Texas State Affordable Housing Corporation

Financial Statements and Supplemental Information as of and for the Year Ended August 31, 2022 and Independent Auditors' Report

MAXWELL & LOCKE & RITTER

Texas State Affordable Housing Corporation

Table of Contents

Independent Auditors' Report

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Independent Auditors' Report

The Board of Directors of
Texas State Affordable Housing Corporation:

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Corporation, as of August 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 and state 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 State of Texas Uniform Grant Management Standards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of revenues and expenses by activity but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.
If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2022 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 Corporation's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
December 6, 2022

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, 2022. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- At August 31, 2022 the Corporation's total assets equaled $327.9 million; of this amount $20.6 million represents assets associated with the single-family bond program; $52.9 million represents unrestricted cash, cash equivalents and investments; $229.2 million consists of loans and notes receivable; and $13.1 million represents real estate held under the Affordable Communities of Texas ("ACT") Program and the Rental Program. Total assets increased approximately $74.8 million during 2022 primarily due to the increase in notes receivable associated with the Texas Housing Impact Fund Program.
- The Corporation's liabilities totaled $24.0 million of which $19.1 million relates to the single-family bond program and $2.1 million consists of notes payable. Total liabilities decreased approximately $23.7 million in 2022 resulting primarily from the redemption of the Corporation's single-family bond debt.
- At the close of the fiscal year ending August 31, 2022 the Corporation's assets exceeded its liabilities by $303.6 million. Of this amount, $292.0 million may be used to meet the Corporation's ongoing obligations to the public and creditors, $5.8 million is restricted and $5.8 million is invested in capital assets.
- The Corporation's operating revenues for 2022 totaled $107.6 million and operating revenues exceeded operating expenses by approximately $98.3 million. The major revenue sources were single family program income equaling $106.2 million, interest and investment income totaling $2.0 million, and grants/contributions of $1.5 million. Revenue decreased in 2022 by approximately $23.3 million due to a decrease 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 2022 consist primarily of salary expense of $4.6 million, Texas Foundations Fund Grants of $2.0 million, and depreciation and amortization of $0.8 million.
- The Corporation created three separate entities in April 2022 associated with a project to be developed beginning in 2023 with the purpose of developing affordable housing. The names of these entities are Plano-DMA TSAHC Housing, LLC, TSAHC Park on 14th, LLC, and TSAHC MF-GC, LLC. There was no activity related to these new entities as of August 31, 2022.

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

	2022	2021	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets:				
Current assets	$ 51,620,460	$ 33,422,824	$ 18,197,636	54.45%
Noncurrent assets	276,310,263	219,716,460	56,593,803	25.76%
Total assets	327,930,723	253,139,284	74,791,439	29.55%
Liabilities:				
Current liabilities	1,899,693	11,374,045	(9,474,352)	(83.30%)
Noncurrent liabilities	22,106,683	36,318,314	(14,211,631)	(39.13%)
Total liabilities	$ 24,006,376	$ 47,692,359	$ (23,685,983)	(49.66%)
Deferred Inflows of Resources-				
Deferred Revenue	$ 350,464	$ 153,790	$ 196,674	127.88%
Net Position:				
Invested in capital assets	5,798,756	6,008,392	(209,636)	(3.49%)
Restricted for debt service	1,480,033	3,459,206	(1,979,173)	(57.21%)
Restricted for other purposes	4,285,474	3,080,575	1,204,899	39.11%
Unrestricted	292,009,620	192,744,962	99,264,658	51.50%
Total net position	$ 303,573,883	$ 205,293,135	$ 98,280,748	47.87%

The Corporation's net position increased from $205.3 million to $303.6 million in fiscal year 2022. Of this amount, restricted assets totaled $5.8 million, capital assets equaled $5.8 million and the remaining balance of $292.0 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 $253.1 million to $327.9 million during fiscal year 2022. The largest single factor contributing to this increase was the issuance of notes receivable in the Corporation's Texas Housing Impact Fund program.

As of August 31, 2022, the Corporation's current assets totaled $51.6 million and current liabilities equaled $1.9 million resulting in available net working capital of $49.7 million.

Noncurrent assets consisted of restricted investments held by the bond trustee of $18.9 million; owned real estate totaling $13.1 million; noncurrent investments of $37.7 million; notes and loans receivable of $200.4 million; and capital assets net of accumulated depreciation of $5.8 million.

Noncurrent liabilities consisted of bonds payable totaling $18.4 million; notes payable of $2.1 million; and unearned revenue of $1.6 million.

Statement of Revenues, Expenses and Changes in Net Position

	2022	2021	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues:				
Interest and investment income	$ 2,008,059	$ 2,675,450	$ (667,391)	(24.94%)
Net increase (decrease) in fair value of investments	(4,315,229)	(2,457,109)	(1,858,120)	75.62%
Single family income	106,192,067	127,920,500	(21,728,433)	(16.99%)
Rental program income	993,316	612,767	380,549	62.10%
Multifamily income	712,629	528,944	183,685	34.73%
Public support	1,476,162	1,138,971	337,191	29.60%
Other	525,940	482,251	43,689	9.06%
Total income	$ 107,592,944	$ 130,901,774	$ (23,308,830)	(17.81%)
Expenses:				
Interest expense on bonds & notes payable	339,729	1,236,568	(896,839)	(72.53%)
Salaries, wages & payroll related costs	4,618,078	3,655,394	962,684	26.34%
Program and loan administration	194,507	644,424	(449,917)	(69.82%)
Texas Foundations Fund & Rebuild Texas grants	1,960,000	916,000	1,044,000	113.97%
Other	2,199,882	2,029,532	170,350	8.39%
Total expenses	$ 9,312,196	$ 8,481,918	830,278	9.79%
Net income	98,280,748	122,419,856	(24,139,108)	(19.72%)
Beginning net position	205,293,135	82,873,279	122,419,856	147.72%
Ending net position	$ 303,573,883	$ 205,293,135	$ 98,280,748	47.87%

Interest and investment income decreased $0.7 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 a decrease in overall revenue of $23.3 million during fiscal year 2022 resulting primarily from a $21.7 million decrease in single family income. The decrease can be attributed to lower loan volume due to increasing mortgage rates.

Rental Program income increased approximately $380,500 from the previous year resulting primarily from an increase in properties owned and from the recording of lease revenue. Multifamily Income increased approximately $184,000 due to greater volume in both the multifamily lending and bond programs. Public Support increased approximately $337,000 from the previous fiscal year. This was due to an increase in support for the Permanent Supportive Housing Institute.

Interest expense on bonds and notes payable decreased approximately $897,000 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 2022, as well as the use of these funds, were as follows:

FY 2022 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
LISC	Received	$ 10,000	$ 10,000	Harris county Homeownership Collaborative
TFEE	Received	$ 30,000	$ 18,000	Housing Connection Program
Wells Fargo	Received	$ 20,000	$ 35,000	Permanent Supportive Housing Institute
Texas Community Bank	Received	$ 10,000	$ 10,000	Permanent Supportive Housing Institute
Insperity	Received	$ 5,000	5,000	Permanent Supportive Housing Institute
Regions Bank	Received	$ 5,000	$ 5,000	Permanent Supportive Housing Institute
Frost Bank	Received	$ 5,000	$ 5,000	Permanent Supportive Housing Institute
Dominium	Received	$ 10,000	$ 10,000	Permanent Supportive Housing Institute
Texas Capital Bank	Received	$ 50,000	$ 50,000	Permanent Supportive Housing Institute
JP Morgan Chase	Received	$ 30,000	$ 30,000	Permanent Supportive Housing Institute
Federal Home Loan Bank	Received	$ 262,500	$ 262,500	Laredo Home Donation
Money Follows the Person	Received	$ 39,398	$ 39,398	Texas Housing Impact Fund

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2022 were as follows:

- Loan in the amount of $387,553 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $144,808 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $285,719 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $1,200,000 was provided to a non-profit developer for the purpose of financing acquisition and construction costs 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.
- Loan in the amount of $150,088 was provided to a non-profit developer for the purpose of bridge financing acquisition and construction costs on a multi-family project.
- Forgivable loan in the amount of $375,000 was provided to a non-profit developer for the purpose of construction costs on a multi-family project.
- Forgivable loan in the amount of $375,000 was provided to a non-profit developer for the purpose of construction costs on a multi-family project.
- Forgivable loan in the amount of $375,000 was provided to a non-profit developer for the purpose of 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 2022 were as follows:

- $1,910,000 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, ninety (90) such grants were made in the aggregate amount of $1,910,000.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled $98,280,748 for fiscal year 2022.

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, 2022

Assets	
Current assets:	
Cash and cash equivalents	$ 6,798,715
Restricted assets:	
Cash and cash equivalents	5,677,330
Accrued interest	22,744
Investments, at fair market value	8,410,790
Accounts receivable and accrued revenue	854,591
Accrued interest receivable	264,625
Loans receivable, current portion	72,549
Notes receivable, current portion	28,681,315
Lease receivable, current portion	100,618
Downpayment assistance, current portion	343,492
Prepaid expenses	393,691
Total current assets	51,620,460
Noncurrent assets:	
Loans receivable, net of uncollectible amounts of $9,395	201,769
Notes receivable, net of allowance for loss $413,326	200,220,021
Lease receivable	120,524
Investments, at fair market value	37,661,385
Mortgage servicing rights, net of accumulated amortization of $2,625,774	102,287
Capital assets, net of accumulated depreciation of $835,407	5,798,756
Owned real estate, net of amortization of $1,840,638	13,120,950
Down payment assistance	142,422
Restricted investments held by bond trustee, at fair market value	18,942,149
Total noncurrent assets	276,310,263
Total assets	$ 327,930,723

(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, 2022

Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	$ 620,671
Notes payable, current portion	64,620
Custodial reserve funds	241,129
Other current liabilities	251,998
Payable from restricted assets held by bond trustee:	
Revenue bonds payable, current portion	385,000
Accrued interest on revenue bonds	336,275
Total current liabilities	1,899,693
Noncurrent liabilities:	
Notes payable	2,070,132
Revenue bonds payable	18,400,154
Unearned revenue	1,636,397
Total noncurrent liabilities	22,106,683
Total liabilities	24,006,376
Deferred Inflows of Resources	
Deferred revenue	350,464
Total deferred inflows of resources	350,464
Net Position	
Invested in capital assets	5,798,756
Restricted for:	
Debt service	1,480,033
Other purposes	4,285,474
Unrestricted	292,009,620
Total net position	303,573,883
Total liabilities and net position	$ 327,930,723

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, 2022

Operating Revenues:		
Interest and investment income	$	2,008,059
Net increase (decrease) in fair value of investments		(4,315,229)
Single family income		106,192,067
Asset oversight and compliance fees		377,957
Rental program income		993,316
Multifamily income		712,629
Land bank income		55,738
Public support:		
Federal & state grants		1,268,131
Contributions		208,031
Other operating revenue		92,245
Total operating revenues	$	107,592,944
Operating Expenses:		
Interest expense on bonds and notes payable	$	339,729
Program and loan administration		194,507
Texas Foundations Fund and miscellaneous grants		1,960,000
Salaries, wages and payroll related costs		4,618,078
Professional fees and services		519,877
Depreciation and amortization		752,272
Office expense and maintenance		139,885
Travel and meals		82,549
Other operating expenses		705,299
Total operating expenses		9,312,196
Net income		98,280,748
Total net position, beginning		205,293,135
Total net position, ending	$	303,573,883

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, 2022

Cash Flows from Operating Activities	
Receipts from customers and users	$ 42,143,607
Payments to employees	(3,534,414)
Payments of benefits and other payroll related costs	(1,083,664)
Payments to suppliers of goods and services	(19,268,647)
Net cash provided by operating activities	18,256,882
Cash Flows from Non-Capital Financing Activities	
Proceeds from notes payable	125,000
Payments of principal and interest on notes payable	(2,148,428)
Payments of principal and interest related to bond maturities and calls	(20,840,268)
Net cash used in non-capital financing activities	(22,863,696)
Cash Flows from Capital and Related Financing Activities	
Payments for additions to capital assets	(30,272)
Purchase and rehabilitation of single family homes under Rental Program	(2,413,190)
Sale of single family homes under ACT Program and Rental Program	625,511
Rehabilitation of single family homes under ACT Program	(1,072,548)
Rehabilitation of multifamily apartments	(140,615)
Rehabilitation of office building	(51,393)
Net cash used in capital and related financing activities	(3,082,507)
Cash Flows from Investing Activities	
Proceeds from sale and maturities of restricted investments	7,242,927
Proceeds from sale of unrestricted investments	13,783,501
Purchase of unrestricted investments	(15,968,503)
Interest earned on investments	904,877
Net cash provided by investing activities	5,962,802
Net decrease in cash and cash equivalents	(1,726,519)
Cash and cash equivalents at beginning of year	14,202,564
Cash and cash equivalents at end of year	$ 12,476,045

(continued)

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

Statement of Cash Flows (continued)
For the Year Ended August 31, 2022

Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Net income	$ 98,280,748
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and amortization expense	752,272
Unrealized loss on investments	4,315,229
Gain on sale of property	(314,485)
Provision for estimated losses and chargeoffs	209,113
In-kind grants	(25,688)
Amortization of down payment assistance	343,492
Amortization of bond premium	(566,688)
Changes in current assets and liabilities:	
Decrease in accounts receivable and accrued revenue	3,148,462
Increase in accrued interest receivable	(192,498)
Decrease in loans receivable	81,603
Increase in notes receivable	(88,333,685)
Increase in lease receivable	(221,142)
Decrease in down payment assistance loans	343,492
Increase in prepaid expenses	(133,925)
Decrease in accounts payable and accrued expenses	(35,422)
Decrease in accrued interest payable on bonds	(351,371)
Increase in deferred revenue and other liabilities	957,375
Net cash provided by operating activities	$ 18,256,882
Supplemental Disclosure of Noncash Transactions:	
Debt forgiven - Affordable Communities of Texas Veterans' Program	$ 132,602
Debt forgiven - Affordable Housing Partnership	$ 37,500

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

Notes to the Financial Statements

1. Nature of Activities and Significant 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.

The Corporation created three separate entities in April 2022 associated with a project to be developed beginning in 2023 with the purpose of developing affordable housing. The names of these entities are Plano-DMA TSAHC Housing, LLC, TSAHC Park on 14th, LLC, and TSAHC MF-GC, LLC. There was no activity related to these new entities as of August 31, 2022.

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 two office buildings, 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 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 2022 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, 2022 the premium related to the SFB Programs totaled approximately $555,000. Bond premium amortization during fiscal year 2022 totaled approximately $567,000.

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.

<u>Fair Value Measurements</u> **-** 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 2022 was approximately $32,000; accumulated amortization as of August 31, 2022 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, 2022 was approximately $394,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $241,000 as of August 31, 2022 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.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - For the year ended August 31, 2022, the Corporation implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the Corporation's leasing activities and establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the Corporation's financial statements for the year ended August 31, 2022 but had no effect on the beginning net position since the Corporation recognized a lease receivable and a deferred inflow of resources of $58,507 at September 1, 2021.

Recently Issued Accounting Pronouncements - 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, 2022 consisted of bank deposits totaling $6,798,715.

Restricted cash and cash equivalents at August 31, 2022 totaled $5,677,330. The bond trustee maintained $1,150,656 in money market mutual funds. The Corporation held $4,285,545 in a checking account, which were restricted grant funds. The Corporation also maintained three custodial accounts with a combined total of $241,129 pledged as reserves on three multifamily projects. These funds were maintained in interest bearing demand accounts.

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, 2022, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 23,176,166	$ -	$ -	$ 23,176,166
US Treasury Obligations	7,205,760	-	-	7,205,760
Municipal Obligations	5,418,461	-	-	5,418,461
US Agency MBS	-	7,279,459	-	7,279,459
Commercial Paper	-	2,992,329	-	2,992,329
Total Fair Value	$ 35,800,387	$ 10,271,788	$ -	$ 46,072,175
Investments not subject to GASB 72				-
Total Unrestricted Investments				$ 46,072,175

The Corporation's unrestricted investments consisted of the following at August 31, 2022:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Toyota Motor Credit CP	0.503%	$ 2,989,057	$ 2,992,329	$ 3,272
State of Hawaii	0.428%	1,250,000	1,247,462	(2,538)
Miami-Dade County FL	0.480%	1,994,925	1,959,320	(35,605)
Marshall ISD	1.090%	2,440,448	2,211,679	(228,769)
Total Short Term Investments		8,674,430	8,410,790	(263,640)
Pass through securities GNMA - 10/20/2034	5.99%	2,085	2,214	129
Pass through securities GNMA - 2036-2042	3.50 - 6.10%	6,460,966	6,468,606	7,640
Pass through securities FNMA - 2035-2037*	5.49 - 5.75%	232,453	233,519	1,066
Pass through securities FHLMC - 2036-2038*	5.49 - 6.10%	558,550	575,120	16,570
Treasury Note	1.656%	4,871,036	4,757,225	(113,811)
Treasury Note	2.904%	2,484,951	2,448,535	(36,416)
FHLB Call Note	2.000%	2,500,000	2,392,833	(107,167)
FFCB Call Note	0.317%	2,497,214	2,404,593	(92,621)
FFCB Call Note	0.371%	2,496,875	2,368,936	(127,939)
FHLB Call Note	0.400%	3,000,000	2,828,372	(171,628)
FHLB Call Note	0.400%	3,000,000	2,823,329	(176,671)
FHLB Call Note	1.000%	3,000,000	2,819,384	(180,616)
FHLB Call Note	0.500%	2,350,000	2,213,269	(136,731)
FHLB Call Note	0.500%	3,000,000	2,825,450	(174,550)
FHLB Call Note	0.475%	2,500,000	2,500,000	-
Total Long Term Investments		$ 38,954,130	$ 37,661,385	$ (1,292,745)
Total Investments		$ 47,628,560	$ 46,072,175	$ (1,556,385)

*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, 2022, the restricted *securities* to be priced in the portfolio were as follows:

	Level 1	Level 2	Level 3	Total
US Agency MBS	$ -	$ 18,942,149	$ -	$ 18,942,149
Total Fair Value	$ -	$ 18,942,149	$ -	$ 18,942,149
Investments not subject to GASB 72				-
Total Restricted Investments				$ 18,942,149

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2022:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain
GNMA/FNMA Investments - 2040/2042	3.5-4.75%	$ 6,343,768	$ 6,420,237	$ 76,469
GNMA/FNMA Investments - 2049	4.3-4.8%	12,252,321	12,521,912	269,591
Total Investments		$ 18,596,089	$ 18,942,149	$ 346,060

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

Single Family Mortgage Revenue Bonds Series 2011A,2013A	$ 316,581
Single Family Mortgage Revenue Bonds Series 2019A	686,000
	$ 1,002,581

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2022 has decreased by approximately $14.1 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 $18.9 million (valued under GASB Statement No. 72 at fair value) in mortgage-backed securities issued by Ginnie Mae ("GNMA"), Fannie Mae ("FNMA") and Freddie Mac ("FMCC") through the Corporation's SFB Programs. These securities have a face value of approximately $18.6 million and unrealized gain of approximately $346,000 as of August 31, 2022. 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 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 270 days or less and be rated A1/P1 or its equivalent by at least two nationally recognized rating agencies.

The adopted Investment Policy restricts money market mutual fund investment to SEC registered money market mutual funds striving to maintain a $1 net asset value and with a WAM of 60 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, 2022, holdings in the General Portfolio and Surplus Portfolio had total fair market values of $50,240,572 and $7,277,245 respectively and included:

- A1/P1 commercial paper represented 5.20% of the total portfolio,
- funds held in a Federal Home Loan Bank account represented 1.81% of the total portfolio,
- funds invested in fully insured or collateralized bank accounts represented 8.13% of the total portfolio,
- holdings in a AAA-rated local government pool represented 9.96% of the total portfolio,
- holdings in state and local debt obligations represented 9.42% of the total portfolio,
- holdings in US Treasury Notes represented 12.53% of the total portfolio,
- holdings in US Government agency securities represented 40.29% of the total portfolio, and
- holdings in US mortgage-backed securities represented 12.65% 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, 2022, the general portfolio, excluding the one GNMA, held no security with a stated maturity date beyond 942 days. With the inclusion of the one GNMA the dollar weighted average maturity of the total general portfolio was 442 days.

The Surplus Funds portfolio had a dollar weighted average maturity of 6,669 days and the longest security was 6,819 days.

As of August 31, 2022, the general portfolio contained two (2) municipals and nine (9) US agency structured notes (callable) which might be affected by interest rate risk. Their total fair market value was $26,382,948.

As of August 31, 2022, 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, 2022:

- 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, 2022 were as follows:

Loans Receivable at September 1, 2021	$ 355,921
Additions	-
Paydowns	(72,208)
Loans Receivable at August 31, 2022	283,713
Allowance for possible loan losses	(9,395)
Net Balance at August 31, 2022	$ 274,318

The current portion of loans receivable at August 31, 2022 was $72,549; the remaining balance of $201,769 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2022 was as follows:

Balance at September 1, 2021	$ (247)
Current Year Decreases	247
Loss Applied to the Allowance	(9,395)
Balance at August 31, 2022	$ (9,395)

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, 2022 was as follows:

Balance at September 1, 2021	$141,018,769
Additions	97,275,090
Collections	(8,844,549)
Accumulated Amortization	(134,648)
Balance at August 31, 2022	229,314,662
Allowance for possible losses	(413,326)
Net balance at August 31, 2022	$228,901,336

The current portion of notes receivable at August 31, 2022 is $28,681,315; the remaining balance of $200,220,021 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 2022 is as follows:

Balance at September 1, 2021	$ 451,118
Current year decrease	(37,792)
Loss applied to the allowance	-
Balance at August 31, 2022	$ 413,326

5. Capital Assets

Capital assets activity for the year ended August 31, 2022 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2021	Additions	Deletions	Balance August 31, 2022
Land	$ 1,248,001	$ -	$ -	$ 1,248,001
Building	4,556,763	10,083	-	4,566,846
Vehicles	29,738	-	-	29,738
Furniture & Fixtures	769,389	20,189	-	789,578
Total	$ 6,603,891	$ 30,272	$ -	$ 6,634,163

	Accumulated Depreciation			
	Balance September 1, 2021	Additions	Deletions	Balance August 31, 2022
Building	$ 99,067	$ 149,798	$ -	$ 248,865
Vehicles	2,680	2,474	-	5,154
Furniture & Fixtures	493,752	87,636	-	581,388
Total	$ 595,499	$ 239,908	$ -	$ 835,407

Capital assets, less accumulated depreciation, at August 31, 2022 totaled $5,798,756.

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. Leases

The Corporation, as a lessor, has entered into three agreements with tenants for the lease of office space at two properties owned by the Corporation. For the year ended August 31, 2022, the Corporation reported lease revenue of $62,128 and interest revenue of $4,035 related to lease payments received. These leases are summarized as follows:

1910 E Martin Luther King Jr. Blvd. - On September 1, 2020, the Corporation entered into a three-year lease agreement ending August 31, 2023 with a tenant for office space. The Corporation receives monthly payments and there are no renewal options or termination clauses within the lease agreement.

2200 E Martin Luther King Jr. Blvd. - On December 27, 2021, the Corporation entered into a three-year lease agreement ending December 31, 2024 with a tenant for office space. The Corporation receives monthly payments and there are no renewal options or termination clauses within the lease agreement. On July 1, 2022, the Corporation entered into a three-year lease agreement ending June 30, 2025 with a tenant for office space. The Corporation receives monthly payments and there are no renewal options or termination clauses within the lease agreement.

On September 1, 2022, the Corporation entered into a three-year lease agreement ending August 31, 2025 with a tenant for office space at 2200 E Martin Luther King Jr. Blvd. The Corporation receives monthly payments and there are no renewal options or termination clauses within the lease agreement. There was no lease receivable, deferred inflows of resources, or lease revenue recorded in the Corporation's financial statements as of and for the year ending August 31, 2022 related to this lease agreement since it was entered into subsequent to year-end.

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, 2022 was as follows:

Balance at September 1, 2021	$ 214,366
Deposits	36,727
Disbursements	(9,964)
Balance at August 31, 2022	$ 241,129

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 2022 totaled $19,771. The remaining deferred revenue for this portfolio was $134,019 at August 31, 2022.

Due to the implementation of GASB No. 87 in the current year, the Corporation recorded deferred inflows of resources related to the lease agreements discussed in Note 7. Revenue recognized during fiscal year 2022 totaled $62,128. The remaining deferred revenue related to these lease agreements was $216,445 at August 31, 2022.

The prepaid issuer fees from twenty-six (26) multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2022, unearned revenue related to these properties totaled $351,280.

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 $102,600 was earned in the fiscal year ended August 31, 2022.

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, and approximately $1.13 million was earned in the fiscal year ended August 31, 2022.

A summary of deferred inflows of resources and unearned revenue activity for fiscal year 2022 was as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2021	$ 153,790	$ 2,811,719
Additions	278,573	1,262,148
Revenue Earned	(62,128)	(2,437,470)
Loan Payments Received	(19,771)	-
Balance at August 31, 2022	$ 350,464	$ 1,636,397

10. Notes Payable

As of August 31, 2022, 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.	$ 247,413
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.	393,626
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.	618,713
Note Payable to Texas Community Bank, interest only at 2.00% payable quarterly, due in full May 2025, unsecured.	500,000
Note Payable to Austin Community Foundation, interest only at 1.0% payable quarterly, due in full April 10, 2024, unsecured.	125,000
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	$ 2,134,752
Current Portion of Notes Payable	64,620
Noncurrent Notes Payable	$ 2,070,132

The summary of notes payable activity for the year ended August 31, 2022 was as follows:

Balance at September 1, 2021	$ 4,075,083
Advances	125,000
Repayments	(2,065,331)
Balance at August 31, 2022	$ 2,134,752

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

Year Ended August 31,	Principal	Interest	Total
2023	$ 64,620	71,457	136,077
2024	750,702	40,196	790,898
2025	525,768	25,860	551,628
2026	276,550	16,834	293,384
2027	517,112	2,574	519,686
Total	$ 2,134,752	$ 156,921	$ 2,291,673

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, 2022.

Description	Interest Rate	Bonds Outstanding 9/1/21	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/22	Amounts Due Within One Year
Single Family 2019 Series 2019A	Fixed	$ 24,060,000	$ -	$(11,320,000)	$ -	$12,740,000	$ 220,000
Single Family 2009-2013 Series 2011A	Fixed	1,745,000	-	(535,000)	- -	1,210,000	165,000
Series 2009/2011B	Fixed	7,020,000	-	(7,020,000)	-	-	-
Series 2013A	Fixed	5,070,000	-	(790,000)	$ -	4,280,000	-
Total Principal		37,895,000	$ -	$ (19,665,000)	$ -	$18,230,000	$ 385,000
Unamortized Premium		1,121,842				555,154	
Total		$ 39,016,842				$ 18,785,154	

The current portion of bonds payable at August 31, 2022 was $385,000. The remaining balance of $18,400,154 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
2023	$ 385,000	$ 546,844	$ 931,844
2024	400,000	534,327	934,327
2025	420,000	520,945	940,945
2026	440,000	506,733	946,733
2027	455,000	491,673	946,673
2028 thru 2032	2,450,000	2,230,872	4,680,872
2033 thru 2037	3,080,000	1,916,023	4,996,023
2038 thru 2042	4,380,000	1,356,995	5,736,995
2043 thru 2047	3,575,000	775,488	4,350,488
2048 thru 2052	2,645,000	170,958	2,815,958
Total	$ 18,230,000	$ 9,050,858	27,280,858

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 2022, the debt service requirement equaled $19,665,000 in bond principal and $1,175,268 in bond interest expense, totaling $20,840,268. As of August 31, 2022, pledged revenue totaled $25,783,444.

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, 2022, the MCC Program revenue totaled approximately $1,215,000 and is included in single family income in the statement of revenues, expenses, and changes in net position.

14. 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, 2022, the Corporation made Foundations Fund grants totaling $1,910,000.

15. 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, 2022, 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, 2022, second lien notes receivable totaled $219,165,160.

16. 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, 2022, were $99,034.

17. 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, 2022, there were twenty-four series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $369.6 million.

18. 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.

19. Commitments and Contingencies

The Corporation participates in a number of federal and state financial assistance programs. Although the Corporation's grant programs have been audited in accordance with the provisions of the Uniform Guidance and the State of Texas Uniform Grant Management Standards through August 31, 2022, 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.

20. Non-Cash Contributions

During the year ended August 31, 2022, Google, Inc. made an in-kind donation of $28,688 for advertising.

21. 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, 2022 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating revenue	$107,592,944
Depreciation and amortization	752,272
Net income	98,280,748
Net working capital*	49,720,767
Total assets	327,930,723
Total net position	303,573,883
Noncurrent notes payable	2,070,132
Noncurrent bonds payable	18,400,154
Deferred inflows of resources	350,464
Unearned revenue	1,636,397
Capital asset additions	30,272

* Net Working Capital Calculation	Amount
Unrestricted cash and cash equivalents	$ 6,798,715
Restricted assets	5,700,074
Investments, short-term	8,410,790
Accounts receivable and accrued revenue	854,591
Accrued interest receivable	264,625
Loans receivable, current portion	72,549
Notes receivable, current portion	28,681,315
Lease receivable, current portion	100,618
Downpayment assistance, current portion	343,492
Prepaid expenses	393,691
Payables:	
Accounts payable and accrued expenses	(620,671)
Notes payable, current portion	(64,620)
Custodial reserve funds	(241,129)
Other current liabilities	(251,998)
Bonds payable and accrued interest on bonds, current portion	(721,275)
Total net working capital	$ 49,720,767

Other
Supplemental Information

Texas State Affordable Housing Corporation

Schedule of Revenues and Expenses by Activity
For the Year Ended August 31, 2022

	Single Family	Multi Family	ACT/NSP	Asset Management	Other	Total
Revenues						
Interest and Investment Income	$ 1,290,433	$ 328,660	$ -	$ 4,035	$ 384,931	$ 2,008,059
Net Increase (Decrease) in Fair Value of Investments	(4,315,229)	-	-	-	-	(4,315,229)
Single Family Income	106,192,067	-	-	-	-	106,192,067
Federal and State Grants	18,000	1,250,131	-	-	-	1,268,131
Other Operating Revenue	207,434	707,235	58,964	1,418,902	47,381	2,439,916
Total Revenues	103,392,705	2,286,026	58,964	1,422,937	432,312	107,592,944
Expenses						
Interest Expense on Bonds and Notes Payable	258,126	69,103	12,500	-	-	339,729
Salaries, Wages and Payroll Related Costs	2,555,940	221,151	306,565	822,229	712,193	4,618,078
Grant Expenditures	1,212,000	748,000	-	-	-	1,960,000
Other Expenditures	964,129	92,531	128,885	797,924	410,920	2,394,389
Total Expenses	4,990,195	1,130,785	447,950	1,620,153	1,123,113	9,312,196
Net Income						$ 98,280,748

Federal and State Awards

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
Texas State Affordable Housing Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 6, 2022.

Report on 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.

Report on 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 statements. 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maxwell Locke & Ritter LLP

Austin, Texas
December 6, 2022

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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance and State of Texas Uniform Grant Management Standards

The Board of Directors of
Texas State Affordable Housing Corporation:

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited Texas State Affordable Housing Corporation's (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and State of Texas Uniform Grant Management Standards ("UGMS") that could have a direct and material effect on each of Corporation's major federal and state programs for the year ended August 31, 2022. The Corporation's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 each of its major federal and state programs for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal and State Program

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; 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"), and UGMS. Our responsibilities under those standards, the Uniform Guidance, and UGMS are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Corporation's federal and state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and UGMS will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and UGMS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 or state 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 or state 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 and UGMS. Accordingly, this report is not suitable for any other purpose.

Maxwell Locke + Ritter LLP

Austin, Texas
December 6, 2022

Texas State Affordable Housing Corporation

Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2022

Federal or State Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Expenditures
Federal Awards			
U.S. Department of Treasury			
Passed through the Community Development Financial Institutions:			
Capital Magnet Fund	21.011	181CM050456	$ 3,562,500
Capital Magnet Fund Administrative	21.011	181CM050456	35,105
Total 21.011			3,597,605
Total U.S. Department of Treasury			3,597,605
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	22,545
Total U.S. Department of Health and Human Services			22,545
Total expenditures of federal awards			3,620,150
State Awards			
Texas Health and Human Services Commission			
Affordable Housing Partnership (AHP)	n/a	HHS000850100001	1,124,980
Total expenditures of state awards			1,124,980
Total expenditures of federal and state awards			$ 4,745,130

The accompanying notes are an integral part of this schedule.

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state award activity of Texas State Affordable Housing Corporation (the "Corporation") under programs of the federal and state government for the year ended August 31, 2022. 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") and the State of Texas Uniform Grant Management Standards ("UGMS"). 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 and state 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 and UGMS, 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, 2022 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. The Capital Magnet Fund had a total loan balance of $3,562,500 as of August 31, 2022.

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 and State Awards

Internal control over the major federal and state programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for the major federal and state programs:

- Capital Magnet Fund: Unmodified
- Affordable Housing Partnership (AHP): Unmodified

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

Identification of the major federal and state programs:

Federal or State Major Program	Assistance Listing Number	Name of Federal or State Program
Federal	21.011	Capital Magnet Fund
State	N/A - State	Affordable Housing Partnership (AHP)

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

Dollar threshold used to distinguish between State type A and type B programs: $300,000

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

Auditee qualified as State 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, 2022 and 2021.

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, 2022 and 2021. No findings or questioned costs required to be reported in accordance with UGMS for the year ended August 31, 2022. No state single audit was required under UGMS for the year ended August 31, 2021.