tsahc

T E X A S

State Affordable Housing Corporation

November Audit Committee Meeting

To be held at the offices of

Texas State Affordable Housing Corporation

6701 Shirley Avenue

Austin, TX 78752

Tuesday, November 14, 2023

9:30 a.m.

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

November 14, 2023
9:30 A.M.

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

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

PUBLIC COMMENT

ACTION ITEMS IN OPEN MEETING:

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 23, 2023.

Tab 2 Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2023.

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

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

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

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

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

Tab 1

Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on August 23, 2023.

TEXAS STATE AFFORDABLE HOUSING CORPORATION
AUDIT COMMITTEE MEETING

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

August 22, 2023
9:30 A.M.

Summary of Minutes

CALL TO ORDER ROLL CALL CERTIFICATION OF QUORUM

The Audit Committee of the Texas State Affordable Housing Corporation (the "Corporation") was called to order by Valerie Cardenas, Audit Committee Chair, at 9:30am on August 22, 2023, at the offices of Texas State Affordable Housing Corporation, 6701 Shirley Avenue, Austin TX 78752. Roll Call was taken, and four members were present.

Committee Members Present

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

Special Guests

Routt Thornhill, Coats Rose

Public Comment

None was given.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 6, 2022.

Mr. Long made a motion to approve the minutes of the Audit Committee Meeting held on December 6, 2022. Mr. Williams seconded the motion. A vote was taken, and the motion passed unanimously.

See page 3 in the official transcript.

Tab 2 Presentation, Discussion and Possible Approval of the Fiscal Year 2024 Annual Operating Budget.

Presented by Melinda Smith, Chief Financial Officer and Nick Lawrence, Controller

Mr. Williams made a motion to approve the Fiscal Year 2024 Annual Operating Budget. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 4 in the official transcript.

Tab 3 **Presentation, Discussion and Possible Approval of the Fiscal Year 2024 Audit Committee Guidelines.**

Presented by Melinda Smith, Chief Financial Officer and Nick Lawrence, Controller

Mr. Williams made a motion to approve the Fiscal Year 2024 Audit Committee Guidelines. Mr. Long seconded the motion. A vote was taken, and the motion passed unanimously.

See page 18 in the official transcript.

Adjournment

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

Respectfully submitted by___________________________________
Rebecca DeLeon, Corporate Secretary

Tab 2

Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2023.

November xx, 2023

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

We have audited the financial statements of the business-type activities of Texas State Affordable Housing Corporation (the "Corporation") for the year ended August 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, Uniform Guidance, and State of Texas Grant Management Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated September 27, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Corporation changed accounting policies related to subscription-based information technology arrangements by adopting Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements,* for the year ended August 31, 2023. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the allowance for doubtful notes receivable is based on the Corporation's analysis of collectability.
>
> Management's estimate of the useful lives of capital assets is based on the Corporation's expected future use of the assets.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated November xx, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

We were not engaged to report on the schedule of operating revenues and operating expenses by activity, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Sincerely,

Enclosure 1: Management Representation Letter

["Approved to Issue by EP" date per Docusign]

Maxwell Locke & Ritter LLP
401 Congress Ave., Suite 1100
Austin, Texas 78701

This representation letter is provided in connection with your audit of the financial statements of Texas State Affordable Housing Corporation (the "Corporation"), which comprise the statements of financial position of the business-type activities as of August 31, 2023, and the respective changes in financial position and cash flows for the year then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of the auditors' report, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 27, 2023, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

3) We acknowledge our responsibility 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.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.

8) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.

9) Guarantees, whether written or oral, under which the Corporation is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

10) We have reviewed long-lived assets to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of assets might not be recoverable and have appropriately recorded the adjustment.

11) We have analyzed all lease contracts and have considered and recorded material embedded leases contained within other contracts in accordance with Governmental Accounting Standards Board Statement (“GASBS”) No. 87.

Information Provided

12) We have provided you with:

    a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.

    b) Additional information that you have requested from us for the purpose of the audit.

    c) Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence.

    d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

13) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.

14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

15) We have no knowledge of any fraud or suspected fraud that affects the Corporation and involves:

    a) Management,

    b) Employees who have significant roles in internal control, or

    c) Others where the fraud could have a material effect on the financial statements.

16) We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation’s financial statements communicated by employees, former employees, grantors, regulators, or others.

17) We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.

18) We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

19) We have disclosed to you the names of all of the Corporation’s related parties and all the related-party relationships and transactions, including any side agreements.

20) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

21) The Corporation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Corporation's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

22) The Corporation has adopted ASC 740-10 as it relates to uncertain tax positions and has evaluated its tax positions taken for all open tax years. The Corporation is not currently under audit, nor has the Corporation been contacted for examination by any relevant tax jurisdictions. Based on our evaluation of the Corporation's tax positions, management believes all positions taken are highly certain and would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended August 31, 2023.

23) We represent that the Texas State Affordable Housing Corporation:

    a) Is organized for Internal Revenue Code Section 501(c)(3) purposes;

    b) Is operated in a manner consistent with its mission as set forth in its current Articles of Incorporation and Bylaws;

    c) Has not engaged in activities which would result in private inurement or excess benefit transactions;

    d) Has not engaged in any political activities and has properly reported any lobbying activities;

    e) Has determined that all sources of revenue are related to its exempt purpose or are excluded from unrelated business income treatment, unless otherwise indicated; and

    f) Has determined that any unrelated business income has been properly reported and that expenses have been allocated on a reasonable basis.

24) In regards to the FORM 990 tax return preparation services performed by you, we have:

    a) Made all management decisions and performed all management functions.

    b) Designated an individual with suitable skill, knowledge, or experience to oversee the services.

    c) Evaluated the adequacy and results of the services performed.

    d) Accepted responsibility for the results of the services.

Government-specific

25) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

26) We have taken timely and appropriate steps to remedy identified and suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that you have reported to us.

27) We have a process to track the status of audit findings and recommendations.

28) We have identified to you any previous audits, attestation engagements, and other studies related to the objectives of the audit and whether related recommendations have been implemented.

29) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.

30) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

31) The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.

32) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

33) We have appropriately disclosed all information for conduit debt obligations in accordance with GASBS No. 91 .

34) We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements.

35) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

36) As part of your audit, you assisted with preparation of the financial statements and disclosures and schedule of expenditures of federal and state awards. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures and schedule of expenditures of federal and state awards.

37) The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

38) The Corporation has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

39) The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

40) The financial statements include all fiduciary activities required by GASBS No. 84 , as amended.

41) The financial statements properly classify all funds and activities in accordance with GASBS No. 34 , as amended.

42) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

43) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

44) Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.

45) Provisions for uncollectible receivables have been properly identified and recorded.

46) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

47) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

48) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

49) Deposits and investment securities and derivative instrument transactions are properly classified as to risk and are properly disclosed.

50) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

51) We have appropriately disclosed the Corporation's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

52) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

53) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

54) With respect to federal and state award programs:

   a) We are responsible for understanding and complying with and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Texas Grant Management Standards (TxGMS), including requirements relating to preparation of the schedule of expenditures of federal and state awards.

   b) We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal and state awards (SEFSA) and related disclosures in accordance with the requirements of the Uniform Guidance and TxGMS, and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance and TxGMS. The methods of measurement or presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFSA.

   c) If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.

d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and TxGMS compliance audit, and have included in the SEFSA, expenditures made during the audit period for all awards provided by federal and state agencies in the form of federal and state awards, federal ad state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e) We are responsible for understanding and complying with, and have complied with, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major program.

f) We are responsible for establishing, designing, implementing, and maintaining, and have established, designed, implemented, and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.

g) We have made available to you all federal and state awards (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.

h) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.

i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement* and TxGMS, relating to federal and state awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal and state awards.

j) We have disclosed any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and TxGMS if applicable.

m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditors' report.

r) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

s) The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

t) We have charged costs to federal awards in accordance with applicable cost principles.

u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and TxGMS, and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

v) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

x) We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

____

David Long, President

____

Melinda Smith, Chief Financial Officer

____

Nick Lawrence, Controller

Texas State Affordable Housing Corporation

Financial Statements and Supplemental Information as of and for the Year Ended August 31, 2023 and Independent Auditors' Report

Texas State Affordable Housing Corporation

Table of Contents

Independent Auditors' Report

Independent Auditors' Report

The Board of Directors of
Texas State Affordable Housing Corporation:

Report on the 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, 2023, 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, 2023, 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 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 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 November xx, 2023 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.

Austin, Texas
November xx, 2023

Management's Discussion and Analysis

Texas State Affordable Housing Corporation
Management's Discussion and Analysis

Fiscal Year Ended August 31, 2023

This discussion and analysis provides an overview of the Texas State Affordable Housing Corporation's (the "Corporation") financial activities for the fiscal year ended August 31, 2023. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- At August 31, 2023 the Corporation's total assets equaled $440.7 million; of this amount $81.6 million represents assets associated with the single-family bond program; $52.9 million represents unrestricted cash, cash equivalents and investments; $275.4 million consists of loans and notes receivable; and $19.6 million represents real estate held under the Affordable Communities of Texas ("ACT") Program, and the Rental Program. Total assets increased approximately $112.8 million during 2023 primarily due to the increase in notes receivable associated with the Down Payment Assistance Program.
- The Corporation's liabilities totaled $85.1 million of which $81.3 million relates to the single-family bond program and $2.1 million consists of notes payable. Total liabilities increased approximately $61.1 million in 2023 resulting primarily from the issuance of a new single-family bond debt deal.
- At the close of the fiscal year ending August 31, 2023 the Corporation's assets exceeded its liabilities by $355.2 million. Of this amount, $346.3 million may be used to meet the Corporation's ongoing obligations to the public and creditors, $3.2 million is restricted and $5.7 million is invested in capital assets.
- The Corporation's operating revenues for 2023 totaled $86.5 million and operating revenues exceeded operating expenses by approximately $51.6 million. The major revenue sources were single family program income equaling $81.0 million, interest and investment income totaling $3.5 million, and grants/contributions of $1.3 million. Revenue decreased in 2023 by approximately $21.1 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 2023 consist primarily of salary expense of $4.6 million, depreciation and amortization of $23.8 million, interest expense on bonds and notes payable of $2.2 million, and program and loan administration of $1.8 million.
- The Corporation created a new entity, TSAHC Juniper Creek, LLC, in February 2023 associated with a project that will start development during the fiscal year ended August 31, 2024 with the purpose of developing affordable housing. In addition, TSAHC Juniper Creek, LLC became the general partner in another entity, FC Juniper Creek Housing, LP, in July 2023 also for the purpose of developing affordable housing.

Overview of the Financial Statements

The financial statements presented herein include all 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 and liabilities of the Corporation using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the Corporation's *net position* and changes in it. Net position is the difference between assets and liabilities, which is one way to measure the Corporation's financial health, or *financial position*. Over time, *increases or decreases* in the Corporation's net position are one indicator of whether its *financial health* is improving or deteriorating.

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

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

Included in the financial reporting entity of the Corporation are entities for which the Corporation is considered to be financially accountable (component units). The component units are considered to be blended component units which, although legally separate entities, are in substance part of the Corporation's operations because of the nature and significance of their operational or financial relationships with the Corporation. The blended component units include Plano-DMA TSAHC Housing, LLC, TSAHC Park on 14th, LLC, TSAHC MF-GC, LLC, and TSAHC Juniper Creek, LLC.

The Financial Statements

Statement of Net Position

	2023	2022	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets:				
Current assets	$ 167,854,735	$ 51,620,460	$ 116,234,275	225.17%
Noncurrent assets	272,823,711	276,310,263	(3,486,552)	(1.26%)
Total assets	440,678,446	327,930,723	112,747,723	34.38%
Liabilities:				
Current liabilities	3,897,819	1,899,693	1,998,126	105.18%
Noncurrent liabilities	81,221,178	22,106,683	59,114,495	267.41%
Total liabilities	$ 85,118,997	$ 24,006,376	$ 61,112,621	254.57%
Deferred Inflows of Resources-				
Deferred Revenue	$ 368,780	$ 350,464	$ 18,316	5.23%
Net Position:				
Invested in capital assets	5,674,542	5,798,756	(124,214)	(2.14%)
Restricted for debt service	375,953	1,480,033	(1,104,080)	(74.60%)
Restricted for other purposes	2,826,887	4,285,474	(1,458,587)	(34.04%)
Unrestricted	346,313,287	292,009,620	54,303,667	18.60%
Total net position	$ 355,190,669	$ 303,573,883	$ 51,616,786	17.00%

The Corporation's net position increased from $303.6 million to $355.2 million in fiscal year 2023. Of this amount, restricted assets totaled $3.2 million, capital assets equaled $5.7 million and the remaining balance of $346.3 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 $327.9 million to $440.7 million during fiscal year 2023. The largest single factor contributing to this increase was the issuance of notes receivable in the Corporation's Down Payment Assistance program.

As of August 31, 2023, the Corporation's current assets totaled $167.9 million and current liabilities equaled $3.9 million resulting in available net working capital of $164.0 million.

Noncurrent assets consisted of restricted investments held by the bond trustee of $74.2 million; owned real estate totaling $19.6 million; noncurrent investments of $17.3 million; notes and loans receivable of $153.3 million; and fixed assets net of accumulated depreciation of $5.7 million.

Noncurrent liabilities consisted of bonds payable totaling $79.2 million; notes payable of $1.3 million; and unearned revenue of $0.8 million.

Statement of Revenues, Expenses and Changes in Net Position

	2023	2022	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues:				
Interest and investment income	$ 3,533,539	$ 2,008,059	$ 1,525,480	75.97%
Net increase (decrease) in fair value of investments	(1,484,229)	(4,315,229)	2,831,000	(65.60%)
Single family income	81,010,057	106,192,067	(25,182,010)	(23.71%)
Rental program income	980,996	993,316	(12,320)	(1.24%)
Multifamily income	645,588	712,629	(67,041)	(9.41%)
Public support	1,289,336	1,476,162	(186,826)	(12.66%)
Other	560,118	525,940	34,178	6.50%
Total income	$ 86,535,405	$ 107,592,944	$ (21,057,539)	(19.57%)
Expenses:				
Interest expense on bonds & notes payable	2,157,782	339,729	1,818,053	535.15%
Salaries, wages & payroll related costs	4,556,075	4,618,078	(62,003)	(1.34%)
Program and loan administration	1,767,070	194,507	1,572,563	808.49%
Texas Foundations Fund & miscellaneous grants	1,052,000	1,960,000	(908,000)	(46.33%)
Other	25,385,692	2,199,882	23,185,810	1,053.96%
Total expenses	$ 34,918,619	$ 9,312,196	$ 25,606,423	274.98%
Net income	51,616,786	98,280,748	(46,663,962)	(47.48%)
Beginning net position	303,573,883	205,293,135	98,280,748	47.87%
Ending net position	$ 355,190,669	$ 303,573,883	$ 51,616,786	17.00%

Interest and investment income increased $1.5 million from the previous year. This resulted primarily from the increase in interest earned on general investments. The Corporation's investments consist primarily of mortgage-backed securities. The increases and decreases associated with mortgage-backed securities represent unrealized gains and losses and are required to be recorded in compliance with the provisions of GASB Statements No. 31 and 72.

The Corporation experienced a decrease in overall revenue of $21.1 million during fiscal year 2023 resulting primarily from a $25.2 million decrease in single family income. The decrease can be attributed to lower loan volume due to increasing mortgage rates.

Rental Program income decreased approximately $12,000 from the previous year resulting primarily from a gain on the sale of a property in fiscal year 2022 and none in fiscal year 2023. Multifamily Income decreased approximately $67,000 due to less volume in both the multifamily lending and bond programs. Public Support decreased approximately $187,000 from the previous fiscal year. This was due to a decrease in support for the Permanent Supportive Housing Institute.

Interest expense on bonds and notes payable increased $1.8 million from the previous year. This is a direct result of the issuance of the 2023A single family bond program.

Other expenses are comprised of professional fees, amortization, office and maintenance, travel and meals, and depreciation expenditures. During the year ended August 31, 2023, there was amortization expense of approximately $23 million due to the forgiveness of 2nd lien loans for the single family program.

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 2023, as well as the use of these funds, were as follows:

FY 2023 Grant Applications Submitted	Status	Amount Requested	Amount Received	Program/ Activity
PNC	Received	$ 20,000	$ 20,000	Housing Connection Program
Texas Community Bank	Received	$ 10,000	$ 10,000	Housing Connection Program
Insperity	Received	$ 5,000	$ 10,000	Permanent Supportive Housing
Regions Bank	Received	$ 5,000	$ 5,000	Permanent Supportive Housing
Dominium	Received	$ 10,000	$ 10,000	Permanent Supportive Housing
Texas Capital Bank	Received	$ 10,000	$ 10,000	Permanent Supportive Housing
JP Morgan Chase	Received	$ 25,000	$ 25,000	Permanent Supportive Housing
Lakeview Loan Servicing	Received	$ 15,000	$ 15,018	Permanent Supportive Housing
Bank of America	Received	$ 30,000	$ 22,000	Permanent Supportive Housing
City of Austin	Received	$ 55,000	$ 55,000	Permanent Supportive Housing
Money Follows the Person	Received	$ 25,383	$ 25,983	Texas Housing Impact Fund
LISC - Harris County Homeownership Collaborative	Partially received	$ 195,148	$ 62,371	Home Ownership
Wells Fargo	Received	$ 75,000	$ 75,000	Texas Housing Impact Fund

The number, amount, and purpose of loans provided to affordable housing developers during fiscal year 2023 were as follows:

- Loan in the amount of $566,076 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $272,001 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $128,280 was provided to a non-profit developer for the purpose of financing interim construction on single family homes.
- Loan in the amount of $3,000,000 was provided to a for profit developer for the purpose of financing construction costs on a multi-family project.
- Loan in the amount of $764,301 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.
- Forgivable loan in the amount of $225,000 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 2023 were as follows:

- $1,002,000 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, sixty-six (66) such grants were made in the aggregate amount of $1,002,000.

The total amount of revenue earned by the Corporation in excess of its expenditures equaled $51,616,786 for fiscal year 2023.

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
August 31, 2023

Assets		
Current assets:		
Cash and cash equivalents	$	12,448,987
Restricted assets:		
Cash and cash equivalents		7,740,386
Accrued interest		43,820
Investments, at fair market value		23,141,157
Accounts receivable and accrued revenue		1,607,600
Accrued interest receivable		201,215
Loans receivable, current portion		52,361
Notes receivable, current portion		122,057,113
Lease receivable, current portion		151,053
Downpayment assistance, current portion		132,074
Prepaid expenses		278,969
Total current assets		167,854,735
Noncurrent assets:		
Loans receivable, net of uncollectible amounts of $10,183		168,878
Notes receivable, net of allowance for loss $430,260		153,170,138
Lease receivable		115,682
Investments, at fair market value		17,343,520
Mortgage servicing rights, net of accumulated amortization of $2,648,014		80,047
Capital assets, net of accumulated depreciation of $1,063,761		5,674,542
Owned real estate, net of depreciation of $2,235,779		19,550,684
Down payment assistance		2,558,122
Restricted investments held by bond trustee, at fair market value		74,162,098
Total noncurrent assets		272,823,711
Total assets	$	440,678,446

(continued)

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

This document is a draft for internal review and discussion and is not intended for external distribution.

Texas State Affordable Housing Corporation

Statement of Net Position (continued)
August 31, 2023

Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	632,780
Notes payable, current portion		750,702
Custodial reserve funds		161,449
Other current liabilities		232,373
Payable from restricted assets held by bond trustee:		
Revenue bonds payable, current portion		375,000
Accrued interest on revenue bonds		1,745,515
Total current liabilities		3,897,819
Noncurrent liabilities:		
Notes payable		1,319,430
Revenue bonds payable		79,150,565
Unearned revenue		751,183
Total noncurrent liabilities		81,221,178
Total liabilities		85,118,997
Deferred Inflows of Resources		
Deferred revenue		368,780
Total deferred inflows of resources		368,780
Net Position		
Invested in capital assets		5,674,542
Restricted for:		
Debt service		375,953
Other purposes		2,826,887
Unrestricted		346,313,287
Total net position		355,190,669
Total liabilities and net position	$	440,678,446

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
Year Ended August 31, 2023

Operating Revenues:		
Interest and investment income	$	3,533,539
Net increase (decrease) in fair value of investments		(1,484,229)
Single family income		81,010,057
Asset oversight and compliance fees		357,306
Rental program income		980,996
Multifamily income		645,588
Land bank income		157,368
Public support:		
Federal and state grants		1,042,820
Contributions		246,516
Other operating revenue		45,444
Total operating revenues	$	86,535,405
Operating Expenses:		
Interest expense on bonds and notes payable	$	2,157,782
Program and loan administration		1,767,070
Texas Foundations Fund and miscellaneous grants		1,052,000
Salaries, wages and payroll related costs		4,556,075
Professional fees and services		452,065
Depreciation and amortization		23,803,573
Office expense and maintenance		155,484
Travel and meals		111,013
Other operating expenses		863,557
Total operating expenses		34,918,619
Net income		51,616,786
Total net position, beginning		303,573,883
Total net position, ending	$	355,190,669

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

Texas State Affordable Housing Corporation

Statement of Cash Flows
Year Ended August 31, 2023

Cash Flows from Operating Activities	
Receipts from customers and users	$ 20,273,332
Payments to employees	(3,524,232)
Payments of benefits and other payroll related costs	(1,031,842)
Payments to suppliers of goods and services	(10,648,033)
Net cash provided by operating activities	5,069,225
Cash Flows from Non-Capital Financing Activities	
Payments of principal and interest on notes payable	(136,078)
Proceeds from bonds payable	62,854,527
Payments of principal and interest related to bond maturities and calls	(2,705,203)
Net cash provided by non-capital financing activities	60,013,246
Cash Flows from Capital and Related Financing Activities	
Payments for additions to capital assets	(104,140)
Purchase and rehabilitation of single family homes under Rental Program	(6,479,739)
Sale of single family homes under ACT Program	1,015,796
Rehabilitation of single family homes under ACT Program	(1,696,425)
Rehabilitation of multifamily apartments	(99,682)
Rehabilitation of office building	(92,046)
Net cash used in capital and related financing activities	(7,456,236)
Cash Flows from Investing Activities	
Proceeds from sale and maturities of restricted investments	1,649,962
Purchase of restricted investments	(58,408,911)
Proceeds from sale of unrestricted investments	8,885,869
Purchase of unrestricted investments	(3,243,599)
Interest earned on investments	1,203,772
Net cash used in investing activities	(49,912,907)
Net increase in cash and cash equivalents	7,713,328
Cash and cash equivalents at beginning of year	12,476,045
Cash and cash equivalents at end of year	$ 20,189,373

(continued)

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

Statement of Cash Flows (continued)
Year Ended August 31, 2023

Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Net income	$	51,616,786
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization expense		23,803,573
Unrealized loss on investments		1,484,229
Gain on sale of property		(138,791)
Provision for estimated losses and chargeoffs		25,439
In-kind grants		(41,359)
Amortization of down payment assistance		132,074
Amortization of bond premium		(54,116)
Changes in current assets and liabilities:		
Increase in accounts receivable and accrued revenue		(753,009)
Decrease in accrued interest receivable		42,334
Decrease in loans receivable		53,079
Increase in notes receivable		(69,500,687)
Increase in lease receivable		(45,593)
Increase in down payment assistance loans		(2,204,282)
Decrease in prepaid expenses		114,722
Increase in accounts payable and accrued expenses		12,109
Increase in accrued interest payable on bonds		1,409,240
Decrease in deferred revenue and other liabilities		(886,523)
Net cash provided by operating activities	$	5,069,225
Supplemental Disclosure of Noncash Transactions:		
Debt forgiven - Single Family Program 2nd Liens	$	22,990,589
Debt forgiven - Affordable Communities of Texas Veterans' Program	$	129,748
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.

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 also has component units, and these financial statements present the Corporation and its component units in accordance with generally accepted accounting principles. Component units are entities for which the Corporation is considered to be financially accountable. The component units discussed below are included in the Corporation's reporting entity because of the nature and significance of their operational or financial relationships with the Corporation. The component units are considered to be blended component units which, although legally separate entities, are in substance part of the Corporation's operations and thus the data from these component units is combined with data from the Corporation. Separate financial statements are not prepared for the blended component units.

The blended component units include Plano-DMA TSAHC Housing, LLC, TSAHC Park on 14th, LLC, TSAHC MF-GC, LLC, and TSAHC Juniper Creek, LLC. Descriptions of the blended component units are as follows:

Plano-DMA TSAHC Housing, LLC **-**This entity was created with the purpose of developing affordable housing associated with a project that will start development during the fiscal year ended August 31, 2024. TSAHC Park on 14th, LLC serves as the managing member (TSAHC Park on 14th, LLC is managed by the Corporation). There was no activity for this entity during the year ended August 31, 2023.

TSAHC Park on 14th, LLC **-** This entity was created with the purpose of developing affordable housing associated with a project that will start development during the fiscal year ended August 31, 2024. The Corporation serves as the managing member.

TSAHC MF-GC, LLC **-** This entity was created with the purpose of developing affordable housing associated with a project that will start development during the fiscal year ended August 31, 2024. The Corporation serves as the managing member. There was no activity for this entity during the year ended August 31, 2023.

TSAHC Juniper Creek, LLC **-** This entity was created with the purpose of developing affordable housing associated with a project that will start development during the fiscal year ended August 31, 2024. The Corporation serves as the managing member.

Dissolution of Entity - The Corporation is subject to Chapter 325 of the *Texas Government Code* (the "Texas Sunset Act"). Unless continued in existence as provided by the Texas Sunset Act, the Corporation will be abolished effective September 1, 2027.

Upon dissolution of the Corporation, title to or other interest in real or personal property or rights thereto owned by the Corporation shall be transferred pursuant to Chapter 2306, Subchapter Y of the Government Code.

Basis of Presentation - The accompanying financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles as prescribed by GASB. The Corporation presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. For financial reporting purposes, the Corporation is considered a special purpose government.

Corporate Lines of Business

Servicing Operations - Servicing consists of the Corporation's activities as Master Servicer for the Texas Department of Housing and Community Affairs' (the "Department" or "TDHCA") single-family mortgage revenue bond program issues 52, 53, and 54, and servicer of the Corporation's own portfolio of single and multifamily loans. The Corporation subcontracts the servicing related to the Department's single-family mortgage revenue bond programs.

Asset Oversight and Compliance - These operations are used to account for asset oversight and compliance monitoring activities performed by the Corporation for multifamily bond properties for which the Corporation acted as conduit issuer.

Single Family Bond Program - Through the Single-Family Bond Program (SFB Program) the Corporation provides below market 30-year fixed rate mortgage loans to eligible first-time homebuyers through the issuance of tax-exempt single-family mortgage revenue bonds. The Corporation's SFB Programs provide down payment and closing cost assistance to the borrower in the form of a grant in an amount up to 5% of the loan amount.

Single Family Mortgage Credit Certificate Program - The Corporation also offers a single-family Mortgage Credit Certificate Program (the "MCC Program"). Under the MCC Program, qualified homebuyers are eligible to take a portion of the annual interest paid on their mortgage as a special tax credit, up to $2,000, each year that they occupy the home as their principal residence.

Single Family TBA Program - Under the TBA Program, the Corporation finances first-lien mortgage loans to enable qualified borrowers to purchase single family residences in the State of Texas. The TBA program is a non-bond financing program which utilizes the conventional loan market through a third-party provider (the "TBA provider"). The TBA provider agrees to purchase mortgage loans (which have been pooled and securitized into mortgage-backed securities) from the Corporation for a period of approximately 90 to 120 days, at a specified price based on the interest rate of the mortgage loan. The TBA provider provides pricing each day based on market fluctuations in interest rates. The program is referred to as TBA (to be announced) because the specific mortgage-backed security to be delivered is not known at the time the trade is initially made but is "to be announced" at a later date before the trade is settled.

Affordable Communities of Texas - Using its statutory authority to own property tax-free, the Corporation has created the Affordable Communities of Texas Program (the "ACT Program") which is the first statewide land bank and land trust program in Texas. The land bank provides for the acquisition and temporary holding (up to ten years) of land or buildings for the purpose of redeveloping the properties for affordable housing. The land trust provides for the acquisition and long-term holding of land or buildings for the purpose of redevelopment for affordable housing. A property held by the land trust will be owned in perpetuity by the Corporation and leased for residential housing that benefits low-income households. The ACT Program is financed by the Corporation utilizing federal and private funding along with property donations.

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

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

Multifamily 501(c)(3) Bond Program - The Corporation acts as a conduit issuer of multifamily mortgage revenue bonds for qualified 501(c)(3) owners of multifamily housing developments. Each multifamily property owner must agree to restrict a certain number of 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 2023 program year, the amount available for issuance was approximately $95 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.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. Total net position is unchanged due to these reclassifications.

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, 2023 the premium related to the SFB Programs totaled approximately $3,356,000. Bond premium amortization during fiscal year 2023 totaled approximately $54,000.

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

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

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

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

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

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

Purchased Mortgage Servicing Rights - Purchase Mortgage Servicing Rights are recorded at cost and are amortized in relation to the remaining value of the related mortgage balances at the end of each period so that the value of the servicing rights equals the same percentage of the outstanding mortgage balance as when originally purchased. Amortization expense for fiscal year 2023 was approximately $22,000; accumulated amortization as of August 31, 2023 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, 2023 was approximately $418,000.

Reserve and Custodial Accounts - The Corporation holds certain cash reserves totaling approximately $161,000 as of August 31, 2023 for the benefit of three multifamily projects that are financed by the Corporation.

Leases - The Corporation is a lessor for noncancellable leases of buildings. The Corporation recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Corporation initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term.

The key estimates and judgements related to leases include how the Corporation determines the discount rate used to discount the expected lease receipts to present value, lease term, and lease receipts. The Corporation uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease and lease receipts included in the measurement of the lease receivable are comprised of fixed payments from the lessee.

The Corporation monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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, 2023, the Corporation implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of GASB Statement No. 96 is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for subscription-based information technology arrangements ("SBITAs"), improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The adoption did not have an impact on the Corporation's statement of net position or statement of revenues, expenses and changes in net position as the Corporation did not have any significant SBITAs.

2. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents - Cash and cash equivalents at August 31, 2023 consisted of bank deposits totaling $12,448,987.

Restricted cash and cash equivalents at August 31, 2023 totaled $7,740,386. The bond trustee maintained $4,750,920 in money market mutual funds. The Corporation held $2,828,017 in a checking account, which were restricted grant funds. The Corporation also maintained three custodial accounts with a combined total of $161,449 pledged as reserves on three multifamily projects. These funds were maintained in interest bearing demand accounts.

The Corporation funded two component units during the fiscal year ending August 31, 2023. TSAHC Park on 14th, LLC held unrestricted cash and cash equivalents of $5,613,592. TSAHC Juniper Creek, LLC held unrestricted cash and cash equivalents of $10,000. These entities place its cash and cash equivalents with a limited number of high-quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

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 the 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, 2023, the *securities* to be priced in the portfolio are:

	Level 1	Level 2	Level 3	Total
US Agency Obligations	$ 26,771,232	$ -	$ -	$ 26,771,232
US Treasury Obligations	7,253,125	-	-	7,253,125
US Agency MBS	-	6,460,320	-	6,460,320
Total Fair Value	$ 34,024,357	$ 6,460,320	$ -	$ 40,484,677
Investments not subject to GASB 72				-
Total Unrestricted Investments				$ 40,484,677

The Corporation's unrestricted investments consisted of the following at August 31, 2023:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Gain/(Loss)
Treasury Note	1.656%	$ 4,871,036	$ 4,845,703	$ (25,333)
FFCB Call Note	0.317%	2,497,214	2,484,357	(12,857)
FFCB Call Note	0.371%	2,496,875	2,424,001	(72,874)
FHLB Call Note	0.400%	3,000,000	2,885,002	(114,998)
FHLB Call Note	0.400%	3,000,000	2,876,749	(123,251)
FHLB Call Note	0.500%	2,350,000	2,251,320	(98,680)
FHLB Call Note	0.500%	3,000,000	2,874,025	(125,975)
FHLB Call Note	0.475%	2,500,000	2,500,000	-
Total Short Term Investments		23,715,125	23,141,157	(573,968)
Pass through securities GNMA - 10/20/2034	5.99%	1843	1,897	54
Pass through securities GNMA - 2036-2042	3.50 - 6.10%	6,066,232	5,742,920	(323,313)
Pass through securities FNMA - 2035-2037*	5.49 - 5.75%	191,084	189,197	(1,887)
Pass through securities FHLMC - 2036-2038*	5.49 - 6.10%	528,008	526,307	(1,701)
Treasury Note	2.904%	2,484,951	2,407,422	(77,529)
FHLB Note	3.704%	1,018,148	982,342	(35,806)
FHLB Call Note	1.000%	3,000,000	2,836,138	(163,862)
FHLB Call Note	2.000%	2,500,000	2,379,077	(120,923)
FHLMC Call Note	4.655%	2,225,451	2,278,220	52,769
Total Long Term Investments		$ 18,015,717	$ 17,343,520	$ (672,198)
Total Investments		$ 41,730,842	$ 40,484,677	$ (1,246,166)

*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, 2023, the restricted *securities* to be priced in the portfolio were as follows:

	Level 1	Level 2	Level 3	Total
US Agency MBS	$ -	$ 74,162,098	$ -	$ 74,162,098
Total Fair Value	$ -	$ 74,162,098	$ -	$ 74,162,098
Investments not subject to GASB 72				-
Total Restricted Investments				$ 74,162,098

The Corporation's restricted investments held by bond trustee consisted of the following at August 31, 2023:

Description/Maturity	Interest Rate	Cost	Fair Market Value	Unrealized Loss
GNMA Investments - 2040/2041	4.0-4.75%	$ 5,678,086	$ 5,499,657	$ (178,429)
GNMA Investments - 2049	4.3-4.8%	11,469,967	11,171,504	(298,463)
GNMA Investments - 2053	5.25%	58,206,986	57,490,937	(716,049)
Total Investments		$ 75,355,039	$ 74,162,098	$ (1,192,941)

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

Single Family Mortgage Revenue Bonds Series 2011A,2013A	$ 273,434
Single Family Mortgage Revenue Bonds Series 2019A	544,138
Single Family Mortgage Revenue Bonds Series 2023A	744,352
	$ 1,561,924

Compared to the prior fiscal year, the fair value of investments held by the bond trustee as of August 31, 2023 has increased by approximately $55.2 million. The Corporation follows GASB Statement No. 31 and 72, whereby investments are required to be reported at fair value at the statement of net position date rather than at cost, except for money-market investments and participating interest-earning investment contracts and certain external investment pools, which may be reported at fair value or at amortized cost, provided that the fair value of these investments are not significantly affected by the impairment of the credit standing of the issuer or by other factors. In addition, GASB Statement No. 31 also affects the way in which unrealized gains and losses are recognized for financial reporting purposes.

The Corporation holds approximately $74.2 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 $75.4 million and unrealized loss of approximately $1.2 million as of August 31, 2023. 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 2015, the Corporation received surplus funds from a bond buy-back and established a separate portfolio ("Surplus Funds") with the same authorized investments but a longer maximum maturity of 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, 2023, holdings in the General Portfolio and Surplus Portfolio had total fair market values of $43,978,793 and $6,458,423 respectively and included:

- Investment in a FHLB money market mutual fund represented 3.44% of the total portfolio,

- holdings in US Treasury securities represented 14.38% of the total portfolio,

- holdings in state and local debt obligations represented 0.00% of the total portfolio,

- A1/P1 commercial paper represented 0.00% of the total portfolio,

- holdings in a AAA-rated local government pool represented 10.96% of the total portfolio,

- holdings in US mortgage-backed securities represented 12.81% of the General Portfolio + Surplus Portfolio,

- holdings in collateralized or insured bank accounts represented 5.33% of the total portfolio, and

- holdings in US Government agency securities represented 53.08% 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. The Surplus Fund as a stand-alone portfolio has a maximum weighted average portfolio limitation of thirty (30) years.

In the total portfolio certificates of deposit are restricted to a maturity of one (1) year and commercial paper 270 days. On February 17, 2011, 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 October 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, 2023, 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 281 days.

The Surplus Funds portfolio had a dollar weighted average maturity of 5,421 days and the longest security was 6,832 days.

As of August 31, 2023, the general portfolio contained eleven (11) US agency structured notes (callable) which might be affected by interest rate risk. Their total fair market value was $26,771,232.

As of August 31, 2023, 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, 2023:

- 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, 2023 were as follows:

Loans Receivable at September 1, 2022	$ 283,713
Additions	-
Paydowns	(52,291)
Loans Receivable at August 31, 2023	231,422
Allowance for possible loan losses	(10,183)
Net Balance at August 31, 2023	$ 221,239

The current portion of loans receivable at August 31, 2023 was $52,361; the remaining balance of $168,878 is classified as noncurrent loans receivable.

The activity for allowance for possible loan losses for fiscal year 2023 was as follows:

Balance at September 1, 2022	$ (9,395)
Current Year Decreases	-
Loss Applied to the Allowance	(788)
Balance at August 31, 2023	$ (10,183)

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, 2023 was as follows:

Balance at September 1, 2022	$ 229,314,662
Additions	79,163,891
Collections	(9,714,715)
Accumulated Amortization	(23,106,327)
Balance at August 31, 2023	275,657,511
Allowance for possible losses	(430,260)
Net balance at August 31, 2023	$ 275,227,251

The current portion of notes receivable at August 31, 2023 is $122,057,113; the remaining balance of $153,170,138 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 2023 is as follows:

Balance at September 1, 2022	$ 413,326
Current year increase	16,934
Loss applied to the allowance	-
Balance at August 31, 2023	$ 430,260

5. Capital Assets

Capital assets activity for the year ended August 31, 2023 consisted of the following:

	Cost or Basis In Property			
	Balance September 1, 2022	Additions	Deletions	Balance August 31, 2023
Land	$ 1,248,001	$ -	$ -	$ 1,248,001
Building	4,566,846	10,857	-	4,577,703
Vehicles	29,738	-	-	29,738
Furniture & Fixtures	789,578	93,283	-	882,861
Total	$ 6,634,163	$ 104,140	$ -	$ 6,738,303

	Accumulated Depreciation			
	Balance September 1, 2022	Additions	Deletions	Balance August 31, 2023
Building	$ 248,865	$ 150,107	$ -	$ 398,972
Vehicles	5,154	2,474	-	7,628
Furniture & Fixtures	581,388	75,773	-	657,161
Total	$ 835,407	$ 228,354	$ -	$ 1,063,761

Capital assets, less accumulated depreciation, at August 31, 2023 totaled $5,674,542.

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 five agreements with tenants for the lease of office space at three properties owned by the Corporation. For the year ended August 31, 2023, the Corporation reported lease revenue of $169,061 and interest revenue of $9,963 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. The Corporation receives monthly payments and there are no renewal options or termination clauses within the lease agreement.

6978 Saga Drive - On August 22, 2023, the Corporation acquired this property and assumed a lease that was entered into with a tenant for a single family home ending January 16, 2025. The Corporation receives monthly payments and the lease will automatically renew on a month-to-month basis at the end of the initial lease term unless notice of termination is provided within thirty days of the end of the initial lease term or subsequent renewal period.

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, 2023 was as follows:

Balance at September 1, 2022	$ 241,129
Deposits	37,852
Disbursements	(117,532)
Balance at August 31, 2023	$ 161,449

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 2023 totaled $15,843. The remaining deferred revenue for this portfolio was $118,176 at August 31, 2023.

The Corporation recorded deferred inflows of resources related to the lease agreements discussed in Note 7. Revenue recognized during fiscal year 2022 totaled $169,061. The remaining deferred inflows of resources related to these lease agreements was $250,604 at August 31, 2023.

The prepaid issuer fees from twenty-nine (29) multifamily bond portfolios are recognized as income throughout the year. As of August 31, 2023, unearned revenue related to these properties totaled $354,815.

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 $32,400 was earned in the fiscal year ended August 31, 2023.

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 $975,000 was earned in the fiscal year ended August 31, 2023.

A summary of deferred inflows of resources and unearned revenue activity for fiscal year 2023 was as follows:

	Deferred Inflows of Resources	Unearned Revenue
Balance at September 1, 2022	$ 350,464	$ 1,636,397
Additions	203,220	1,250,835
Revenue Earned	(169,061)	(2,136,049)
Loan Payments Received	(15,843)	-
Balance at August 31, 2023	$ 368,780	$ 751,183

10. Notes Payable

As of August 31, 2023, 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.	$	231,840
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.		368,852
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.		594,440
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	$	2,070,132
Current Portion of Notes Payable		750,702
Noncurrent Notes Payable	$	1,319,430

The summary of notes payable activity for the year ended August 31, 2023 was as follows:

Balance at September 1, 2022	$	2,134,752
Advances		-
Repayments		(64,620)
Balance at August 31, 2023	$	2,070,132

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

Year Ended August 31,		Principal		Interest		Total
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	$	2,070,132	$	85,464	$	2,155,596

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, 2023.

On February 28, 2023, the Corporation issued $60,000,000 in Single Family Mortgage Revenue bonds to make funds available to finance qualifying mortgage loans for single family residences located in the State of Texas. The net proceeds of $64,198,872 (after the Corporation's financial contribution of $1,666,131 and payment of $640,726 in underwriting fees and other issuance costs) were invested by the Corporation to fund future qualifying mortgage loans.

Description	Interest Rate	Bonds Outstanding 9/1/22	Bonds Issued	Bonds Matured/ Retired	Bonds Refunded/ Extinguished	Bonds Outstanding 8/31/23	Amounts Due Within One Year
Single Family 2019							
Series 2019A	Var	$ 12,740,000	$ -	$ (1,160,000)	$ -	$ 11,580,000	$ 225,000
Single Family 2023							
Series 2023A	Var	-	60,000,000	(75,000)	-	59,925,000	-
Single Family 2009-2013							
Series 2011A	Var	1,210,000	-	(310,000)	-	900,000	150,000
Series 2009/2011B	Var	-	-	-	-	-	-
Series 2013A	Var	4,280,000	-	(515,000)	-	3,765,000	-
Total Principal		$ 18,230,000	$ 60,000,000	$ (2,060,000)	$ -	$ 76,170,000	$ 375,000
Unamortized Premium		555,154				3,355,565	
Total		$ 18,785,154				$ 79,525,565	

The current portion of bonds payable at August 31, 2023 was $375,000. The remaining balance of $79,150,565 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
2024	$ 375,000	$ 3,389,311	$ 3,764,311
2025	1,310,000	3,344,778	4,654,778
2026	1,380,000	3,297,378	4,677,378
2027	1,425,000	3,246,495	4,671,495
2028	1,515,000	3,193,209	4,708,209
2029 thru 2033	8,250,000	15,091,005	23,341,005
2034 thru 2038	10,765,000	13,351,057	24,116,057
2039 thru 2043	13,630,000	10,795,518	24,425,518
2044 thru 2048	16,510,000	7,467,335	23,977,335
2049 thru 2053	18,855,000	3,190,159	22,045,159
2054 thru 2058	2,155,000	59,263	2,214,263
Total	$ 76,170,000	$ 66,425,508	$ 142,595,508

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 2023, the debt service requirement equaled $2,060,000 in bond principal and $731,475 in bond interest expense, totaling $2,791,475. As of August 31, 2023, pledged revenue totaled $7,949,978.

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, 2023, the MCC Program revenue totaled approximately $1,417,000 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, 2023, the Corporation made Foundations Fund grants totaling $1,002,000.

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, 2023, 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, 2023, second lien notes receivable, net amortization, totaled $264,353,801.

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, 2023, were $100,262.

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 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 $95 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, 2023, there were twenty-eight series of multifamily housing revenue bonds outstanding with an aggregate principal amount payable of approximately $465.4 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 Grant Management Standards through August 31, 2023, 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. Condensed Component Unit Information

Condensed component unit information for TSAHC Park on 14th, LLC and TSAHC Juniper Creek, LLC, the Corporation's blended component units, for the year ended August 31, 2023, is as follows:

TSAHC Park on 14th, LLC:

Condensed Statement of Net Position

Assets-	
Current assets	$ 5,613,592
Net position-	
Unrestricted	$ 5,613,592

Condensed Statement of Revenues, Expenses, and Changes in Net Position

Capital contributions	$ 5,613,592
Net income	5,613,592
Total net position, beginning	-
Total net position, ending	$ 5,613,592

Condensed Statement of Cash Flows

Net cash provided by-	
Capital and related financing activities	$ 5,613,592
Net increase in cash and cash equivalents	5,613,592
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	$ 5,613,592

TSAHC Juniper Creek, LLC:

Condensed Statement of Net Position

Assets-	
Current assets	$ 10,000
Net position-	
Unrestricted	$ 10,000

Condensed Statement of Revenues, Expenses, and Changes in Net Position

Capital contributions	$ 10,000
Net income	10,000
Total net position, beginning	-
Total net position, ending	$ 10,000

Condensed Statement of Cash Flows

Net cash provided by-	
Capital and related financing activities	$ 10,000
Net increase in cash and cash equivalents	10,000
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	$ 10,000

21. Non-Cash Contributions

During the year ended August 31, 2023, Google, Inc. made an in-kind donation of $41,359 for advertising.

22. 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, 2023 and for the year then ended is as follows:

Summary Financial Information	Amount
Operating revenue	$ 86,535,405
Depreciation and amortization	23,803,573
Net income	51,616,786
Net working capital*	163,956,916
Total assets	440,678,446
Total net position	355,190,669
Noncurrent notes payable	1,319,430
Noncurrent bonds payable	79,150,565
Deferred inflows of resources	368,780
Unearned revenue	751,183
Capital asset additions	104,140

* Net Working Capital Calculation	Amount
Unrestricted cash and cash equivalents	$ 12,448,987
Restricted assets	7,784,206
Investments, short-term	23,141,157
Accounts receivable and accrued revenue	1,607,600
Accrued interest receivable	201,215
Loans receivable, current portion	52,361
Notes receivable, current portion	122,057,113
Lease receivable, current portion	151,053
Downpayment assistance, current portion	132,074
Prepaid expenses	278,969
Payables:	
Accounts payable and accrued expenses	(632,780)
Notes payable, current portion	(750,702)
Custodial reserve funds	(161,449)
Other current liabilities	(232,373)
Bonds payable and accrued interest on bonds, current portion	(2,120,515)
Total net working capital	$ 163,956,916

Other
Supplemental Information

Texas State Affordable Housing Corporation

Schedule of Revenues and Expenses by Activity
Year Ended August 31, 2023

	Single Family	Multi Family	ACT/NSP	Asset Management	Other	Total
Revenues						
Interest and Investment Income	$ 2,396,525	$ 290,438	$ -	$ 9,963	$ 836,613	$ 3,533,539
Net Increase (Decrease) in Fair Value of Investments	(1,484,229)	-	-	-	-	(1,484,229)
Single Family Income	81,010,057	-	-	-	-	81,010,057
Federal and State Grants	-	1,042,820	-	-	-	1,042,820
Other Operating Revenue	235,835	643,861	158,326	1,340,764	54,432	2,433,218
Total Revenues	82,158,188	1,977,119	158,326	1,350,727	891,045	86,535,405
Expenses						
Interest Expense on Bonds and Notes Payable	2,089,099	58,683	10,000	-	-	2,157,782
Salaries, Wages and Payroll Related Costs	2,591,800	212,184	291,109	784,112	676,870	4,556,075
Grant Expenditures	1,052,000	-	-	-	-	1,052,000
Amortization	22,990,589	37,500	129,748	-	22,240	23,180,077
Other Expenditures	2,647,370	118,718	129,819	852,048	224,730	3,972,685
Total Expenses	31,370,858	427,085	560,676	1,636,160	923,840	34,918,619
Net Income						$ 51,616,786

This document is a draft for internal review and discussion and is not intended for external distribution.

Federal and State Awards

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

The Board of Directors of
Texas State Affordable Housing Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Texas State Affordable Housing Corporation (the "Corporation"), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November xx, 2023.

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.

Austin, Texas
November xx, 2023

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance and State of Texas 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 Grant Management Standards ("TxGMS") that could have a direct and material effect on each of Corporation's major federal and state programs for the year ended August 31, 2023. 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, 2023.

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 TxGMS. Our responsibilities under those standards, the Uniform Guidance, and TxGMS 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 TxGMS 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 TxGMS, 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 TxGMS, 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal and state program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Corporation's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Austin, Texas
November xx, 2023

Texas State Affordable Housing Corporation

Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2023

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	32,438
Total 21.011			3,594,938
Total U.S. Department of Treasury			3,594,938
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	35,382
Total U.S. Department of Health and Human Services			35,382
Total expenditures of federal awards			3,630,320
State Awards			
Texas Health and Human Services Commission			
Affordable Housing Partnership (AHP)	n/a	HHS000850100001	975,000
Total expenditures of state awards			975,000
Total expenditures of federal and state awards			$ 4,605,320

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, 2023. 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 Grant Management Standards ("TxGMS"). 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 TxGMS, 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, 2023 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, 2023.

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 TxGMS? ☒ 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: $750,000

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, 2023 and 2022.

Section III - Federal Award Findings and Questioned Costs

There was one finding required to be reported in accordance with 2 CFR 200.516(a) for the year ended August 31, 2023. There were no findings or questioned costs required to be reported in accordance with TxGMS for the year ended August 31, 2023. There were no findings or questioned costs required to be reported in accordance with 2 CFR 200.516(a) or TxGMS for the year ended August 31, 2022.

Finding Relating to Federal Awards Reported in Accordance with 2 CFR 200.516(a):

2023-001

Federal Program:	Capital Magnet Fund (CMF) – Assistance Listing #21.011 - Award #181CM050456; Passed through the Community Development Financial Institutions.
Criteria:	Pursuant to the terms of the grant agreement and in accordance with compliance requirements of Uniform Guidance, program income in the form of principal and equity repayments of the CMF Award earned during the Investment Period must be reinvested by the Corporation. The program income must be committed within twelve months of the end of the Corporation's fiscal year in which the Corporation received the program income.
Condition /Context:	As of August 31, 2023, the Corporation had not fully committed the program income that was received within the prior fiscal year.
Questioned Costs:	None
Effect:	Noncompliance with the Program Income requirements under Uniform Guidance.
Cause:	In order for the Corporation to commit funds with developers, the development projects much meet specific CMF grant qualifications. The Corporation was not able to fully commit the program income funds by the deadline, as the Corporation was still locating development projects that met all the CMF grant qualifications.

Section III - Federal Award Findings and Questioned Costs (continued)

Recommendations:	The Corporation should obtain an extension on the program income deadline from the granting agency, if possible, when the Corporation is unable to commit to development projects due to timing and CMF grant requirements.
Views of Responsible Officials and Planned Corrective Actions:	See Schedule of Corrective Action Plan

Schedule of Corrective Action Plan
(Auditee Prepared)

Year Ended August 31, 2023

Finding 2023-001

Planned Corrective Action: Beginning in March 2023, the Corporation alerted Capital Magnet Fund of a potential issue committing the required program income by August 31, 2023. The Corporation asked for an extension, but it was not granted. As of August 31, 2023, the Corporation was under committed by $700,000 and is working diligently to commit the funds to a qualified development as soon as possible.

For Questions: Katie Claflin, Senior Director of Communications and Development

Estimated Completion Date: March 26, 2024

November xx, 2023

Melinda Smith
Texas State Affordable Housing Corporation

We are pleased to report that we performed the audit of Texas State Affordable Housing Corporation (the "Corporation") as of and for the year ended August 31, 2023, and have issued our report thereon dated November xx, 2023. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an unmodified opinion on those financial statements.

In accordance with *Government Auditing Standards*, we also issued our report dated November xx, 2023 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

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

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

Sincerely,

Maxwell Locke & Ritter LLP