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TEXAS
State Affordable Housing Corporation

November Audit Committee Meeting
To be held at the offices of
Texas State Affordable Housing Corporation
6701 Shirley Avenue
Austin, TX 78752

Wednesday, November 17, 2021
9:30 a.m.

AUDIT COMMITTEE MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION
To be held at the offices of
Texas State Affordable Housing Corporation
6701 Shirley Avenue
Austin, Texas 78752

November 17, 2021
9:30 A.M.

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 September 15, 2021.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2021.

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 September 15, 2021.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
AUDIT COMMITTEE MEETING

The Audit Committee of the
Texas State Affordable Housing Corporation (TSAHC) met ONLINE:

September 15, 2021
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 9:30 am on September 15, 2021, at the offices of Texas State Affordable Housing Corporation, 6701 Shirley Avenue, Austin TX 78752. Roll Call was taken, and four members were present.

Committee Members Present

Valerie Cardenas, (Board Member), Vice Chair
Andy Williams, (Board Member), Member
David Long, (President), Ad Hoc Member
Melinda Smith, (Chief Financial Officer), Ad Hoc Member

Special Guests

Jimmy Romell, Maxwell Locke & Ritter
Routt Thornhill, Coats Rose

Public Comment

None was given.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 16, 2020.

Ms. Smith made a motion to approve the minutes of the Audit Committee Meeting held on December 16, 2020. Mr. Williams seconded the motion. A vote was taken, and the motion passed unanimously.

See page 4 in the official transcript.

Tab 4 **Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2021.**

Presented by Melinda Smith, Chief Financial Officer and Jimmy Romell, Maxwell Locke & Ritter

No action taken.

See page 4 in the official transcript.

Tab 2 **Presentation, Discussion and Possible Approval of the Annual Operating Budget for the Fiscal Year Ending August 31, 2022.**

Presented by Melinda Smith, Chief Financial Officer

Mr. Williams made a motion to recommend approval of the Annual Operating Budget for the Fiscal Year Ending August 31, 2022. Ms. Cardenas seconded the motion. A vote was taken, and the motion passed unanimously.

See page 7 in the official transcript.

Tab 3 **Presentation, Discussion and Possible Approval of the Audit Committee Guidelines.**

Presented by Melinda Smith, Chief Financial Officer

Mr. Williams made a motion to approve the Audit Committee Guidelines. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 26 in the official transcript.

Adjournment

Ms. Cardenas adjourned the meeting at 10:07am.

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, 2021.

November 17, 2021

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

We have audited the financial statements of the business-type activities of Texas State Affordable Housing Corporation (the "Corporation") for the year ended August 31, 2021. 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 October 11, 2021. 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 the year ended August 31, 2021. 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, the allowance for doubtful notes 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 November 17, 2021.

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 world. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while this issue is expected to negatively impact the Corporation's business, 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 schedule of expenditures of federal awards and the supplemental data required by the U.S. Department of Housing and Urban Development ("supplementary information"), which is not RSI. With respect to this supplementary information, 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 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 information and 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 these 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, 2021 and Independent Auditors' Report

Texas State Affordable Housing Corporation

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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, 2021, 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, 2021, 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 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The schedule of 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 November 17, 2021 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
November 17, 2021

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, 2021. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- At August 31, 2021 the Corporation's total assets equaled $253.1 million; of this amount $43.2 million represents assets associated with the single-family bond program; $45.4 million represents unrestricted cash, cash equivalents and investments; $140.9 million consists of loans and notes receivable; and $9.9 million represents real estate held under the Affordable Communities of Texas ("ACT") Program, and the Rental Program. Total assets increased approximately $100.6 million during 2021 primarily due to the increase in second lien notes receivable associated with the Single Family TBA Program.

- The Corporation's liabilities totaled $47.7 million of which $39.7 million relates to the single-family bond program and $4.1 million consists of notes payable. Total liabilities decreased approximately $21.8 million in 2021 resulting primarily from the payment of the Corporation's single-family bond debt and the payoff of the National Stabilization Program ("NSP") loan to Texas Department of Housing and Community Affairs.

- At the close of the fiscal year ending August 31, 2021 the Corporation's assets exceeded its liabilities and deferred inflows of resources by $205.3 million. Of this amount, $192.7 million may be used to meet the Corporation's ongoing obligations to the public and creditors, $6.5 million is restricted and $6 million is invested in capital assets.

- The Corporation's operating revenues for 2021 totaled $130.9 million and operating revenues exceeded operating expenses by approximately $122.4 million. The major revenue sources were interest and investment income totaling $2.7 million, single family program income equaling $127.9 million, and grants/contributions of $1.1 million. Revenue increased in 2021 by approximately $82.6 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 2021 consist primarily of interest expense on bonds and notes payable of $1.2 million, salary expense of $3.7 million, and Texas Foundation Fund Grants of $0.9 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 and deferred inflows of resources, which is one way to measure the Corporation's financial health, or *financial position*. Over time, *increases or decreases* in the Corporation's net position are one indicator of whether its *financial health* is improving or deteriorating.

The Corporation's activities are accounted for as a special purpose government, or single enterprise fund.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Financial Statements

Statement of Net Position

	2021	2020	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets:				
Current assets	$ 33,422,824	$ 32,469,376	$ 953,448	2.94%
Noncurrent assets	219,716,460	120,087,270	99,629,190	82.96%
Total assets	253,139,284	152,556,646	100,582,638	65.93%
Liabilities:				
Current liabilities	11,374,045	5,391,932	5,982,113	110.95%
Noncurrent liabilities	36,318,314	64,126,309	(27,807,995)	(43.36%)
Total liabilities	$ 47,692,359	$ 69,518,241	$ (21,825,882)	(31.40%)
Deferred Inflows of Resources-				
Deferred Revenue	$ 153,790	$ 165,126	$ (11,336)	(6.87%)
Net Position:				
Invested in capital assets	6,008,392	1,214,725	4,793,667	394.63%
Restricted for debt service	3,459,206	6,623,541	(3,164,335)	(47.77%)
Restricted for other purposes	3,080,575	3,309,346	(228,771)	(6.91%)
Unrestricted	192,744,962	71,725,667	121,019,295	168.73%
Total net position	$ 205,293,135	$ 82,873,279	$ 122,419,856	147.72%

The Corporation's net position increased from $82.9 million to $205.3 million in fiscal year 2021. Of this amount, restricted assets totaled $6.5 million, capital assets equaled $6 million and the remaining balance of $192.7 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 $152.6 million to $253.1 million during fiscal year 2021. 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, 2021, the Corporation's current assets totaled $33.4 million and current liabilities equaled $11.4 million resulting in available net working capital of $22 million.

Noncurrent assets consisted of restricted investments held by the bond trustee of $30.7 million; owned real estate totaling $9.9 million; noncurrent investments of $37.3 million; notes and loans receivable of $135.4 million; and capital assets net of accumulated depreciation of $6 million.

Noncurrent liabilities consisted of bonds payable totaling $31.4 million; notes payable of $2.1 million; and unearned revenue of $2.8 million.

Statement of Revenues, Expenses and Changes in Net Position

	2021	2020	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues:				
Interest and investment income	$ 2,675,450	$ 3,489,217	$ (813,767)	(23.32%)
Net increase (decrease) in fair value of investments	(2,457,109)	2,518,590	(4,975,699)	(197.56%)
Single family income	127,920,500	36,489,699	91,430,801	250.57%
Rental program income	612,767	744,444	(131,677)	(17.69%)
Multifamily income	528,944	436,713	92,231	21.12%
Public support	1,138,971	3,529,768	(2,390,797)	(67.73%)
Other	482,251	1,045,574	(563,323)	(53.88%)
Total income	$ 130,901,774	$ 48,254,005	$ 82,647,769	171.28%
Expenses:				
Interest expense on bonds & notes payable	1,236,568	2,236,052	(999,484)	(44.70%)
Salaries, wages & payroll related costs	3,655,394	3,091,966	563,428	18.22%
Program and loan administration	644,424	761,099	(116,675)	(15.33%)
Texas Foundations Fund & Rebuild Texas grants	916,000	1,164,000	(248,000)	(21.31%)
Other	2,029,532	1,563,902	465,630	29.77%
Total expenses	$ 8,481,918	$ 8,817,019	(335,101)	(3.80%)
Net income	122,419,856	39,436,986	82,982,870	210.42%
Beginning net position	82,873,279	43,436,293	39,436,986	90.79%
Ending net position	$ 205,293,135	$ 82,873,279	$ 122,419,856	147.72%

Interest and investment income decreased $0.8 million from the previous year. This resulted primarily from the decrease 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 $82.6 million during fiscal year 2021 resulting primarily from a $91 million increase in single family income. The increase can be attributed to the introduction of the second lien loan program.

Rental Program income decreased approximately $132,000 from the previous year resulting primarily from a decrease in property sales. Multifamily Income increased approximately $92,000 due to greater volume in both the multifamily lending and bond programs. Public support decreased approximately $2.4 million from the previous fiscal year. This was due to the recognition of a Capital Magnet Fund grant in fiscal year 2020.

Interest expense on bonds and notes payable decreased $999,000 from the previous year. This is a direct result of the decrease in single family bond activity.

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

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 2021, as well as the use of these funds, were as follows:

FY 2021 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
BBVA	Received	$ 20,500	$ 23,000	Home Buyer Education
BBVA	Received	$ 16,500	$ 16,500	Housing Connection Program
BBVA	Received	$ 5,500	$ 5,500	Texas Foundation Fund
Wells Fargo	Received	$ 20,000	$ 20,000	PSH Institute
Wells Fargo	Received	$ 5,000	5,000	PSH Institute
Frost	Received	$ 5,000	$ 5,000	PSH Institute
TFEE	Received	$ 30,000	$ 12,000	Housing Connection Program
Insperity	Received	$ 5,000	$ 5,000	PSH Institute
Regions Bank	Received	$ 5,000	$ 5,000	PSH Institute
Dominium	Received	$ 5,000	$ 5,000	PSH Institute
LISC	Received	$ 5,000	$ 5,000	Texas Housing Stability Collaborative
Texas Capital Bank	Received	$ 45,000	$ 15,000	Texas Housing Impact Fund and PSH Institute
JP Morgan Chase	Received	$ 125,000	$ 125,000	PSH Institute

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2021 were as follows:

- Loan in the amount of $537,219 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $85,135 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $598,899 was provided to a non-profit developer for the purpose of financing interim construction on a multi-family project.
- Loan in the amount of $84,272 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $100,000 was provided to a non-profit developer for the purpose of financing pre-development costs on a multi-family project.
- Loan in the amount of $895,000 was provided to a non-profit developer for the purpose of permanent financing on a multi-family project.
- Loan in the amount of $1,700,000 was provided to a non-profit developer for the purpose of re-financing two bridge loans on a multi-family project.
- Loan in the amount of $1,000,000 was provided to a non-profit developer for the purpose of bridge financing acquisition and construction costs on a multi-family project.

The amount and source of funds deposited into a fund created by the Corporation for the purpose of providing grants and the number, amount and purpose of any grants provided during fiscal year 2021 were as follows:

- $916,000 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, fourty-nine (49) such grants were made in the aggregate amount of $916,000.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled $122,419,856 for fiscal year 2021.

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, 2027 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, 2021

Assets		
Current assets:		
Cash and cash equivalents	$	1,649,224
Restricted assets:		
Cash and cash equivalents		12,338,974
Investments, at fair value		2,314,999
Accrued interest		39,920
Custodial cash and cash equivalents		214,366
Investments, at fair value		6,489,625
Accounts receivable and accrued revenue		4,003,053
Accrued interest receivable		72,127
Loans receivable, current portion		67,779
Notes receivable, current portion		5,419,981
Downpayment assistance, current portion		553,010
Prepaid expenses		259,766
Total current assets		33,422,824
Noncurrent assets:		
Loans receivable, net of uncollectible amounts of $247		288,142
Notes receivable, net of allowance for loss $451,118		135,147,670
Investments, at fair market value		37,286,728
Mortgage servicing rights, net of accumulated amortization of $2,593,526		134,535
Capital assets, net of accumulated depreciation of $595,384		6,008,392
Owned real estate, federal & other programs, net of amortization of $1,570,223		9,853,617
Down payment assistance		276,396
Restricted investments held by bond trustee, at fair market value		30,720,980
Total noncurrent assets		219,716,460
Total assets	$	253,139,284

(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, 2021

Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	655,978
Notes payable, current portion		1,965,330
Custodial reserve funds		214,366
Other current liabilities		230,725
Payable from restricted assets held by bond trustee:		
Revenue bonds payable, current portion		7,620,000
Accrued interest on revenue bonds		687,646
Total current liabilities		11,374,045
Noncurrent liabilities:		
Notes payable		2,109,753
Revenue bonds payable		31,396,842
Unearned revenue		2,811,719
Total noncurrent liabilities		36,318,314
Total liabilities		47,692,359
Deferred Inflows of Resources		
Deferred revenue		153,790
Total deferred inflows of resources		153,790
Net Position		
Invested in capital assets		6,008,392
Restricted for:		
Debt service		3,459,206
Other purposes		3,080,575
Unrestricted		192,744,962
Total net position		205,293,135
Total liabilities and net position	$	253,139,284

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, 2021

Operating Revenues:		
Interest and investment income	$	2,675,450
Net increase (decrease) in fair value of investments		(2,457,109)
Single family income		127,920,500
Asset oversight and compliance fees		336,691
Rental program income		612,767
Multifamily income		528,944
Land bank income		61,776
Public support:		
Federal & state grants		868,492
Contributions		270,479
Other operating revenue		83,784
Total operating revenues	$	130,901,774
Operating Expenses:		
Interest expense on bonds and notes payable	$	1,236,568
Program and loan administration		644,424
Texas Foundations Fund grants		916,000
Salaries, wages and payroll related costs		3,655,394
Professional fees and services		538,902
Depreciation and amortization		614,779
Office expense and maintenance		102,061
Travel and meals		18,305
Other operating expenses		755,485
Total operating expenses		8,481,918
Net income		122,419,856
Total net position, beginning		82,873,279
Total net position, ending	$	205,293,135

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, 2021

Cash Flows from Operating Activities	
Receipts from customers and users	$ 66,059,570
Payments to employees	(2,680,642)
Payments of benefits and other payroll related costs	(974,732)
Payments to suppliers of goods and services	(47,835,423)
Net cash provided by operating activities	14,568,773
Cash Flows from Non-Capital Financing Activities	
Proceeds from notes payable	2,053,899
Payments of principal on notes payable	(308,416)
Payments of principal related to bond maturities and calls	(19,760,000)
Net cash used in non-capital financing activities	(18,014,517)
Cash Flows from Capital and Related Financing Activities	
Payments for additions to capital assets	(255,484)
Purchase and rehabilitation of single family homes	(595,262)
Sale of single family homes under ACT Program	138,630
Rehabilitation of single family homes under ACT Program	(191,496)
Rehabilitation of multifamily apartments	(51,851)
Rehabilitation of office building	(1,187,476)
Net cash used in capital and related financing activities	(2,142,939)
Cash Flows from Investing Activities	
Proceeds from sale and maturities of investments held by bond trustee	27,849,867
Proceeds from sale of unrestricted investments	12,075,593
Purchase of unrestricted investments	(41,974,022)
Interest earned on investments	469,484
Net cash used in investing activities	(1,579,078)
Net decrease in cash and cash equivalents	(7,167,761)
Cash and cash equivalents at beginning of year	21,370,325
Cash and cash equivalents at end of year	$ 14,202,564

(continued)

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

Texas State Affordable Housing Corporation

Statement of Cash Flows (continued)
For the Year Ended August 31, 2021

Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Net income	$ 122,419,856
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and amortization expense	614,779
Unrealized loss on investments	2,457,109
Gain on sale of property	(727)
Provision for estimated losses and chargeoffs	859,892
In-kind grants	(18,938)
Amortization of down payment assistance	143,540
Amortization of bond premium	(601,080)
Changes in current assets and liabilities:	
Increase in accounts receivable and accrued revenue	(1,632,613)
Decrease in accrued interest receivable	36,861
Decrease in loans receivable	62,213
Increase in notes receivable	(107,052,374)
Decrease in down payment assistance loans	553,010
Increase in prepaid expenses	(18,200)
Decrease in accounts payable & accrued expenses	(149,863)
Decrease in accrued interest payable on bonds	(351,715)
Decrease in deferred revenue and other liabilities	(1,190,156)
Decrease in due to federal programs	(1,562,821)
Net cash provided by operating activities	$ 14,568,773
Supplemental Disclosure of Noncash Transactions -	
Debt forgiven - Affordable Communities of Texas Veterans' Program	$ 140,162

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, 2027.

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 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 2021 program year, the amount available for issuance was approximately $85 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 issue's 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, 2021 the premium related to the SFB Programs totaled approximately $1,122,000. Bond premium amortization during fiscal year 2021 totaled approximately $601,000.

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 2021 was approximately $30,000; accumulated amortization as of August 31, 2021 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, 2021 was approximately $380,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $214,000 as of August 31, 2021 for the benefit of three 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.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligation*, effective for fiscal years beginning after December 15, 2021. The objective of GASB Statement No. 91 is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB Statement No. 91 will require issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. Management is evaluating the effects that the full implementation of GASB Statement No. 91 will have on its financial statements for the year ended August 31, 2023.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. The objective of GASB Statement No. 96 is to improve accounting and financial reporting by establishing a definition for a subscription-based information technology arrangement ("SBITA") and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. GASB Statement No. 96 will require a government to report a right-to-use subscription asset as an intangible asset and a corresponding subscription liability for a SBITA, and also require certain disclosures about the SBITA. GASB Statement No. 96 also provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. Management is evaluating the effects that the full implementation of GASB Statement No. 96 will have on its financial statements for the year ended August 31, 2023.

2. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents - Cash and cash equivalents at August 31, 2021 consisted of bank deposits totaling $1,649,224.

Restricted cash and cash equivalents at August 31, 2021 totaled $12,338,974. The bond trustee maintained $11,573,388 in money market mutual funds. The Corporation held $765,586 in a checking account, which $512,500 was a grant received from the Capital Magnet Fund. The Corporation also maintained three custodial accounts with a combined total of $214,366 pledged as reserves on three multifamily projects. These funds were maintained in interest bearing demand accounts. The remaining $2,314,999 of restricted cash and cash equivalents was held in a security.

Investments - GASB Statement No. 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, 2021, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 21,847,335	$ -	$ -	$ 21,847,335
Municipal Obligations	9,394,462	-	-	9,394,462
Commercial Paper	-	2,681,090	-	2,681,090
US Agency MBS	-	9,853,466	-	9,853,466
Total Fair Value	$ 31,241,797	$ 12,534,556	$ -	$ 43,776,353
Investments not subject to GASB 72				-
Total Unrestricted Investments				$ 43,776,353

The Corporation's unrestricted investments consisted of the following at August 31, 2021:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Barclays Bank CP	0.247%	$ 182,513	$ 182,684	$ 171
Santander UK CP	0.152%	2,497,214	2,498,406	1,192
Irving ISD	1.120%	2,156,582	2,044,500	(112,082)
Texas State University	1.107%	1,777,011	1,764,035	(12,976)
Total Short Term Investments		6,613,320	6,489,625	(123,695)
Pass through securities GNMA - 10/20/2034	5.99%	2,322	2,635	313
Pass through securities GNMA - 2036-2042	3.50 - 6.10%	7,727,752	8,339,643	611,891
Pass through securities FNMA - 2035-2037*	5.49 - 5.75%	566,052	588,250	22,198
Pass through securities FHLMC - 2036-2038*	5.49 - 6.10%	825,545	922,938	97,393
Miami-Dade County FL	0.480%	1,994,925	1,994,360	(565)
State of Hawaii	0.428%	1,250,000	1,253,638	3,638
Marshall ISD	1.090%	2,440,448	2,337,929	(102,519)
FFCB Call Note	0.317%	2,497,214	2,500,216	3,002
FFCB Call Note	0.371%	2,496,875	2,496,697	(178)
FHLB Call Note	0.400%	3,000,000	3,000,777	777
FHLB Call Note	0.400%	3,000,000	2,998,732	(1,268)
FHLB Call Note	0.400%	3,000,000	2,998,268	(1,732)
FHLB Call Note	0.500%	2,350,000	2,351,162	1,162
FHLB Call Note	0.500%	3,000,000	3,001,483	1,483
FHLB Call Note	0.475%	2,500,000	2,500,000	-
Total Long Term Investments		$ 36,651,133	$ 37,286,728	$ 635,595
Total Investments		$ 43,264,453	$ 43,776,353	$ 511,900

*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, 2021, the restricted *securities* to be priced in the portfolio were as follows:

	Level 1	Level 2	Level 3	Total
US Agency MBS	$ -	$ 30,720,980	$ -	$ 30,720,980
Commercial Paper	-	2,314,999	-	2,314,999
Total Fair Value	$ -	$ 33,035,979	$ -	$ 33,035,979
Investments not subject to GASB 72				-
Total Restricted Investments				$ 33,035,979

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2021:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain
GNMA/FNMA Investments - 2040/2042	3.5-4.75%	$ 7,418,860	$ 8,063,911	$ 645,051
GNMA/FNMA Investments - 2049	4.3-4.8%	20,735,156	22,657,069	1,921,913
Barclays Bank CP		2,312,987	2,314,999	2,012
Total Investments		$ 30,467,003	$ 33,035,979	$ 2,568,976

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

Single Family Mortgage Revenue Bonds Series 2009A, B/2011A, B/2013A	$ 729,051
Single Family Mortgage Revenue Bonds Series 2019A	1,363,140
	$ 2,092,191

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2021 has decreased by approximately $2.2 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 are 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 $30.7 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 $28.1 million and unrealized gain of approximately $2.6 million as of August 31, 2021. 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 one nationally recognized rating agency.

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, 2021, holdings in the General Portfolio and Surplus Portfolio had total fair market values of $38,657,998 and $9,850,832 respectively and included:

- A1/P1 commercial paper represented 10.3% of the total portfolio,
- funds held in a Federal Home Loan Bank account represented .52% of the total portfolio,
- funds invested in fully insured or collateralized bank accounts represented 4.46% of the total portfolio,
- holdings in a AAA-rated local government pool represented less than 1% of the total portfolio,
- holdings in state and local debt obligations represented 19.37% of the total portfolio,
- holdings in US Government agency securities represented 45.05% of the total portfolio, and
- holdings in US mortgage-backed securities represented 20.32% 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 General Funds 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. All diversification guidelines were met.

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 two (2) years.

Surplus bond funds have a maximum maturity limitation of ten (10) years for CMOs 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, 2021, the general portfolio, excluding the one GNMA, held no security with a stated maturity date beyond 1,088 days. With the inclusion of the one GNMA the dollar weighted average maturity of the total general portfolio was 669 days.

The Surplus Funds portfolio had a dollar weighted average maturity of 6,977 days and the longest security was 7,197 days.

As of August 31, 2021, the general portfolio contained two (2) municipals and eight (8) US agency structured notes (callable) which might be affected by interest rate risk. Their total fair market value was $25,095,333.

As of August 31, 2021, 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 counterparty 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, 2021:

- 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, 2021 were as follows:

Loans Receivable at September 1, 2020	$	423,837
Additions		-
Paydowns		(67,669)
Loans Receivable at August 31, 2021		356,168
Allowance for possible loan losses		(247)
Net Balance at August 31, 2021	$	355,921

The current portion of loans receivable at August 31, 2021 was $67,779; the remaining balance of $288,142 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2021 was as follows:

Balance at September 1, 2020	$	(5,703)
Current Year Decreases		5,456
Loss Applied to the Allowance		-
Balance at August 31, 2021	$	(247)

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, 2021 was as follows:

Balance at September 1, 2020	$ 33,515,277
Additions	111,190,430
Collections	(3,559,016)
Accumulated Amortization	(127,922)
Balance at August 31, 2021	141,018,769
Allowance for possible losses	(451,118)
Net balance at August 31, 2021	$ 140,567,651

The current portion of notes receivable at August 31, 2021 is $5,419,981; the remaining balance of $135,147,670 is classified as non-current notes receivable. Management has established an allowance for loss equal to 5% of the Texas Housing Impact Fund loan balance.

The activity for allowance for possible note losses for fiscal year 2021 is as follows:

Balance at September 1, 2020	$	-
Current year increase		451,118
Loss applied to the allowance		-
Balance at August 31, 2021	$	451,118

5. Capital Assets

Capital assets activity for the year ended August 31, 2021 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2020	Additions	Deletions	Balance August 31, 2021
Land	$ 232,241	$ 1,248,000	$ (232,240)	$ 1,248,001
Building	1,304,357	4,556,763	(1,304,357)	4,556,763
Vehicles	29,738	-	-	29,738
Furniture & Fixtures	571,228	295,379	(97,218)	769,389
Total	$ 2,137,564	$ 6,100,142	$ (1,633,815)	$ 6,603,891

	Accumulated Depreciation			
	Balance September 1, 2020	Additions	Deletions	Balance August 31, 2021
Building	$ 437,527	$ 109,080	$ (447,540)	$ 99,067
Vehicles	206	2,474	-	2,680
Furniture & Fixtures	485,106	101,340	(92,694)	493,752
Total	$ 922,839	$ 212,894	$ (540,234)	$ 595,499

Capital assets, less accumulated depreciation, at August 31, 2021 totaled $6,008,392.

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 $385 and any applicable overages. Lease expense under this agreement was $4,251.

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

Year Ended August 31,	Amount
2022	$ 4,618
2023	4,618
2024	4,618
2025	4,618
2026	2,308
Total Minimum Future Rental Payments	$ 20,780

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
2022	$ 275,711
2023	30,552
Total Future Rental Income	$ 306,263

Total operating lease income for the year ended August 31, 2021 was $612,767.

8. Custodial Reserve Funds

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

Reserve activity for the year ended August 31, 2021 was as follows:

Balance at September 1, 2020	$ 181,431
Deposits	32,935
Disbursements	-
Balance at August 31, 2021	$ 214,366

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 2021 totaled $11,336. The remaining deferred revenue for this portfolio was $153,790 at August 31, 2021.

The prepaid issuer fees from twenty-two (22) multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2021, unearned revenue related to these properties totaled $304,407.

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 approximately $744,000 was earned in the fiscal year ended August 31, 2021.

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 2021 was as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2020	$ 165,126	$ 3,582,201
Additions	-	561,720
Revenue Earned	-	(1,332,202)
Loan Payments Received	(11,336)	-
Balance at August 31, 2021	$ 153,790	$ 2,811,719

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10. Notes Payable

As of August 31, 2021, notes payable consisted of:

Note Payable to Federal Home Loan Bank, installment note with equal payments of $2,568.65 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.	$	262,032
Note Payable to Federal Home Loan Bank, installment note with equal payments of $4,086.48 monthly, 6.345% interest, due November 2023, secured by mortgage backed securities.		416,881
Note Payable to Federal Home Loan Bank, installment note with equal payments of $3,538.30 monthly, 2.993% interest, due October 2026, secured by note receivable.		642,271
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 March 2022, unsecured.		303,899
Note Payable to Austin Community Foundation, interest only at 1.0% payable quarterly, due in full April 10, 2023, unsecured.		100,000
Note Payable to Federal Home Loan Bank, interest only at 0.135% payable quarterly, due in full January 25, 2022, secured by mortgage back securities		1,600,000
Note Payable to The Congregation of the Sisters of Charity, interest only at 1.00% payable annually, due in full January 13, 2026, unsecured.		250,000
Total Notes Payable	$	4,075,083
Current Portion of Notes Payable		1,965,330
Noncurrent Notes Payable	$	2,109,753

The summary of notes payable activity for the year ended August 31, 2021 was as follows:

Balance at September 1, 2020	$	2,329,600
Advances		2,053,899
Repayments		(308,416)
Balance at August 31, 2021	$	4,075,083

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

Year Ended August 31,	Principal	Interest	Total
2022	1,965,330	84,644	2,049,974
2023	164,620	70,790	235,410
2024	625,702	39,425	665,127
2025	525,768	25,860	551,628
2026	276,550	18,411	294,961
2027	517,113	2,574	519,687
Total	$ 4,075,083	$ 241,704	$ 4,316,787

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, 2021.

Description	Interest Rate	Bonds Outstanding 9/1/20	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/21	Amounts Due Within One Year
Single Family 2019							
Series 2019A	Fixed	$36,960,000	$ -	$(12,900,000)	$ -	$24,060,000	$ 380,000
Single Family 2009-2013							
Series 2011A	Fixed	2,765,000	-	(1,020,000)	-	1,745,000	220,000
Series 2009/2011B	Fixed	10,745,000	-	(3,725,000)	-	7,020,000	7,020,000
Series 2013A	Fixed	7,185,000	-	(2,115,000)	-	5,070,000	-
Total Principal		$57,655,000	$ -	$(19,760,000)	$ -	$37,895,000	$7,620,000
Unamortized Premium		1,722,923				1,121,842	
Total		$59,377,923				$39,016,842	

The current portion of bonds payable at August 31, 2021 was $7,620,000. The remaining balance of $31,396,842 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
2022	$ 7,620,000	$ 982,054	$ 8,602,054
2023	605,000	893,669	1,498,669
2024	625,000	875,417	1,500,417
2025	665,000	856,063	1,521,063
2026	680,000	835,607	1,515,607
2027 thru 2031	3,855,000	3,845,952	7,700,952
2032 thru 2036	3,880,000	3,398,806	7,278,806
2037 thru 2041	7,060,000	2,643,731	9,703,731
2042 thru 2046	6,470,000	1,636,723	8,106,723
2047 thru 2051	6,435,000	523,370	6,958,370
Total	$ 37,895,000	$ 16,491,392	$ 54,386,392

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 2021, the debt service requirement equaled $19,760,000 in bond principal and $2,095,870 in bond interest expense, totaling $21,855,870. As of August 31, 2021, pledged revenue totaled $41,515,446.

12. ACT Veterans Housing Initiative

The ACT Veterans Housing Initiative is an 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, 2021, the MCC Program revenue totaled approximately $1,508,000 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. The program was closed as of August 31, 2021.

15. Texas Foundations Fund

The Texas Foundations 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, 2021, the Corporation made Foundations Fund grants totaling $916,000.

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, 2021, the Corporation offered 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, 2021, second lien notes receivable totaled $131,052,305.

17. Related Party Transactions

The Corporation received federal grant awards passed through the Department for the NSP Program during fiscal year 2021. Receivables related to this grant as of August 31, 2021 totaled $70,274. 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, 2021, were $84,398.

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 $85 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, 2021, there were twenty-three series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $350 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, 2021, 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, 2021, Google, Inc. made an in-kind donation of $18,938 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, 2021 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating Revenue	$ 130,901,774
Depreciation and Amortization	614,779
Net Income	122,419,856
Net Working Capital*	22,048,779
Total Assets	253,139,284
Total Net Position	205,293,135
Noncurrent Notes Payable	2,109,753
Noncurrent Bonds Payable	31,396,842
Deferred Inflows of Resources	153,790
Unearned Revenue	2,811,719
Capital Asset Additions	6,100,142

* Net Working Capital Calculation	Amount
Unrestricted Cash and Cash Equivalents	$ 1,649,224
Restricted Assets	14,908,259
Investments, Short-Term	6,489,625
Accounts Receivable and Accrued Revenue	4,003,053
Accrued Interest Receivable	72,127
Loans Receivable, Current Portion	67,779
Notes Receivable, Current Portion	5,419,981
Downpayment Assistance, Current Portion	553,010
Prepaid Expenses	259,766
Payables:	
Accounts Payable and Accrued Expenses	(655,978)
Notes Payable, Current Portion	(1,965,330)
Custodial Reserve Funds	(214,366)
Other Current Liabilities	(230,725)
Bonds Payable and Accrued Interest on Bonds, Current Portion	(8,307,646)
Total Net Working Capital	$ 22,048,779

Other
Supplemental Information

Texas State Affordable Housing Corporation

Schedule of Revenues and Expenses by Activity
For the Year Ended August 31, 2021

	Single Family	Multi Family	ACT/NSP	Asset Management	Other	Total
Revenues						
Interest and Investment Income	$ 2,115,564	$ 237,966	$ -	$ -	$ 321,920	$ 2,675,450
Net Increase (Decrease) in Fair Value of Investments	(2,457,109)	-	-	-	-	(2,457,109)
Single Family Income	127,920,500	-	-	-	-	127,920,500
Federal and State Grants	12,000	786,139	70,353	-	-	868,492
Other Operating Revenue	270,960	522,944	96,527	953,756	50,254	1,894,441
Total Revenues	127,861,915	1,547,049	166,880	953,756	372,174	130,901,774
Expenses						
Interest Expense on Bonds and Notes Payable	1,144,657	81,911	10,000	-	-	1,236,568
Salaries, Wages and Payroll Related Costs	2,047,005	172,502	239,077	642,020	554,790	3,655,394
Grant Expenditures	731,000	185,000	-	-	-	916,000
Other Expenditures	1,169,481	317,167	157,883	620,480	408,945	2,673,956
Total Expenses	5,092,143	756,580	406,960	1,262,500	963,735	8,481,918
Net Income						$ 122,419,856

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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, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 17, 2021.

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
November 17, 2021

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, 2021. 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, 2021.

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
November 17, 2021

Texas State Affordable Housing Corporation

Schedule of Expenditures of Federal Awards
Year Ended August 31, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing 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	$ 3,495,000
Capital Magnet Fund Administrative	21.011	181CM050456	48,848
Total 21.011			3,543,848
Total U.S. Department of Treasury			3,543,848
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	70,353
Total U.S. Department of Housing and Urban Development			70,353
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	42,291
Total U.S. Department of Health and Human Services			42,291
Total Expenditures of Federal Awards			$ 3,656,492

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, 2021. 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.

Included in the Schedule are balances at August 31, 2021 of loans from the Capital Magnet Fund for the construction and remodeling of affordable low income housing projects. Uniform Guidance requires that the Schedule include the total amount of federal awards expended for loan or loan guarantee programs which include the value of new loans made or received during the year plus the beginning of the period balance of loans from previous years for which the federal government imposes continuing compliance requirements.

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-

Assistance Listing 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, 2021 and 2020.

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 years ended August 31, 2021 and 2020.

November 17, 2021

Melinda Smith
Texas State Affordable Housing Corporation

We are pleased to report that we performed the audit of Texas State Affordable Housing Corporation (the "Corporation") as of and for the year ended August 31, 2021, and have issued our report thereon dated November 17, 2021. 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. We issued an unmodified opinion on those financial statements.

In accordance with *Government Auditing Standards*, we also issued our report dated November 17, 2021 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.

As part of performing our audit, we performed certain procedures related to compliance with the Public Funds Investment Act. The results of our tests disclosed no instances of noncompliance that were required to be reported to the Corporation.

We are providing this communication to management of the Corporation to satisfy reporting requirements to the Texas State Auditor's Office.

Sincerely,

Maxwell Locke & Ritter LLP