,898	84	485,106
Total	$ 838,765	$ 84,158	$ 84	$ 922,839

Capital assets, less accumulated depreciation, at August 31, 2020 totaled $1,214,725.

6. Income Tax Status

The Corporation is a governmental entity and 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

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 $7,511.

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

Year Ended August 31,	Amount
2021	2,380
Total Minimum Future Rental Payments	$ 2,380

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
2021	$ 274,162
2022	38,270
2023	30,552
Total Future Rental Income	$ 342,984

Total operating lease income for the year ended August 31, 2020 was $577,012.

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. See Note 4.

Reserve activity for the year ended August 31, 2020 was as follows:

Balance at September 1, 2019	$ 154,091
Deposits	27,340
Disbursements	-
Balance at August 31, 2020	$ 181,431

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 2020 totaled $12,861. The remaining deferred revenue for this portfolio was $165,126 at August 31, 2020.

The prepaid issuer fees from sixteen (16) multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2020, unearned revenue related to these properties totaled $331,043.

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, and $2.8 million was earned in the fiscal year ended August 31, 2020.

In the fiscal year ended August 31, 2020, the Corporation received $2.31 million from the Health & Human Services Commission 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 2020 was as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2019	$ 177,987	$ 3,901,845
Additions	-	2,958,482
Revenue Earned	-	(3,278,126)
Loan Payments Received	(12,861)	-
Balance at August 31, 2020	$ 165,126	$ 3,582,201

10. Notes Payable

As of August 31, 2020, notes payable consisted of:

Note Payable to Federal Home Loan Bank, installment note with equal payments of $2,568 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	$ 275,753
Note Payable to Federal Home Loan Bank, installment note with equal payments of $4,086 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	438,711
Note Payable to Federal Home Loan Bank, installment note with equal payments of $3,538 monthly, 2.993% interest, due October 2026, secured by note receivable.	665,136
Note Payable to Texas Community Bank, interest only at 2.00% payable quarterly, due in full May 2025, unsecured.	500,000
Note Payable to Texas Capital Community Development Corporation, interest only at 3.55% payable quarterly, due in full May 2022, unsecured.	200,000
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	$ 2,329,600
Current Portion of Notes Payable	58,415
Noncurrent Notes Payable	$ 2,271,185

The summary of notes payable activity for the year ended August 31, 2020 was as follows:

Balance at September 1, 2019	$ 2,185,163
Advances	200,000
Repayments	(55,563)
Balance at August 31, 2020	$ 2,329,600

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

Year Ended August 31,	Principal	Interest	Total
2021	58,415	86,012	144,427
2022	511,431	77,885	589,316
2023	64,620	67,707	132,327
2024	625,702	36,925	662,627
2025	525,768	23,360	549,128
2026 thru 2027	543,664	18,485	562,149
Total	$ 2,329,600	$ 310,374	$ 2,639,974

11. Bonded Indebtedness

The Corporation issues tax exempt revenue 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 bond indentures and held in trust by a 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 bond indentures. The Corporation is in compliance with all significant limitations and restrictions at August 31, 2020.

Description	Interest Rate	Bonds Outstanding 9/1/19	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/20	Amounts Due Within One Year
Single Family 2019							
Series 2019A	Fixed	$40,000,000	$ -	$3,040,000	$ -	$36,960,000	$ 520,000
Single Family 2009-2013							
Series 2011A	Fixed	3,845,000	$ -	1,080,000	$ -	2,765,000	290,000
Series 2009/2011B	Fixed	12,360,000	-	1,615,000	-	10,745,000	295,000
Series 2013A	Fixed	9,065,000	-	1,880,000	-	7,185,000	-
Total Principal		$65,270,000	$ -	$7,615,000	$ -	$57,655,000	$1,105,000
Unamortized Premium		1,872,282				1,722,923	
Total		$67,142,282				$59,377,923	

The current portion of bonds payable at August 31, 2020 was $1,105,000. The remaining balance of $58,272,923 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
2021	$ 1,105,000	$ 2,069,379	$ 3,174,379
2022	1,155,000	2,030,993	3,185,993
2023	1,175,000	1,988,948	3,163,948
2024	1,235,000	1,944,543	3,179,543
2025	1,320,000	1,896,814	3,216,814
2026 thru 2030	7,525,000	8,680,391	16,205,391
2031 thru 2035	8,845,000	7,329,969	16,174,969
2036 thru 2040	13,280,000	5,596,762	18,876,762
2041 thru 2045	10,660,000	3,368,452	14,028,452
2046 thru 2050	11,355,000	1,321,219	12,676,219
Total	$ 57,655,000	$ 36,227,470	$ 93,882,470

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 2020, the debt service requirement equaled $7,615,000 in bond principal and $2,052,418 in bond interest expense, totaling $9,667,418. As of August 31, 2020, pledged revenue totaled $16,122,039.

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, 2020, the MCC Program revenue totaled approximately $1,523,000 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 ("NSP") funds in November 2009 by the Department. NSP's goal is to help stabilize communities hardest hit by foreclosures by working with locally based 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, 2020, the Corporation owed the Department NSP funds totaling $1,562,821.

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, 2020, the Corporation made Foundation Fund grants totaling $504,000.

16. Down Payment Assistance Program

Under various Single-Family Home Loan Programs, the Corporation provides 30-year fixed rate mortgage loans to eligible homebuyers. These programs provide down payment and closing cost assistance in the form of an interest-free loan that is paid back to the Corporation in the form of a higher interest rate. Down payment assistance is offered in amounts up to 5% of the home loan.

During the fiscal year ended August 31, 2020, the Corporation implemented a second lien down payment assistance loan to borrowers participating in the Single Family TBA Program. The loan is forgiven after three years if the homebuyer does not sell or refinance the home. As of August 31, 2020, second lien notes receivable totaled $25,749,710.

17. Related Party Transactions

The Corporation received federal grant awards passed through the Department for the NSP Program during fiscal year 2020. Receivables and payables related to this grant as of August 31, 2020 totaled $38,480 and $1,562,821, 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, 2020, were $77,141.

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 $80 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, 2020, there were seventeen series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $276 million.

20. Risk Financing and Related Insurance Issues

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. For all such risks, the Corporation has purchased commercial insurance in varying amounts to mitigate the risk of loss.

21. Commitments and Contingencies

The Corporation participates in a number of federal financial assistance programs. Although the Corporation's grant programs have been audited in accordance with the provisions of the Uniform Guidance through August 31, 2020, these programs are subject to financial and compliance audits by the grantor agencies. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Corporation expects such amounts, if any, to be immaterial.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. Therefore, while this issue may negatively impact the Corporation's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time. The Corporation is actively managing its operations to maintain its cash flow and management believes that the Corporation has adequate liquidity.

22. Non-Cash Contributions

During the year ended August 31, 2020, Google, Inc. made an in-kind donation of $18,130 for advertising.

23. Segment Information

See Note 1 for a description of the Corporation's operations. Segment financial information of the Corporation's only proprietary fund type at August 31, 2020 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	$ 48,254,005
Depreciation and Amortization	475,026
Net Income	39,436,986
Net Working Capital*	27,077,444
Total Assets	152,556,646
Total Net Position	82,873,279
Noncurrent Notes Payable	2,271,185
Noncurrent Bonds Payable	58,272,923
Deferred Inflows of Resources	165,126
Unearned Revenue	3,582,201
Capital Asset Additions	78,440

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	$ 13,334,546
Restricted Assets	7,930,748
Custodial Cash and Cash Equivalents	181,431
Investments, Short-Term	6,496,640
Accounts Receivable and Accrued Revenue, net	2,370,440
Accrued Interest Receivable	72,508
Loans Receivable, Current Portion	73,704
Notes Receivable, Current Portion	1,600,246
Downpayment Assistance, Current Portion	167,547
Prepaid Expenses	241,566
Payables:	
Accounts Payable and Accrued Expenses	(805,841)
Notes Payable, Current Portion	(58,415)
Custodial Reserve Funds	(181,431)
Due to Federal Programs	(1,562,821)
Other Current Liabilities	(639,063)
Bonds Payable and Accrued Interest on Bonds, Current Portion	(2,144,361)
Total Net Working Capital	$ 27,077,444

Other Supplemental Information

Texas State Affordable Housing Corporation

Schedule of Revenues and Expenses by Activity
For the Year Ended August 31, 2020

	Single Family	Multi Family	ACT/NSP	Asset Management	Other	Total
Revenues						
Interest and Investment Income	$ 2,789,196	$ 258,055	$ -	$ -	$ 441,966	$ 3,489,217
Net Increase in Fair Value of Investments	2,518,590	-	-	-	-	2,518,590
Single Family Income	36,489,699	-	-	-	-	36,489,699
Federal and State Grants	-	2,814,326	74,862	-	-	2,889,188
Other Operating Revenue	64,530	433,116	159,553	1,581,796	628,316	2,867,311
Total Revenues	41,862,015	3,505,497	234,415	1,581,796	1,070,282	48,254,005
Expenses						
Interest Expense on Bonds and Notes Payable	2,155,121	71,764	9,167	-	-	2,236,052
Salaries, Wages and Payroll Related Costs	1,709,227	140,656	175,271	512,805	554,007	3,091,966
Grant Expenditures	60,214	-	74,862	-	-	135,076
Other Expenditures	1,124,379	88,808	117,899	524,566	1,498,273	3,353,925
Total Expenses	5,048,941	301,228	377,199	1,037,371	2,052,280	8,817,019
Net Income						$ 39,436,986

Federal Awards

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, 2020, 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 XX, 2020.

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) as a basis for designing 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.

Austin, Texas
December XX, 2020

Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by The Uniform Guidance

The Board of Directors of
Texas State Affordable Housing Corporation:

Report on Compliance for the Major Federal Program

We have audited Texas State Affordable Housing Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended August 31, 2020. The Corporation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on the Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2020.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Austin, Texas
December xx, 2020

Texas State Affordable Housing Corporation

Schedule of Expenditures of Federal Awards
Year Ended August 31, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Treasury			
Passed through the Community Development Financial Institutions:			
Capital Magnet Fund	21.011	181CM050456	$ 2,800,000
Capital Magnet Fund Administrative	21.011	181CM050456	12,929
Total CFDA 21.011			2,812,929
Total U.S. Department of Treasury			2,812,929
U.S. Department of Housing and Urban Development			
Passed through Texas Department of Housing and Community Affairs- Community Development Block Grants/ State’s Program and Non-Entitlement Grants in Hawaii- Neighborhood Stabilization Program	14.228	7709003101	74,862
Total U.S. Department of Housing and Urban Development			74,862
U.S. Department of Health and Human Services			
Passed through Texas Department Health and Human Services Commission- Money Follows the Person Rebalancing Demonstration- Money Follows the Person	93.791	HHS000850100001	1,397
Total U.S. Department of Health and Human Services			1,397
Total Expenditures of Federal Awards			$ 2,889,188

The accompanying notes are an integral part of this schedule.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Texas State Affordable Housing Corporation (the "Corporation") under programs of the federal government for the year ended August 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Corporation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Schedule includes the federal activity of the Corporation and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowed or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the financial statements.

The Corporation has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

The loan reported in the Schedule represents the value of the new loan made during the year ended August 31, 2020. The loan's outstanding balance at the end of the year totaled $2,800,000.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over the major federal program:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for the major federal program-

Capital Magnet Fund — Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of the major federal program-

CFDA Number(s)	Name of Federal Program or Cluster
21.011	Capital Magnet Fund

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Section II - Financial Statement Findings

No findings required to be reported in accordance with *Government Auditing Standards* for the years ended August 31, 2020 and 2019.

Section III - Federal Award Findings and Questioned Costs

No findings or questioned costs required to be reported in accordance with 2 CFR 200.516(a) for the year ended August 31, 2020. There was not an audit requirement for the year ended August 31, 2019.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747

HUD Audit

August 31, 2020

With Independent Auditors' Report

Table of Contents

Attachment J

Annual Submission of Financial Documents

The following information is being sent to maintain eligibility in the HUD Mortgage-Backed Securities (MBS) program.

A. Issuer name: Texas State Affordable Housing Corporation
B. Ginnie Mae issuer number: 3747
C. Auditor's contact person & telephone number: Jimmy Romell 512-370-3245
D. All Ginnie Mae waivers: Yes________ No________ Effective date or N/A ✓________
(if available please provide a copy)
E. Please list all affiliates' names, addresses, and Ginnie Mae issuer numbers

Place a checkmark by item(s) submitted

1. ✓ Annual audited financial statement for period ended Date 08/31/2020

Auditor's report on

2. ___Consolidating balance sheet-statement of income (expense & income reported separately)
3. ___Internal controls
4. ___Compliance with specific requirements

Auditor's presentation on

5. ✓ Insurance coverage schedule
6. ✓ Adjusted net worth schedule for issuer
7. ___Adjusted net worth schedule for parent (if applicable)
8. ✓ Capital requirement schedule
9. ___Parent's capital requirement schedule (if applicable)
10. ✓ Liquid asset requirement schedule
11. ___Parent's liquid asset requirement schedule (if applicable)
12. ___Other reports submitted (please list)

____

13. ___Current insurance certificate and endorsement of Ginnie Mae as loss payee
    ______Fidelity bond _____ Lender's errors & omissions
    ______Attestation of insurance compliance
14. ___Corrective action plan
15. ___Schedule of "other assets"
16. ___Schedule of "breakdown of depreciation and amortization expenses by asset class"

Issuer's point(s) of contact regarding the items being sent:

Name: Melinda Smith
Telephone: 512-904-1399
Email: msmith@tsahc.org
Item(s) #: 1, 5, 6, 8, 10

Name: __________
Telephone: __________
Email: __________
Item(s) #: __________

For requirements, report, and supplementary schedule templates, reference HUD Audit Guide chapters 2 and 6: http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides

Signature:____Date: 12/16/2020

Type or print name: David Long

Title: President

Independent Auditors' Report

The Board of Directors
Texas State Affordable Housing Corporation:

Report on Supplemental Data Required by the U.S. Department of Housing and Urban Development

We have audited the financial statements of the Texas State Affordable Housing Corporation (the "Corporation") as of and for the year ended August 31, 2020, and have issued our report thereon dated December 16, 2020. 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 of America.

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 accompanying supplemental data required by the U.S. Department of Housing and Urban Development ("HUD"), which includes the computation of adjusted HUD net worth, computation of HUD capital requirement, computation of HUD liquid assets, and schedule of HUD insurance requirements, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs*, issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental data required by HUD is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Austin, Texas
December 16, 2020

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Computation of Adjusted HUD Net Worth
As of August 31, 2020

A. Adjusted Net Worth Calculations:		
Total Net Position at End of Reporting Period		$ 82,873,279
Less Itemized Unacceptable Assets:		
Purchased Mortgage Servicing Rights	$ (164,785)	
Prepaid Insurance, Maintenance Contracts & Subscriptions	(241,566)	
Total Unacceptable Assets		$ (406,351)
Adjusted Net Worth		$ 82,466,928
B. Required Net Worth Calculation:		
Unpaid Principal Balance of Securities Outstanding		$ -
Plus Outstanding Balance of Available Commitment Authority and Pools Funded		-
Total Outstanding Portfolio, Commitment Authority, and Pools Funded		$ -
Required Net Worth		$ 2,500,000
C. Excess (Deficit) Net Worth		$ 79,966,928

See Accompanying Independent Auditors' Report.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Computation of HUD Capital Requirement
As of August 31, 2020

A. Capital Requirement for Depository Institutions:	
(does not apply)	n/a
B. Capital Requirement for Nondepository Institutions:	
Total Adjusted Net Worth	$ 82,466,928
Total Assets	$ 152,556,646
Total Adjusted Net Worth/Total Assets	54.06%
Required Adjusted Net Worth/Total Assets	6.00%
	Meets Requirement?
	Yes

See Accompanying Independent Auditors' Report.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Computation of HUD Liquid Assets
As of August 31, 2020

A. Liquid Asset Calculation:

Required Net Worth Calculation	$ 2,500,000
Acceptable Liquid Assets -	
Cash and Cash Equivalents	$ 13,334,546
Commercial Paper - 9/14/2020	1,998,844
Commercial Paper - 9/17/2020	1,997,796
Total Liquid Assets	$ 17,331,186

B. Required Liquid Asset:

Single-Family Issuer Liquidity Requirement	$ 1,000,000
	Meets Requirement?
	Yes
All Other Issuer Types Liquidity Requirement *(does not apply)*	n/a
Multiple Program Participation *(does not apply)*	n/a

See Accompanying Independent Auditors' Report.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Schedule of HUD Insurance Requirements
As of August 31, 2020

A. Identification of Affiliated Ginnie Mae Issuers:	None
B. Required Insurance Calculation:	
Servicing portfolio:	
Ginnie Mae	$ -
Fannie Mae	-
Freddie Mac	-
Conventional (Other)	33,939,113
Remaining Principal Balance of Total Servicing Portfolio	$ 33,939,113
Required Fidelity Bond Coverage	$ 300,000
Required Mortgage Servicing Errors and Omissions Coverage	$ 300,000
C. Verification of Insurance Coverage:	
Fidelity Bond at End of Reporting Period	$ 1,000,000
Mortgage Servicing Errors and Omissions Coverage at End of Reporting Period	$ 1,000,000
D. Excess (Deficit) Insurance Coverage:	
Fidelity Bond Coverage	$ 700,000
Required Mortgage Servicing Errors and Omissions Coverage	$ 700,000
E. Policies Contain the Required Elements	
Fidelity Bond Coverage	Yes
Mortgage Servicing Errors and Omissions Coverage	Yes

See Accompanying Independent Auditors' Report.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Schedule of Findings, Questioned Costs, and Recommendations
As of August 31, 2020

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

Texas State Affordable Housing Corporation
Ginnie Mae Issuer Identification Number: 3747
Schedule of the Status of Prior Year Audit Findings, Questioned Costs, and Recommendations
As of August 31, 2020

There were no findings from the prior year audit.