



November Board Meeting

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

Tuesday, November 14, 2023
10:30 a.m.

**TEXAS STATE AFFORDABLE HOUSING CORPORATION
BOARD MEETING
AGENDA**

**To be held at the offices of
Texas State Affordable Housing Corporation
6701 Shirley Avenue
Austin, Texas 78752**

**November 14, 2023
10:30 A.M.**

**CALL TO ORDER
ROLL CALL
CERTIFICATION OF QUORUM**

Bill Dietz, Chair

Pledge of Allegiance – **I pledge allegiance to the flag of the United States of America, and to the Republic for which it stands, one Nation under God, indivisible, with liberty and justice for all.**

Texas Allegiance – **Honor the Texas flag; I pledge allegiance to thee, Texas, one state under God, one and indivisible.**

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

PUBLIC COMMENT

PRESIDENT’S REPORT

David Long

Tab A: Homeownership Finance Report
Tab B: Development Finance Report
Tab C: Monthly Financial Reports

ACTION ITEMS IN OPEN MEETING:

- | | |
|-------|--|
| Tab 1 | Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on October 24, 2023. |
| Tab 2 | Presentation, Discussion and Possible Approval of the Annual Independent Financial Audit for the Fiscal Year Ending August 31, 2023. |
| Tab 3 | Presentation, Discussion and Possible Approval of a Resolution to Approve the Corporation’s Fiscal Year 2024 Investment Policy. |
| Tab 4 | Presentation, Discussion and Possible Approval of the Corporation’s Fiscal Year 2024 Broker Listing. |
| Tab 5 | Presentation, Discussion and Possible Approval of a Resolution Regarding Applications for Qualified Mortgage Bond Volume Cap related to Qualified Mortgage Bonds or Mortgage Credit Certificates Associated with 2022 Carryforward and 2023 Volume Allocation, the Conversion to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto. |
| Tab 6 | Presentation and Discussion of the Texas State Affordable Housing Corporation’s Fiscal Year 2023 and 2024 Strategic Plans. |

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

ACTION ITEMS IN OPEN MEETING:

Action in Open Meeting on Items Discussed in Closed Executive Session

ANNOUNCEMENTS AND CLOSING COMMENTS

ADJOURN

A Board member of the Corporation may participate in a Board meeting by video conference pursuant to Section 551.127 of the Texas Government Code. A quorum of the Board will meet at the Texas State Affordable Housing Corporation's headquarters located at 6701 Shirley Avenue., Austin Texas, 78752.

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.

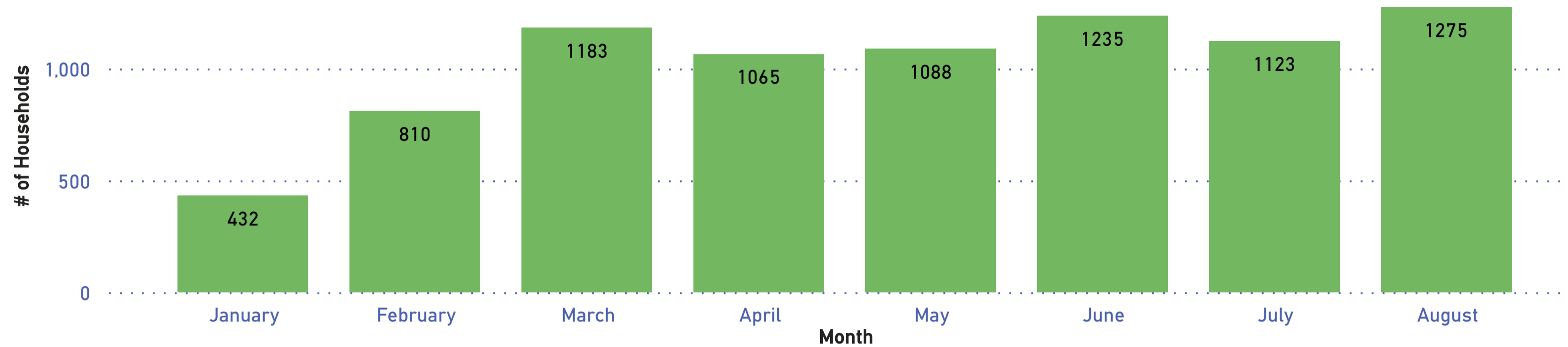
Section 46.035 of the Texas Penal Code prohibits handgun licensees from carrying their handguns at government meetings such as this one. This prohibition applies to both concealed carry and open carry by handgun licensees. Handgun licensees are required by law to refrain from carrying their handguns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

President's Report

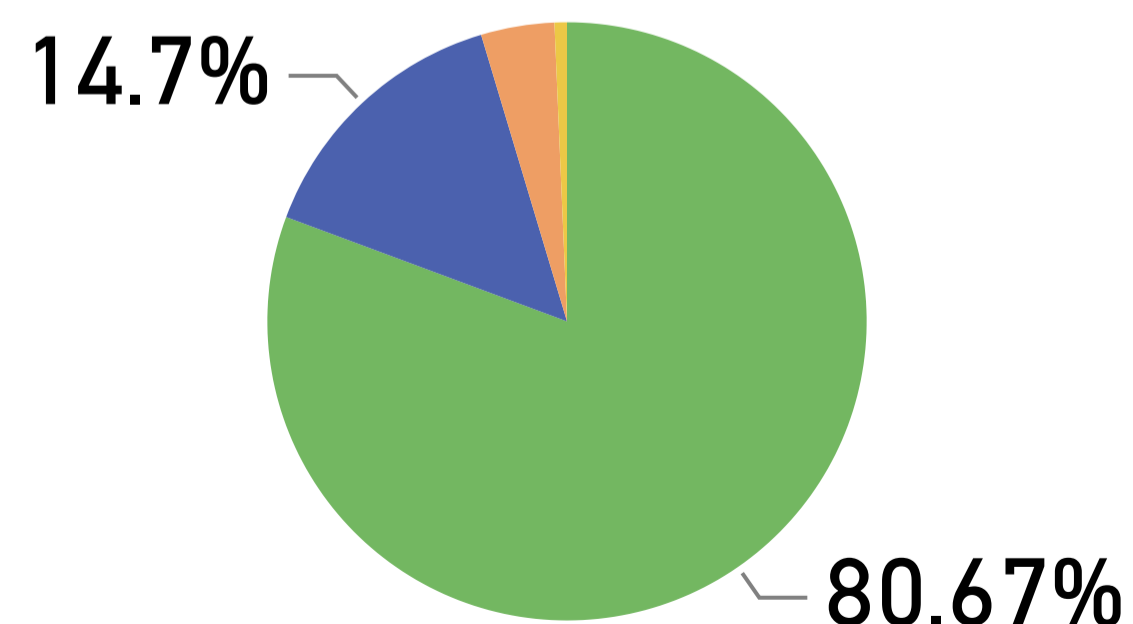
Tab A
Homeownership Finance Report

of Households by Month



Loan Type

- FHA - Purchase
- Conv. - Purch.
- VA - Purchase
- USDA-RHS Purch.



77.28K

Average Annual Income

244K

Average of Loan Amount

6.91%

Average Interest Rate

696

Average Credit Score

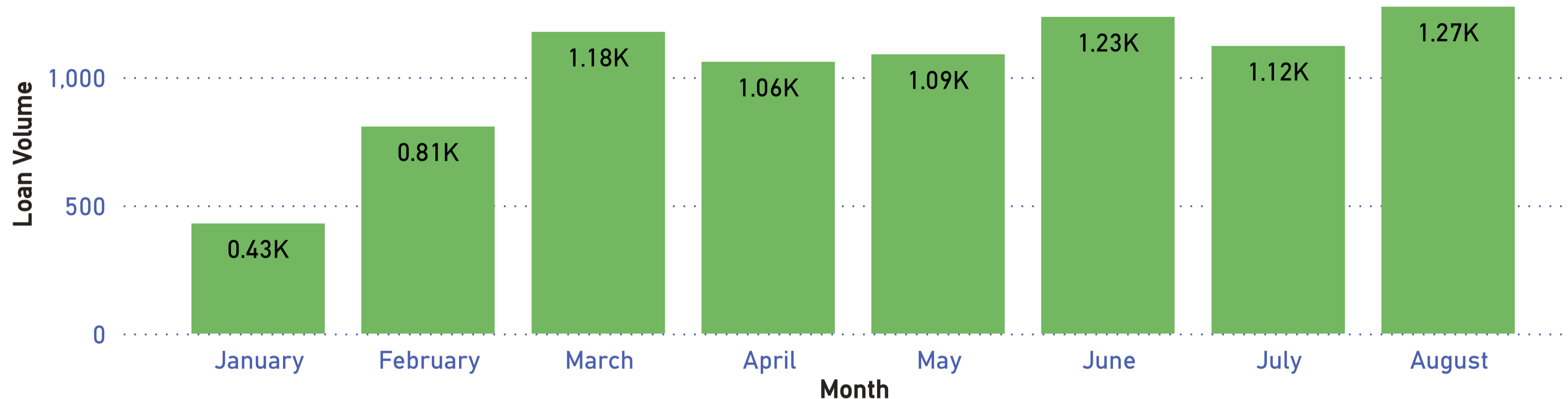
8211

Households Served

2

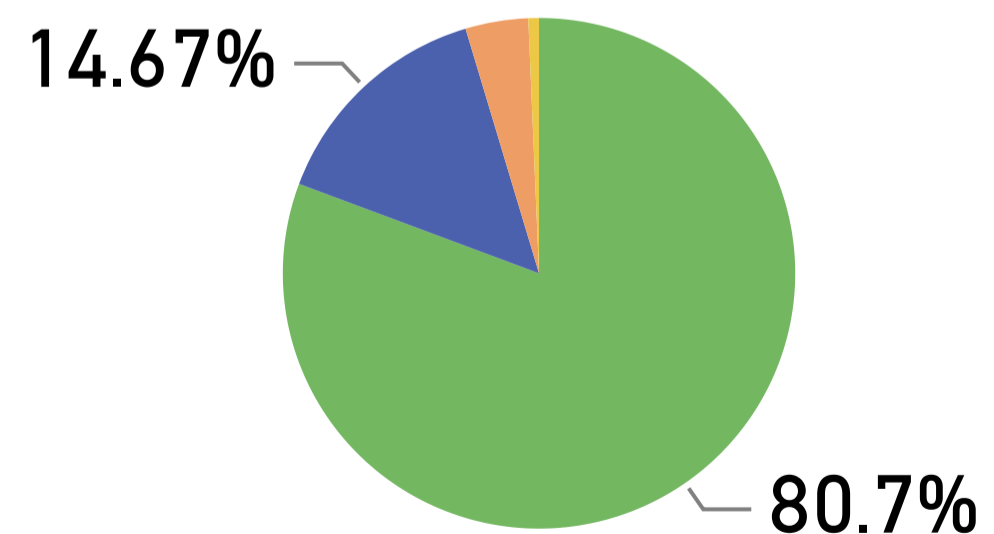
Average Household Size

Loan Volume by Month



Loan Type

- FHA - Purch...
- Conv. - Purch.
- VA - Purchase
- USDA-RHS ...



\$7,440.04

Average DPA Awarded

\$61,056,994

Total DPA Awarded

77.28K

Average Annual Income

244K

Average Loan Amount

2000M

Total Loan Volume

8206

Households Served

6.91%

Average Interest Rate

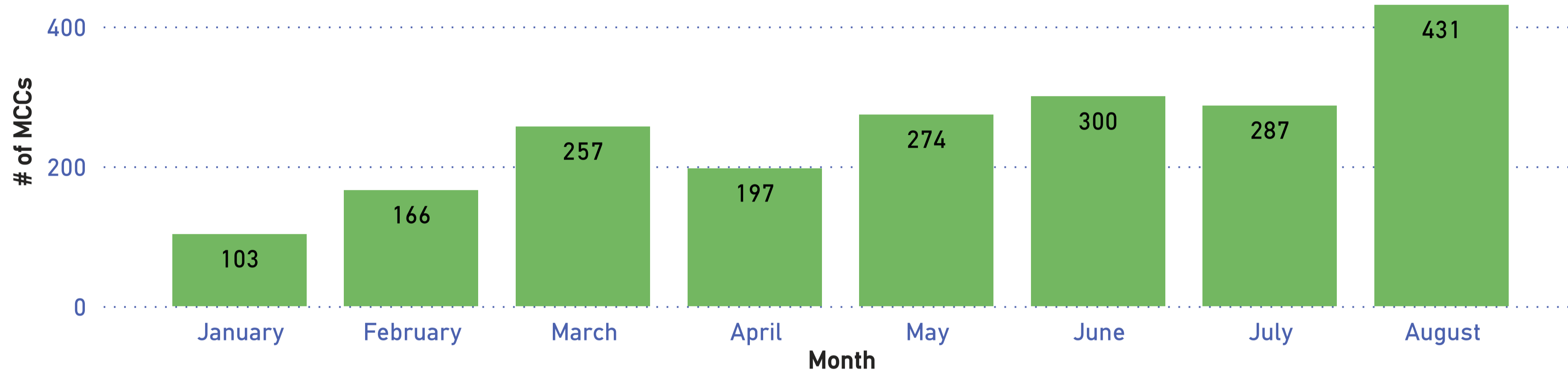
696

Average Credit Score

2

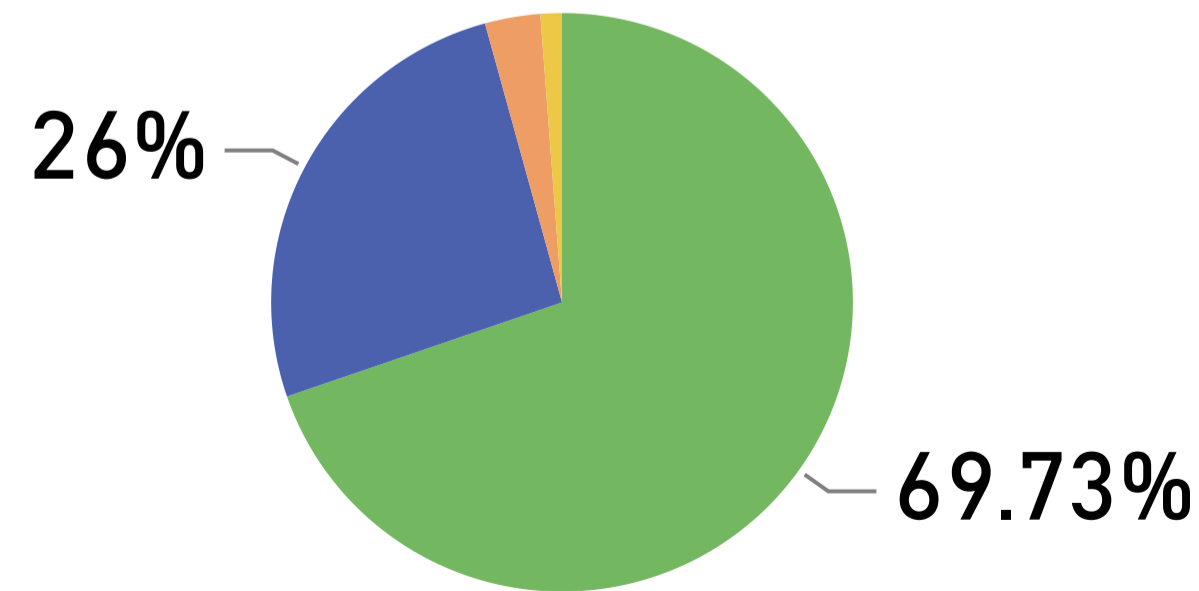
Average Household Size

of MCCs by Month



Loan Type

- FHA - Purchase
- Conv. - Purch.
- VA - Purchase
- USDA-RHS Purch.



68.65K

Average Annual Income

244K

Average of Loan Amount

6.60%

Average Interest Rate

703

Average Credit Score

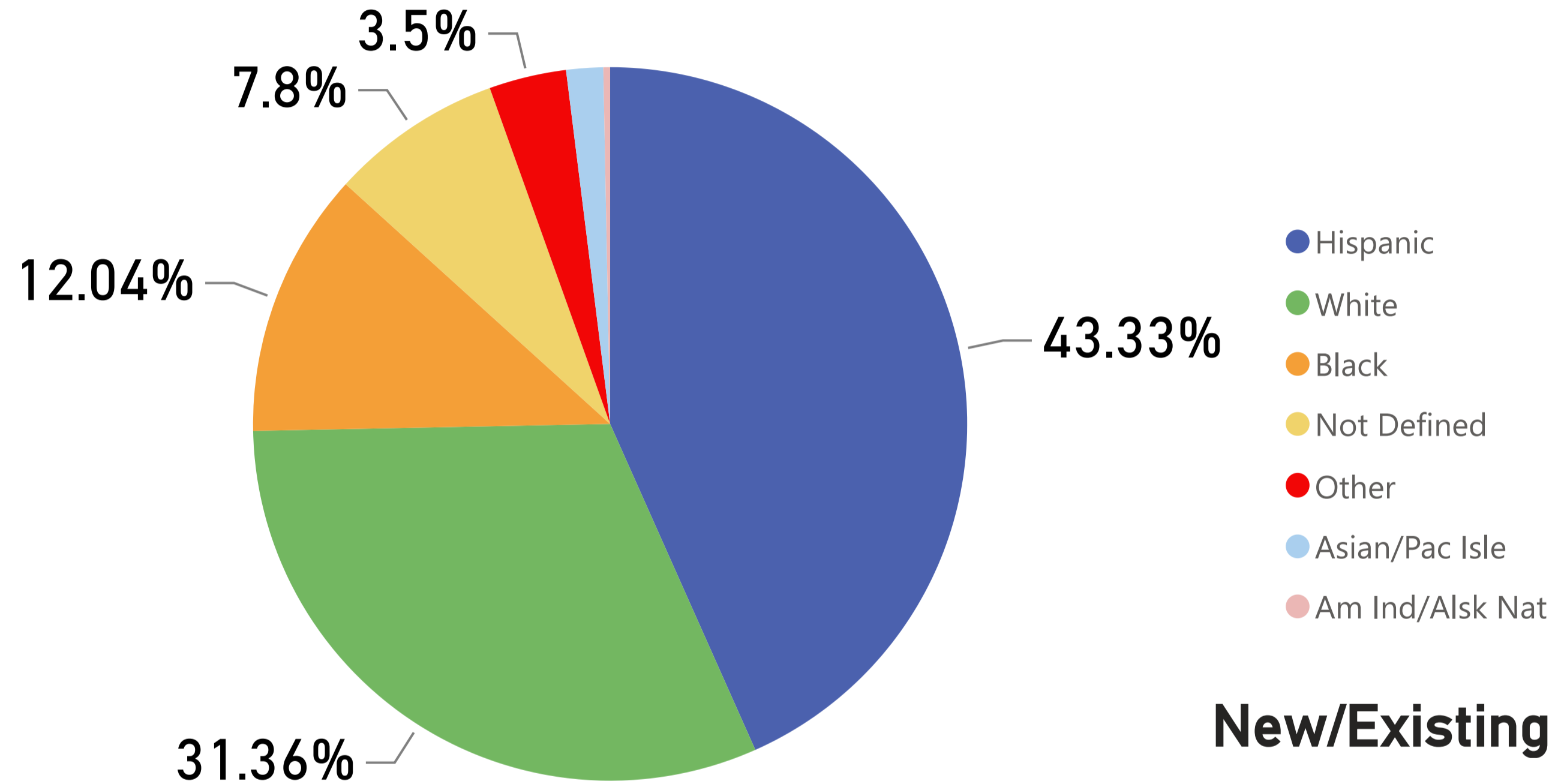
2015

Issued MCCs

2

Average Household Size

Household Ethnicity



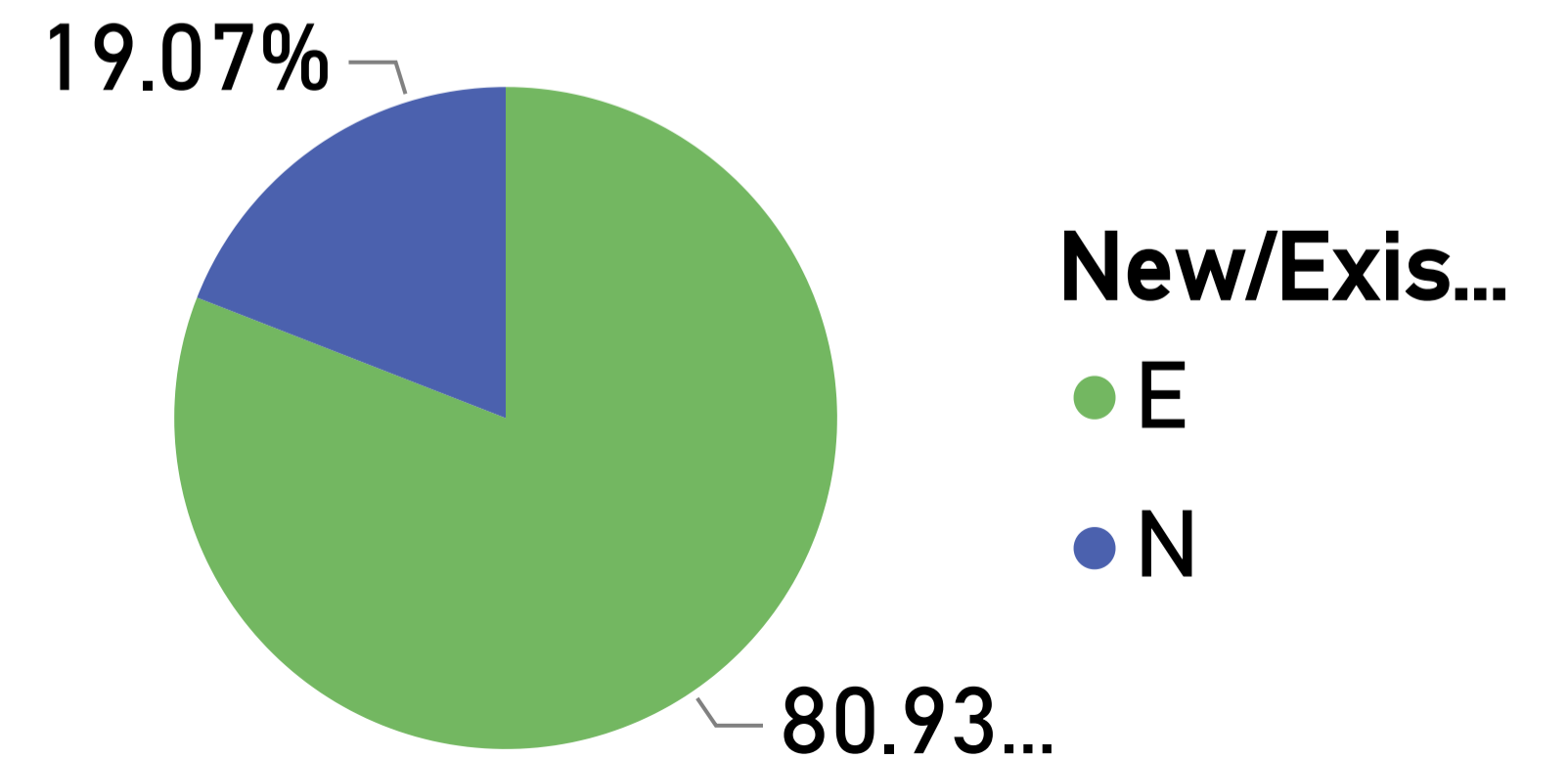
Professions

Occupation % of Total

Other	86.96%
Teacher	5.70%
Veteran	2.03%
Prof Nurse Fac	1.56%
Peace Officer	0.86%
Active Military	0.79%
Fire Fighter	0.45%
Public Sec Off	0.40%
Corrections Off	0.37%
EMS Personnel	0.28%
Teacher Aide	0.19%
Sch Counselor	0.16%
Allied Hlth Fac	0.11%
County Jailer	0.07%
School Nurse	0.04%
Sch Librarian	0.02%

Total 100.00%

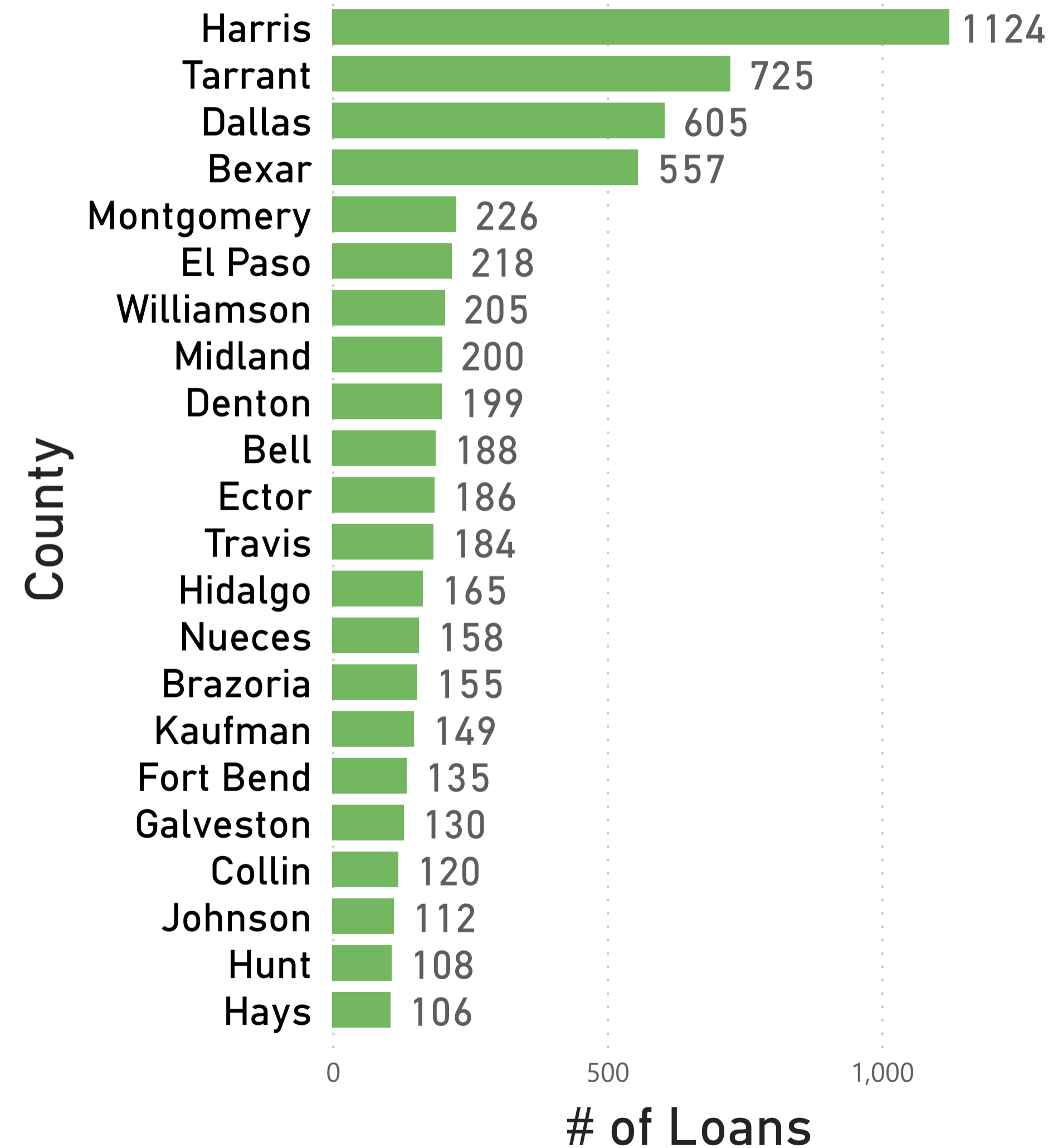
New/Existing Home



Top Lenders

Top Lenders	# of Loans
Everett Financial, dba Supreme Lending	620
Fairway Independent Mortgage Corporation	580
Cardinal Financial Company	344
CMG Mortgage, Inc. dba CMG Financial	308
Amcap Mortgage, LTD	292
Guaranteed Rate	284
Gateway Mortgage, a division of Gateway	244
PrimeLending	232
Crosscountry Mortgage, LLC	230
SFMC, LP dba Service First Mortgage Comp	219
Security National Mortgage Company	205
Guild Mortgage Company LLC	194
Mortgage Financial Services, LLC	168
T2 Financial dba Revolution Mortgage	163
loanDepot.com LLC	162
Cornerstone Home Lending	160
Nations Reliable Lending, LLC	134
KBHS Home Loan, LLC	129
Town Square Mortgage & Investments, LLC	125
Highlands Residential Mortgage	122
Ark-La-Tex Financial (Benchmark Mtg.)	120
DHI Mortgage Company, Ltd.	109
Academy Mortgage Corporation	105
Interlinc Mortgage Services, LLC	100
Total	6835

Top Originating Counties



Tab B
Development Finance Report

Texas State Affordable Housing Corporation

Development Finance Programs Report
November 2023

Affordable Communities of Texas Program (ACT)

There's a lot of ACT Program construction activity to report this month.

Construction is ramping up at the Mesquite Wood Subdivision with two homes permitted and prepped for start. Permits for the third home are pending approval from the City of Harlingen.

Construction progresses at 631 Carolina (San Antonio) with three homes now under construction. Building 1 is the furthest along and includes rough plumbing, mechanical systems, siding, exterior painting, and roofing.

The Park on 14th (Plano) is approximately 5% construction complete. Construction activity includes earth work, site, and utility preparations. Staff recently met on site with the construction superintendent and the HUD inspector in preparation of the first construction draw.

Construction progress at Juniper Creek (Austin) is on a similar timeline as the Park on 14th. Construction is roughly 5% complete to date as well.

Here is a summary of the past month's portfolio activity:

Program	Portfolio as of October 1, 2023	Transferred	Sold	Portfolio as of November 1, 2023	Current Portfolio Value
ACT Land Bank	34			34	\$2,218,633.12
ACT Land Trust	2			2	\$3,400,000
Totals	36			36	\$5,618,633.12

Our current pipeline report:

- 3 properties listed for sale
- 7 homes under construction
- 0 properties leased to Local Partner
- 23 properties in predevelopment
- 3 properties searching for a Local Partner
- 2 multifamily properties under construction
- 1 multifamily property in predevelopment

Texas Housing Impact Fund (THIF)

This month, staff is preparing to close a \$600,000 revolving line of credit loan with Legacy CDC and complete the re-sale of 603 S. 14th Street (Nederland) that will be financed with their new revolving line of credit. Legacy is adding three additional Port Arthur properties to their revolving line of credit at loan closing.

Texas State Affordable Housing Corporation

Development Finance Programs Report
November 2023

Multifamily Bond Program

The Norman Commons transaction continues to move forward and is scheduled to close during the first week of December. All funding sources are secured and final approvals for platting, permits and easements are scheduled to be complete by November 15th. This will be the final project to close from TSAHC's 2023 round of applications.

The 2024 application round is well underway. Staff has completed threshold and scoring reviews and is working with Bond Counsel to prepare inducement resolutions for the December Board meeting. The applications that we expect to bring to the board are:

Project	Application date	Status of App	Bond Amount	Allocation Yr
Bluffs at Nelms	10/2/2023	App Under Review	\$31,000,000	2024
Burleson Studios	10/2/2023	App Under Review	\$21,600,000	2024
Cairn Point at Montopolis	10/2/2023	App Under Review	\$23,500,000	2024
Mary Lee Portfolio	10/2/2023	App Under Review	\$28,000,000	2024
Total			\$104,100,000	

The Mary Lee Portfolio application is being amended due to technical issues with the proposed project. Although each property in the portfolio meets TSAHC's threshold criteria, there were technical aspects of the project's financing structure, pointed out by Bond Counsel, that required us to request changes. These changes may delay the project from inducement but should not impact the eventual issuance of bonds in 2024.

Tab C
Monthly Financial Reports

Texas State Affordable Housing Corporation

Statement of Net Position (unaudited) As of September 30, 2023

Assets

Current assets:

Cash and cash equivalents	\$	3,404,778
Pooled investments		5,124,142
Restricted assets:		
Cash and cash equivalents		4,609,272
Accrued interest		43,820
Investments, at fair value		23,141,157
Accounts receivable and accrued revenue		793,465
Accrued interest receivable		196,481
Loans receivable, current portion		52,361
Notes receivable, current portion		121,878,761
Downpayment assistance, current portion		132,074
Prepaid expenses		441,276

Total current assets 159,817,587

Noncurrent assets:

Loans receivable, Net of uncollectible amounts of \$10,183		165,678
Notes receivable, net of allowance for loss \$432,220		153,296,668
Lease Receivable		115,682
Investments, at fair market value		17,120,806
Mortgage servicing rights, net of accumulated amortization of \$2,649,596		78,465
Capital assets, net of accumulated depreciation of \$1,084,091		5,654,661
Owned real estate, net of depreciation of \$2,280,711		24,684,005
Downpayment assistance		2,586,132
Restricted investments held by bond trustee, at fair market value		73,422,244

Total noncurrent assets 277,124,341

Total assets \$ 436,941,928

(continued)

Texas State Affordable Housing Corporation

Statement of Net Position (unaudited) As of September 30, 2023

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 490,706
Notes payable, current portion	750,702
Custodial reserve funds	164,557
Other current liabilities	219,435
Payable from restricted assets held by bond trustee:	
Revenue bonds payable, current portion	375,000
Accrued interest on revenue bonds	290,919

Total current liabilities 2,291,319

Noncurrent liabilities:

Notes payable	1,313,895
Revenue bonds payable	78,774,629
Unearned revenue	646,752

Total noncurrent liabilities 80,735,276

Total liabilities 83,026,595

Deferred Inflows of Resources

Deferred revenue	368,113
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Total deferred inflows of resources 368,113

Net Position

Invested in capital assets	5,654,660
Restricted for:	
Debt service	(1,574,174)
Other purposes	2,761,342
Unrestricted	346,705,392

Total net position 353,547,220

Total liabilities and net position \$ 436,941,928

Texas State Affordable Housing Corporation

Statement of Revenues, Expenses and Changes in Net Position (unaudited) For the 1 Month Ending September 30, 2023

Operating Revenues:	
Interest and investment income	\$ 446,180
Net increase (decrease) in fair value of investments	(2,083,860)
Single family income	6,505,054
Asset oversight and compliance fees	31,149
Rental program income	84,269
Multifamily income	71,356
Land bank income	8,326
Public support:	
Federal & state grants	2,157
Contributions	103,000
Other operating revenue	<u>7,754</u>
Total operating revenues	\$ <u>5,175,385</u>
Operating Expenses:	
Interest expense on bonds and notes payable	\$ 308,879
Program and loan administration	40,625
Texas Foundation Fund & Misc. Grants	75,000
Salaries, wages and payroll related costs	335,568
Professional fees and services	27,963
Depreciation and amortization	5,931,114
Office expense and maintenance	12,526
Travel and meals	8,773
Other operating expenses	<u>78,386</u>
Total operating expenses	<u>6,818,834</u>
Net income	(1,643,449)
Total net position, beginning	<u>355,190,669</u>
Total net position, ending	\$ <u><u>353,547,220</u></u>

Texas State Affordable Housing Corporation
Budget Report
September 30, 2023

	Annual Budget	Actual	Percent of Annual Budget	Reference
Revenue				
Single Family Program Revenue	10,472,000	1,173,346	11.20%	
Lending Program Revenue	2,762,000	213,831	7.74%	
Multifamily Program Revenue	1,272,000	82,077	6.45%	
Rental Program Revenue	1,364,000	82,989	6.08%	
Federal & State Grants	198,000	374	0.19%	
Grants, Donations & Other Awards	250,000	33,441	13.38%	
Land Bank Revenue	4,893,000	8,326	0.17%	
Servicing Revenue	72,000	4,927	6.84%	
Investment Revenue	1,380,000	176,846	12.81%	
Total Revenue	22,663,000	1,776,157	7.84%	
Expenditures				
Texas Housing Impact Fund	9,221,000	225,000	2.44%	
Affordable Communities of Texas	5,390,000	39,707	0.74%	
Other Program Expenditures	553,000	66,405	12.01%	
Salaries & Payroll Related Expenditures	4,500,000	335,568	7.46%	
Grants	1,005,000	75,000	7.46%	
Principal & Interest on Notes Payable	213,000	10,193	4.79%	
Professional Services	791,000	27,963	3.54%	
Marketing	169,000	6,610	3.91%	
Insurance	310,000	11,342	3.66%	
Travel & Meals	124,000	8,773	7.08%	
Furniture, Equipment, & Software	54,000	1,910	3.54%	
Building Maintenance	69,000	5,770	8.36%	
Professional Dues, Conferences & Training	49,000	9,788	19.98%	①
Sponsorships	25,000	2,500	10.00%	
Communication	21,000	1,969	9.38%	
Publications, Subscriptions & Other Office Expenditures	25,000	1,912	7.65%	
Freight, Delivery, Postage	12,000	2,002	16.68%	②
Printing & Office Supplies	5,000	401	8.02%	
Total Expenditures	22,536,000	832,813	3.70%	
Excess Revenues Over Expenditures	127,000	943,344		

Average Expected Percent Received/Expended = 8.33%

**Texas State Affordable Housing Corporation
Budget Report
September 30, 2023**

Explanations

- ① Professional Dues & Training is overbudget because the fees for the NCSHA & TALHFA conferences were expensed in September. We expect this line item to be on budget by year end.

- ② Freight, Delivery & Postage are higher due to the restocking of postage at the beginning of the new fiscal year. We expect this line item to be on budget by year end.

Tab 1

Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on October 24, 2023.

**TEXAS STATE AFFORDABLE HOUSING CORPORATION
BOARD MEETING**

The Governing Board of the Texas State Affordable Housing Corporation (TSAHC)

**October 24, 2023
10:30 a.m.**

Summary of Minutes

Call to Order

Roll Call

Certification of Quorum

The Board Meeting of the Texas State Affordable Housing Corporation (the “Corporation”) was called to order by Bill Dietz, Chairman, at 10:37 a.m., on October 24, 2023, at the offices of Texas State Affordable Housing Corporation, 6701 Shirley Avenue, Austin, TX 78752. Roll Call certified that a quorum was present.

Members Present:

Bill Dietz, Chair

Valerie Cardenas, Vice Chair

Lemuel Williams, Member

David Rassin, Member

Guests Present:

Routt Thornhill, Coats Rose

Jose Gayton, BOK Financial

President’s Report

David Long

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on September 19, 2023.

Mr. Rassin made a motion to approve the minutes of the Board meeting held September 19, 2023. Ms. Cardenas seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion was approved as presented.

See page 12 in the official transcript.

Tab 2 Discussion and Designation of a Board Member to the Loan Committee for the Texas State Affordable Housing Corporation.

Presented by David Long, President

Mr. Dietz nominated Lemuel Williams to serve on the Loan Committee for Texas State Affordable Housing Corporation. After some discussion, Ms. Cardenas made a motion to appoint Lemuel Williams to the Loan Committee. Mr. Rassin seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion passed unanimously.

See page 13 in the official transcript.

Tab 3 Presentation, Discussion and Possible Approval of a Resolution Regarding the Application(s) for and Conversion of Reservation(s) for Allocation of Private Activity Bonds to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto (2022 carryforward and 2023 annual and collapse allocation).

Presented by Joniel LeVecque, Senior Director of Single Family Programs

Mr. Williams made a motion to Approve a Resolution Regarding the Application(s) for and Conversion of Reservation(s) for Allocation of Private Activity Bonds to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto (2022 carryforward and 2023 annual and collapse allocation). Ms. Cardenas seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion passed unanimously.

See page 17 in the official transcript.

Tab 4 Presentation, Discussion and Possible Approval of a Resolution Regarding Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for Single Family Mortgage Revenue Bonds.

Presented by David Long, President and Joniel LeVecque, Senior Director of Single Family Programs

Ms. Cardenas made a motion to Approve a Resolution Regarding Declaration of Expectation to Reimburse Expenditures with Proceeds of Future Debt for Single Family Mortgage Revenue Bonds. Mr. Williams seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion passed unanimously.

See page 24 in the official transcript.

Tab 5 Presentation, Discussion and Possible Approval of TSAHC’s Joint Venture Guidelines, as amended.

Presented by Dave Danenfelzer, Senior Director, Development Finance

Mr. Williams made a motion to Approve TSAHC’s Joint Venture Guidelines, as amended. Mr. Rassin seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion passed unanimously.

See page 39 in the official transcript.

Tab 6 Presentation, Discussion and Possible Approval of the Texas Foundations Fund: Disaster Recovery Guidelines.

Presented by Michael Wilt, Senior Manager, External Relations

Mr. Rassin made a motion to Approve the Texas Foundations Fund: Disaster Recovery Guidelines. Ms. Cardenas seconded the motion. Mr. Dietz asked for public comment, and none was given. A vote was taken, and the motion passed unanimously.

See page 51 in the official transcript.

Tab 7 Presentation and Discussion of the Texas State Affordable Housing Corporation’s Fiscal Year 2023 and 2024 Strategic Plans.

Presented by Janie Taylor, Executive Vice President; Joniel LeVecque, Senior Director of Single Family Programs; Donnetta McGrew, MCC Program Manager; Delia Davila, Senior Manager, Single Family Compliance; and Katie Claflin, Senior Director, Communications & Development

No Action Taken.

See page 55 in the official transcript.

Announcements and Closing Comments

Mr. Long and Board Members tentatively scheduled the next Board Meeting for November 14, 2023, at 10:30am following the Audit Committee Meeting scheduled for 9:30am.

Adjournment

Mr. Dietz adjourned the meeting at 12:32pm.

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

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 and 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

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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	Percentage
Assets:				
Current assets	\$ 167,854,735	\$ 51,620,460	\$ 116,234,275	225.17%
Noncurrent assets	<u>272,823,711</u>	<u>276,310,263</u>	<u>(3,486,552)</u>	<u>(1.26%)</u>
Total assets	<u>440,678,446</u>	<u>327,930,723</u>	<u>112,747,723</u>	<u>34.38%</u>
Liabilities:				
Current liabilities	3,897,819	1,899,693	1,998,126	105.18%
Noncurrent liabilities	<u>81,221,178</u>	<u>22,106,683</u>	<u>59,114,495</u>	<u>267.41%</u>
Total liabilities	<u>\$ 85,118,997</u>	<u>\$ 24,006,376</u>	<u>\$ 61,112,621</u>	<u>254.57%</u>
Deferred Inflows of Resources-				
Deferred Revenue	<u>\$ 368,780</u>	<u>\$ 350,464</u>	<u>\$ 18,316</u>	<u>5.23%</u>
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	<u>346,313,287</u>	<u>292,009,620</u>	<u>54,303,667</u>	<u>18.60%</u>
Total net position	<u>\$ 355,190,669</u>	<u>\$ 303,573,883</u>	<u>\$ 51,616,786</u>	<u>17.00%</u>

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

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
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:

<u>FY 2023 Grant Applications Submitted</u>	<u>Status</u>	<u>Amount Requested</u>	<u>Amount Received</u>	<u>Program/Activity</u>
PNC	Received	\$ 20,000	\$ 20,000	Housing Connection Program
Texas Community Bank	Received	\$ 10,000	\$ 10,000	Housing Connection Program
Insperty	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
	<hr/>
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
	<hr/>
Total noncurrent assets	272,823,711

Total assets	<hr/> <hr/> \$ 440,678,446
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(continued)

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

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
		<hr/>
Total current liabilities		3,897,819

Noncurrent liabilities:

Notes payable		1,319,430
Revenue bonds payable		79,150,565
Unearned revenue		751,183
		<hr/>
Total noncurrent liabilities		81,221,178

Total liabilities		<hr/> 85,118,997
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Deferred Inflows of Resources

Deferred revenue		<hr/> 368,780
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Total deferred inflows of resources		<hr/> 368,780
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Net Position

Invested in capital assets		5,674,542
Restricted for:		
Debt service		375,953
Other purposes		2,826,887
Unrestricted		346,313,287
		<hr/>

Total net position		<hr/> 355,190,669
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Total liabilities and net position		<hr/> <hr/> \$ 440,678,446
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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
	<hr/>
Total operating revenues	\$ 86,535,405
	<hr/>
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
	<hr/>
Total operating expenses	34,918,619
	<hr/>
Net income	51,616,786
Total net position, beginning	303,573,883
	<hr/>
Total net position, ending	\$ 355,190,669
	<hr/> <hr/>

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	<u>(10,648,033)</u>

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	<u>(2,705,203)</u>

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	<u>(92,046)</u>

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	<u>1,203,772</u>

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.

Texas State Affordable Housing Corporation

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	<u>\$ 5,069,225</u>

Supplemental Disclosure of Noncash Transactions:

Debt forgiven - Single Family Program 2nd Liens	<u>\$ 22,990,589</u>
Debt forgiven - Affordable Communities of Texas Veterans' Program	<u>\$ 129,748</u>
Debt forgiven - Affordable Housing Partnership	<u>\$ 37,500</u>

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

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Notes to the Financial Statements

Texas State Affordable Housing Corporation

Notes to Financial Statements Year Ended August 31, 2023

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.

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

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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				<u>\$ 40,484,677</u>

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:

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

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

<u>Description/Maturity</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Loss</u>
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%	<u>58,206,986</u>	<u>57,490,937</u>	<u>(716,049)</u>
Total Investments		<u>\$ 75,355,039</u>	<u>\$ 74,162,098</u>	<u>\$ (1,192,941)</u>

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	<u>744,352</u>
	<u>\$ 1,561,924</u>

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	<u>(52,291)</u>
Loans Receivable at August 31, 2023	231,422
Allowance for possible loan losses	<u>(10,183)</u>
Net Balance at August 31, 2023	<u><u>\$ 221,239</u></u>

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	<u>(788)</u>
Balance at August 31, 2023	<u><u>\$ (10,183)</u></u>

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	<u>(23,106,327)</u>
Balance at August 31, 2023	275,657,511
Allowance for possible losses	<u>(430,260)</u>
Net balance at August 31, 2023	<u><u>\$ 275,227,251</u></u>

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	<u>-</u>
Balance at August 31, 2023	<u><u>\$ 430,260</u></u>

5. Capital Assets

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

	Cost or Basis In Property			Balance August 31, 2023
	Balance September 1, 2022	Additions	Deletions	
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	<u>\$ 6,634,163</u>	<u>\$ 104,140</u>	<u>\$ -</u>	<u>\$ 6,738,303</u>

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

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	<u>(117,532)</u>
Balance at August 31, 2023	<u>\$ 161,449</u>

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	<u>\$ 368,780</u>	<u>\$ 751,183</u>

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.	<u>250,000</u>
Total Notes Payable	\$ 2,070,132
Current Portion of Notes Payable	<u>750,702</u>
Noncurrent Notes Payable	<u>\$ 1,319,430</u>

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	<u>(64,620)</u>
Balance at August 31, 2023	<u>\$ 2,070,132</u>

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

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 750,702	\$ 40,196	\$ 790,898
2025	525,768	25,860	551,628
2026	276,550	16,834	293,384
2027	<u>517,112</u>	<u>2,574</u>	<u>519,686</u>
Total	<u>\$ 2,070,132</u>	<u>\$ 85,464</u>	<u>\$ 2,155,596</u>

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		<u>\$ 18,230,000</u>	<u>\$ 60,000,000</u>	<u>\$(2,060,000)</u>	<u>\$ -</u>	<u>\$ 76,170,000</u>	<u>\$ 375,000</u>
Unamortized Premium		<u>555,154</u>				<u>3,355,565</u>	
Total		<u>\$ 18,785,154</u>				<u>\$ 79,525,565</u>	

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	<u>\$ 76,170,000</u>	<u>\$ 66,425,508</u>	<u>\$ 142,595,508</u>

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.

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

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	<u>\$ 5,613,592</u>
Net position-	
Unrestricted	<u>\$ 5,613,592</u>

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

Capital contributions	<u>\$ 5,613,592</u>
Net income	5,613,592
Total net position, beginning	<u>-</u>
Total net position, ending	<u>\$ 5,613,592</u>

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	<u>\$ 5,613,592</u>

TSAHC Juniper Creek, LLC:

Condensed Statement of Net Position

Assets-	
Current assets	\$ 10,000
Net position-	
Unrestricted	<u>\$ 10,000</u>

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	<u>\$ 10,000</u>

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	<u>\$ 10,000</u>

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	<u>\$ 163,956,916</u>

**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

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>U.S. Department of Treasury</u>			
Passed through the Community Development Financial Institutions:			
Capital Magnet Fund	21.011	181CM050456	\$ 3,562,500
Capital Magnet Fund Administrative	21.011	181CM050456	<u>32,438</u>
Total 21.011			<u>3,594,938</u>
Total U.S. Department of Treasury			3,594,938
<u>U.S. Department of Health and Human Services</u>			
Passed through Texas Department Health and Human Services Commission-			
Money Follows the Person Rebalancing Demonstration-			
Money Follows the Person	93.791	HHS000850100001	<u>35,382</u>
Total U.S. Department of Health and Human Services			<u>35,382</u>
Total expenditures of federal awards			<u>3,630,320</u>
State Awards			
<u>Texas Health and Human Services Commission</u>			
Affordable Housing Partnership (AHP)	n/a	HHS000850100001	<u>975,000</u>
Total expenditures of state awards			<u>975,000</u>
Total expenditures of federal and state awards			<u>\$ 4,605,320</u>

The accompanying notes are an integral part of this schedule.

Texas State Affordable Housing Corporation

Notes to the Schedule of Expenditures of Federal and State Awards Fiscal Year Ended August 31, 2023

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.

Texas State Affordable Housing Corporation

Schedule of Findings and Questioned Costs

Fiscal Year Ended 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

Texas State Affordable Housing Corporation

Schedule of Findings and Questioned Costs

Fiscal Year Ended August 31, 2023

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 must 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.

Texas State Affordable Housing Corporation

Schedule of Findings and Questioned Costs

Fiscal Year Ended August 31, 2023

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

Tab 3

Presentation, Discussion and Possible Approval of a Resolution to Approve the Corporation's Fiscal Year 2024 Investment Policy.



INVESTMENT POLICY

Fiscal Year 2024
(Draft)

TEXAS STATE AFFORDABLE HOUSING CORPORATION

INVESTMENT POLICY

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TEXAS STATE AFFORDABLE HOUSING CORPORATION
INVESTMENT POLICY

I. POLICY

It is the policy of Texas State Affordable Housing Corporation (the “Corporation”) to invest public funds in a manner which will fulfill, by priority, the following objectives:

- A. Safety of principal.
- B. Sufficient liquidity to meet the Corporation's cash flow needs.
- C. Diversification to reduce market and credit risk.
- D. A market rate of return for the risk assumed; and
- E. Compliance with all applicable state statutes governing the investment of public funds, including (i) the Corporation's enabling legislation, Texas Government Code, Section 2306, Subchapter Y, (ii) the Public Funds Investment Act (the “Act”), Texas Government Code, Section 2256, and (iii) any other applicable law.

II. SCOPE

This Investment Policy (“Policy”) applies to all financial assets of the Corporation, except for any promissory notes payable to the Corporation. A separate portfolio is created for surplus bond funds which are received because of the early redemption of bonds. The long-term nature of these funds requires a distinct portfolio for the purpose of investment. The purpose of the funds is directed solely towards investment income. The fund’s investment shall be in full compliance with all applicable state statutes governing the investment of public funds, including (i) the Corporation’s enabling legislation, Texas Government Code, Section 2306, Subchapter Y, and (ii) the Public Funds Investment Act (the “Act”), Texas Government Code, Section 2256.

III. PRUDENCE

- A. Prudent Person Standard - Investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety and liquidity of their capital as well as the probable income to be derived.
- B. The standard of prudence to be used by the Investment Officer shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers (hereinafter defined) acting in accordance with the Policy and written procedures and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided that

deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

The investment portfolio shall be designed with the objective of obtaining reasonable yield throughout budgetary and economic cycles commensurate with the Corporation's investment risk constraints and cash flow needs. A maximum dollar-weighted average maturity (WAM) will be two years which is based on the historic cash flows. The benchmarks for risk in the portfolio shall be the one-year and two-year U.S. Treasury Notes mirroring that WAM. The following are the primary objectives of investment activities in order of priority:

A. Safety of Principal

Preservation and safety of principal is the foremost objective of the investment program. Investments of the Corporation shall be undertaken in a manner that seeks to ensure the preservation of capital. The principal will be protected by limiting credit risk through purchase of high credit quality securities and limiting interest rate risk through a structured portfolio which addresses projected cash flow requirements.

B. Liquidity

Liquidity risk is the risk that funds will not be available to pay liabilities or the inability to sell a security for needed cash. To protect liquidity needs the Corporation will prepare a cash flow analysis to direct investments and limit its maximum final stated maturity to five years for non-surplus funds. The Corporation's investment portfolio shall contain a liquidity buffer to meet all unanticipated cash flow needs. In addition, securities with active secondary or resale markets will be used to meet unanticipated liabilities.

C. Diversification

The Corporation shall diversify its portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of investments. Investment shall always be selected that provide for stability of income and reasonable liquidity.

D. Yield

The Corporation's investment portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs of the Corporation. Return on investment is of less importance than the safety and liquidity of the investments. Reasonable yield shall be obtained through competitive bidding on all transactions and comparative analysis of all market alternatives available within the parameters of this Policy.

V. INVESTMENT STRATEGY

- A.** The Corporation may commingle its operating funds for maximum investment efficiency and economy of scale. Interest will be distributed as applicable among the funds. The authorized securities, investments or pools utilized for this portfolio will be of the highest credit quality and marketability supporting the Corporation's objectives of safety, liquidity, diversification, and yield.
- B.** Securities, when not matched to a specific liability, will be short-term and of a liquid nature to provide adequate cash flow for the Corporation. The portfolio shall be diversified to protect against credit and market risk in any one sector. Diversification requirements can be fully met through use of an authorized pool. The weighted average maturity on the pooled investment group will be no greater than two years. Because the funds are pooled for investment purposes, the portfolio will address the varying needs of all funds in the pooled fund.
- C.** Surplus funds of the Corporation may be invested in certain longer-term, mortgage-backed pass-through investments (not CMOs) than those authorized for operating funds, as described in this paragraph. The maximum stated maturity (from the date of investment of such surplus funds) of such investments will be thirty (30) years. The permitted longer-term investments are pass-through mortgage-backed securities guaranteed by GNMA (Government National Mortgage Association), FNMA (Federal National Mortgage Association) or FHLMC (Federal Home Loan Mortgage Corporation) as authorized under the Corporation's specific bond issues. Investment of surplus funds includes transfers to the Corporation of surplus investments released from a bond trust indenture established to secure bonds of the Corporation.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

A. Board of Directors

- 1. The Board of Directors of the Corporation (the "Board") shall establish the Corporation's Investment Policy, strategies and objectives, review and adopt the Policy and Strategies in accordance with State law annually, obtain such expert advice and assistance with respect to its actions as is necessary to exercise its responsibilities prudently, and monitor the actions of staff and advisors to ensure compliance with this Policy. It is the Board's intention that this Policy be carried out by those persons who are qualified and competent in their areas of expertise.

The Board shall also review and adopt the list of eligible brokers/dealers annually and shall receive and review the quarterly investment report. The Board shall designate the Corporation's Investment Officer(s). Authority granted to a person to invest the Corporation's funds shall remain effective until rescinded by the Board or the termination of the Investment Officer's employment by the Corporation. The Board shall also provide for the training required for Investment Officers.

2. The delegation of authority as provided below in no way diminishes the Board's ultimate responsibility as the funds' fiduciary.
3. Each member of the Board shall attend at least one training session relating to the person's responsibilities under the Act within six months after taking office or assuming duties. Training under this section may be provided by the Texas Higher Education Coordinating Board and include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, compliance with the Act and compliance with this Policy.

B. Investment Officer(s)

1. The authority to manage the Corporation's investment program is granted to the President. The President may delegate the responsibility for the operation of the investment program to the Chief Financial Officer and Controller as the Corporation's designated "Investment Officers".
2. The Investment Officer shall be responsible for all transactions undertaken and shall establish internal controls to regulate the activities of subordinate officials. Procedures should include reference to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures may include explicit temporary delegation of authority to persons responsible for investment transactions.
3. The Investment Officer shall establish written procedures for the operation of the investment program consistent with this Policy.
4. The Investment Officer shall attend five (5) hours of training within twelve (12) months of assuming the position and every two fiscal years thereafter. Training is to include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.
5. The Investment Officer may temporarily delegate investment responsibilities to subordinate staff. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions.
6. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Investment Officer.

VII. ETHICS AND CONFLICT OF INTEREST

- A. If an Investment Officer of the Corporation has a personal or business relationship with a business organization offering to engage in an investment transaction with the Corporation (as described in Section 2256.005(i) of the Act), the Investment Officer

shall file a statement disclosing that personal business interest with the Board and the Texas Ethics Commission.

- B. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Corporation shall file a statement disclosing that relationship with the Board and the Texas Ethics Commission.

VIII. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

- A. The Corporation shall maintain a list with a minimum of three qualified brokers/dealers authorized to engage in investment transactions with the Corporation. This list of qualified brokers/dealers shall be reviewed, revised, and adopted at least annually by the Board.
- B. Broker/dealers shall, at a minimum, provide information as required by the Investment Officer and provide evidence of Financial Industry Regulatory Agency (FINRA) membership. Information on the broker/dealers shall be maintained by the Investment Officer or non-discretionary Investment Adviser. The Corporation shall assure that every Corporation authorized broker/dealer is provided a current copy of the Corporation's Investment Policy.
- C. Financial institutions used for time and demand deposits do not need the prior approval of the Board. The nature of competition for rates in financial institutions within Texas prohibits foreknowledge of applicable financial institutions. These institutions shall, however, fulfill all remaining requirements for authorization including depository/collateral contracts, as applicable.
- D. Any business organization (defined as pools and contracted discretionary investment advisers) offering to engage in an investment transaction with the Corporation shall be provided a copy of this Policy for review and certification of that review (PFIA 2256.005(k)). Material changes to the Policy will require re-certification. The Corporation will utilize only a non-discretionary investment adviser to assure that cash-flow is monitored and protected.

A certification for business organizations in a form acceptable to the Corporation shall affirm that the business organization:

1. Has received and reviewed this Policy; and
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective investment standards.

E. The Investment Officer of the Corporation may not transact any business from a business organization (pool) which has not delivered the signed certification to the Corporation.

F. The brokerage subsidiary of the Corporation's depository banking services bank shall not be used for purchase of securities in order to perfect delivery versus payment (DVP) unless that DVP process can be clearly documented by the firm on all confirmations.

G. No less than every five years, the Corporation shall, through a competitive process, choose a banking services institution to serve as its primary depository and a custodian for Corporation owned securities.

IX. AUTHORIZED INVESTMENTS

A. Notwithstanding any grant or program limitations to the contrary, the following are authorized investments of the Corporation:

1. **Obligations of the U.S. Government, its agencies and instrumentalities** including pass-through mortgage-backed and collateralized mortgage obligations (CMOs). In all but the Surplus Funds:

- a. Debentures shall have a stated maturity not to exceed three (3) years and
- b. Pass-through mortgage-backs and CMOs shall have a stated maturity (i) not to exceed ten (10) years and (ii) pass the Federal Reserve's *bank shocktest*.

Surplus funds are authorized to be invested in pass-through mortgage-backed securities (not CMOs) with a maximum maturity of 30 years as described in Section V.C. above.

2. **Depository Certificates of Deposit** issued by any state or national bank doing business in the State of Texas or a credit union doing business in the State of Texas to include the CDARS program as defined by the Act and are:

- a. Guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Insurance Fund or its successor.
- b. Secured by obligations of the US Government, its agencies and instrumentalities as further defined in this Policy; and
- c. Have a stated maturity not to exceed one year.

3. **Fully collateralized repurchase agreements** and reverse repurchase agreements which:

- a. Have a defined termination date and are executed under the terms of a written Master Repurchase Agreement.
- b. Are secured by collateral defined in this Policy and held by an independent safekeeping agent approved by the Corporation.
- c. Require that the securities being purchased be held in the Corporation's name by an independent custodian approved by the Corporation; and
- d. Are executed with a primary government securities dealer, as defined by the Federal Reserve.

The term of any reverse security repurchase agreement may not exceed 90 days after the date of the reverse. Money received by the Corporation from the reverse security repurchase agreement may be used to acquire authorized investments, but the maturity date of the investment acquired must not be later than the expiration date of the reverse.

4. AAA-rated, SEC registered money market mutual funds.

- a. A money market mutual fund is an authorized investment if the fund:
 - i. Is registered with and regulated by the Securities and Exchange Commission.
 - ii. Has a dollar-weighted average stated maturity of 60 days or fewer; and
 - iii. Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- b. The Corporation is not authorized to invest its funds or funds under its control in any money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund.

5. Commercial Paper. Commercial paper is an authorized investment if it:

- a. Has a stated maturity of two hundred-seventy (270) days or fewer; and
- b. Is rated not less than A-1/P-1 or equivalent by at least two nationally recognized credit rating agencies,

6. Uncollateralized Guaranteed Investment Contracts. For funds that are pledged under a trust indenture for bonds issued by the Corporation, investment securities that are permitted under the terms of such trust indenture, including, but not limited to, uncollateralized investment agreements.

7. **Texas Local Government Investment Pools.** Permitted constant dollar investment pools, as defined by the Act, are authorized under this policy if the investment pool:
 - a. Is created to function as a money market mutual fund, marks its portfolio to market daily and strives to maintain a \$1 net asset value.
 - b. If it is rated not less than AAA or V-1 or equivalent rating by at least one nationally recognized rating service.
 8. **State and Municipal Obligations.** Obligations of any state and their subdivisions rated A, or better, by at least one nationally recognized rating agency with a stated maturity not to exceed three years.
 9. **FDIC Insured Brokered Certificate of Deposit Securities. Brokered Certificate of Deposit Securities** from banks in any US state, delivered versus payment to the Corporation's safekeeping depository, not to exceed one year to maturity. Before purchase, the Investment Officer or Investment Adviser must verify the status of the bank on www.fdic.gov to assure that the bank is FDIC insured.
 10. **AAA-Rated. SEC Registered Ultra Short-Term Duration Funds** if the mutual fund has an average weighted maturity of less than two years; and a) if the fund has a duration of one year or more is invested exclusively in obligations approved by this Policy; or b) if the fund has a duration of less than one year the investment portfolio is limited to investment grade securities, excluding asset-backed securities.
- B. No additional securities or investments are authorized for Corporation use until this Policy has been amended and the amended policy has been adopted by the Board.
 - C. All investment transactions shall require competitive bidding.
 - D. To minimize loss of principal, securities which are downgraded in credit or become unauthorized after purchase should be monitored daily and may be sold prior to maturity after a prudent analysis of market conditions.
 - E. Security swaps may be utilized for improvement in the quality, yield, or target duration in the portfolio but only if analysis proves a positive horizon value for the swap.
 - F. Any investment held prior to changes in this Policy that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. The Corporation is not required to liquidate investments that were authorized at the time of purchase (Act Section 2256.017). However, at maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

X. OTHER INVESTMENT POWERS.

In accordance with Section 2256.024(a) of the Act, the investment authority set forth in Section IX of this Policy is in addition to that granted to the Corporation by other applicable law. In accordance with Section 2256.024(b) and (c) of the Act, the Corporation may invest in mortgage pass-through certificates and individual mortgage loans that are originated in connection with authorized housing bond programs of the Corporation, subject to any limitations otherwise set forth in this Policy.

XI. UNAUTHORIZED INVESTMENTS

The following are not authorized investments:

- A. Interest only obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (IO).
- B. Principal only obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (PO); and
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years, except as otherwise authorized under this Policy.
- D. Inverse floating collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (Inverses).

XII. DIVERSIFICATION

The Corporation will diversify its investments by security type and institution. General diversification parameters will include:

<u>Type of Obligation</u>	<u>Maximum Percentage of Total Portfolio</u>
U.S. Obligations	80%
Obligations of U.S. Agencies	80%
Certificates of Deposit (total)	60%
Certificates of Deposit (by institution)	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper (total)	30%
Commercial Paper (by issuer)	10%
Local Government Pool	75%
Banking Accounts	80%

XIII. EFFECT OF LOSS OF REQUIRED RATING

An investment that requires a minimum rating under this Policy does not qualify as an authorized investment during the period the investment does not meet or exceed the minimum rating. The Corporation shall take prudent measures that are consistent with its Policy to evaluate possible liquidation of an investment that does not meet or exceed the minimum rating as market conditions dictate (Act Section 2256.021).

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Investment Adviser shall notify the President of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

XIV. COLLATERALIZATION

Collateralization will be required on all time and demand accounts above FDIC insurance levels and on repurchase agreements. To anticipate market changes and provide a level of security for all funds, the collateralization margin level will be 102%.

- A.** For time and demand deposits the following securities are authorized as pledged collateral. Preference to be given to pledged securities over letters of credit:
 - 1. Obligations of the United States or its agencies and instrumentalities including mortgage-backed securities meeting the bank test.
 - 2. Direct obligations of the State of Texas or its agencies and instrumentalities.
 - 3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of Texas or the United States or their respective agencies and instrumentalities; and
 - 4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
 - 5. FHLB Letters of Credit
- B.** For repurchase agreements, obligations of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities are authorized as collateral owned under the transaction. A letter of credit is not authorized for repurchase agreements.
- C.** Collateral for time and demand accounts shall always be held in safekeeping by an independent third party with whom the Corporation has a current custodial agreement executed under the terms of FIRREA (time and demand deposits). A clearly marked

evidence of pledge or ownership must be supplied to the Corporation and retained. The Corporation shall grant the right of collateral substitution, subject to receiving prior approval from the Investment Officer.

- D. It shall be the contractual liability of the counterparty pledging or selling the securities to monitor and maintain the appropriate 102% margin daily.
- E. The custodian of the collateral shall provide an independent, detailed listing of the collateral on a monthly basis directly to the Corporation.
- F. Any pooled collateral program proposed to the Corporation shall be reviewed by the Investment Officer(s) for risk/reward, but approval of the collateral pool will be by the Board.

XV. SAFEKEEPING AND CUSTODY

All securities owned by the Corporation will be held by an independent third-party custodian approved by the Corporation and under a current custody agreement.

All security transactions will be executed on a Delivery vs. Payment (DVP) basis. This ensures that securities are deposited prior to the release of funds. Securities will be held by an independent third-party custodian and evidenced by safekeeping receipts.

XVI. INTERNAL CONTROLS

A. Internal Controls

The Investment Officer is responsible for establishing and maintaining internal controls to ensure that the assets of the Corporation are protected from loss, theft, or misuse. The internal controls shall address the following points:

1. Control of collusion,
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping.
4. Clear delegation of authority to subordinate staff members.
5. Written confirmation of all transactions.

In developing controls, the concept of reasonable assurance recognizes that:

1. The cost of control should not exceed the benefits likely to be derived; and
2. The valuation of costs and benefits requires estimates and judgments by management.

B. Compliance Audit

At least once every two years, the Corporation shall arrange for a compliance audit of management controls on investments and adherence to this Policy and the Act.

1. The compliance audit shall be performed by the Corporation's internal auditor or by a private auditor.
2. The results of the audit performed under this section shall be presented to the Board.
3. The Corporation shall report the results of the audit performed under this section to the Office of the State Auditor not later than January 1 of each even-numbered year. The report shall be prepared in a manner as prescribed by the Office of the State Auditor.
4. The Corporation shall also report to the Office of the State Auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to the Corporation's investment.

C. Wire Transfers

All wire transfers will be transacted under a written agreement and, if possible, require two signoffs. This agreement shall delineate controls, security provisions, and responsibilities of each party.

D. Monitoring FDIC Insurance

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the Corporation based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer or Investment Adviser shall immediately liquidate any brokered CD which places the Corporation above the FDIC insurance level.

XVII. REPORTING

A. Quarterly Reports

At least quarterly, the Investment Officer shall prepare and present to the Board an investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This investment report will be prepared in a manner which will allow the Board to ascertain whether investment activities during the reporting period have conformed to the Policy. The report must:

1. Describe in detail the investment position on the date of the report.

2. Be prepared jointly by all Investment Officers.
3. Be signed by each Investment Officer.
4. Be prepared in compliance with Generally Accepted Accounting Principles (GAAP) for each fund that states:
 - a. The stated maturity date and call or reset date of each security.
 - b. The book value and market value of each security at the beginning and end of the reporting period by type and market sector.
 - c. Additions and changes in market value during the period.
 - d. Fully accrued interest and total earnings for the reporting period.
 - e. State the fund or pooled group for which each individual investment was acquired; and
5. State the compliance of the investment portfolio as it relates to the investment strategy expressed in this Policy and the Act.

B. Audit Report

An independent auditor shall formally review the investment reports prepared by the Investment Officer under this Policy at least annually and that auditor shall report the result of the review to the Board.

C. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this Policy and the cash flow analysis. The maximum dollar weighted average maturity of the portfolio is two years. To measure performance and the level of risk in the portfolio, the benchmarks of the one-year and two-year Treasury Notes for the comparable period will be reported quarterly.

D. Market Value

The Investment Officer will obtain market prices used to calculate market value from independent, recognized published sources or from other qualified professionals.

E. Changes to Public Funds Investment Act

The Investment Officer shall present to the Board a report on changes to the Act no later than 180 days after the last regular session of the legislature.

XVIII. INVESTMENT POLICY ADOPTION

The Investment Policy shall be reviewed and adopted by resolution of the Board at least annually. The Board must approve and adopt any amendments made thereto. The Board shall adopt by written resolution a statement that it has reviewed the investment policies and strategies and note any changes made.

RESOLUTION NO. 23-26
TEXAS STATE AFFORDABLE HOUSING CORPORATION

RESOLUTION TO APPROVE THE CORPORATION'S FISCAL
YEAR 2024 INVESTMENT POLICY

WHEREAS, the Texas State Affordable Housing Corporation (“the Corporation”) has been duly created pursuant to the provisions of the Texas Business Organizations Code, as amended, Chapter 22 Non-Profit Corporations and under the authority of Subchapter Y, Chapter 2306 Texas Government Code, as amended (“the Act”), and the investment funds and bond proceeds of the Corporation are currently governed by the Investment Policy of the Corporation, adopted on September 15, 2021 (the “Current Investment Policy”); and

WHEREAS, the Corporation desires to approve the Fiscal Year 2024 Investment Policy of the Corporation, to be adopted on November 14, 2023 (the “Investment Policy”);

WHEREAS, there has been presented to the Corporation and its counsel the proposed form of the Investment Policy attached hereto as Exhibit A and which comprises a part of this Resolution:

WHEREAS, the Corporation finds the form of the Investment Policy to be satisfactory and proper and hereby determines to proceed with the execution of such document and the taking of such other actions as may be necessary and appropriate in connection therewith; and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Texas State Affordable Housing Corporation:

Section 1. Approval, Execution and Delivery of the Investment Policy. That the Investment Policy in the form presented to the Board of Directors at the meeting at which this Resolution was considered and attached hereto as Exhibit A is hereby approved.

Section 2. Execution and Delivery of Other Documents. That the officers of the Corporation are each hereby authorized to consent to, accept, execute and attest such certificates, documents, instruments, letters of instruction, written requests and other papers, whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution.

Section 3. Ratification of Certain Prior Actions. That all prior actions taken by or on behalf of the Corporation in connection with the Investment Policy are hereby authorized, ratified, confirmed and approved.

Section 4. Purposes of Resolution. That the Board of Directors of the Corporation has expressly determined and hereby confirms that the execution of the Investment Policy accomplishes a valid public purpose of the Corporation.

Section 5. Conflicting Prior Actions. That all orders, resolutions, or any actions or parts thereof of the Board of Directors of the Corporation in conflict herewith are hereby expressly repealed to the extent of any such conflict.

Section 6. Effective Date. That this Resolution shall be in full force and effect from and upon its adoption.

APPROVED AND EFFECTIVE this 14th day of November 2023.

TEXAS STATE AFFORDABLE HOUSING
CORPORATION

William Dietz, Jr., Chair
Texas State Affordable Housing Corporation

ATTEST:

Rebecca DeLeon, Corporate Secretary
Texas State Affordable Housing Corporation

Tab 4

Presentation, Discussion and Possible Approval of the Corporation's
Fiscal Year 2024 Broker Listing.

**Texas State Affordable Housing Corporation
Broker/Dealer List
Fiscal Year 2024**

(Draft)

The authorized broker/dealer list for Texas State Affordable Housing Corporation is shown below. Each of these firms, and the individual broker/dealer covering the account, has been or will be sent the Investment Policy.

The Corporation's Investment Policy establishes specific criteria for the broker/dealers and requires that the list of broker/dealers be approved annually by the Board.

When any material changes are made to the Investment Policy the new Policy will be sent to each individual broker on the authorized broker/dealer list.

Academy Securities	MarketAxess Corporation
Bank of America/Merrill Lynch	Mizuho Securities
Barclays Capital Inc.	Moreton Capital Markets
Blaylock Van, LLC	Morgan Stanley
BMO Capital Markets	Multi-Bank Securities
BNY Capital Markets	Oppenheimer
BOK Financial	Piper Sandler & Co.
Brean Capital	PNC Capital Markets LLC
Cantor Fitzgerald & Co.	Raymond James
CastleOak Securities	RBC Securities
D. A. Davidson	Rice Financial
Daiwa Capital Markets	Robert W. Baird
FHN Financial	Santander US Capital Markets
Goldman Sachs & Co.	Siebert Williams Shank
Great Pacific	Stephens Inc.
Hilltop Securities	Stifel Nicolaus
Huntington Bank	StoneX Group Inc.
InspereX	TD Securities
Jefferies	TRUIST Securities Inc.
JPMorgan Securities	UBS Financial
KeyBanc Capital Markets	UMB Financial Services
Loop Capital Markets	Wells Fargo

Tab 5

Presentation, Discussion and Possible Approval of a Resolution Regarding Applications for Qualified Mortgage Bond Volume Cap related to Qualified Mortgage Bonds or Mortgage Credit Certificates Associated with 2022 Carryforward and 2023 Volume Allocation, the Conversion to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto.

MINUTES AND CERTIFICATION

THE STATE OF TEXAS §
 §
TEXAS STATE AFFORDABLE §
HOUSING CORPORATION §

I, the undersigned officer of the Texas State Affordable Housing Corporation (the "Corporation"), do hereby certify as follows:

1. The Board of Directors (the "Board") of the Corporation convened on November 14, 2023 at the designated meeting place in Austin, Texas, and the roll was called of the duly constituted members of the Board, to wit:

<u>Name</u>	<u>Office</u>
William H. Dietz	Chairperson
Valerie Vargas Cardenas	Vice Chairperson
Courtney Johnson-Rose	Director
Lemuel Williams	Director
David Rassin	Director

and all of said persons were present during the meeting except _____, thus constituting a quorum. Whereupon, among other business, the following was transacted, to-wit: a written resolution (the "Resolution") bearing the following caption:

RESOLUTION NO. 23-27

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Resolution Regarding Applications for Qualified Mortgage Bond Volume Cap related to Qualified Mortgage Bonds or Mortgage Credit Certificates Associated with 2022 Carryforward and 2023 Volume Allocation, the Conversion to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto

was duly introduced for the consideration of the Board. It was duly moved and seconded that said Resolution be adopted; and said motion was adopted by the following vote:

_____ AYES _____ NOES _____ ABSTENTIONS

2. That a true, full and correct copy of the aforesaid Resolution adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that said Resolution has been duly recorded in the Board's minutes of said meeting; that the above and foregoing paragraph is a true, full and correct excerpt from the Board's minutes of said meeting pertaining to the adoption of said Resolution; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the Board as indicated therein; that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and that said Resolution would be introduced and considered for adoption at said meeting, and each of said officers and members consented, in advance, to the holding of said meeting for such purpose.

SIGNED this November 14, 2023.

President, Texas State Affordable Housing
Corporation

RESOLUTION NO. 23-27

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Resolution Regarding Applications for Qualified Mortgage Bond Volume Cap related to Qualified Mortgage Bonds or Mortgage Credit Certificates Associated with 2022 Carryforward and 2023 Volume Allocation, the Conversion to Mortgage Credit Certificates and Containing Other Matters Incident and Related Thereto

WHEREAS, the Texas State Affordable Housing Corporation (the "Issuer") has heretofore received from the Texas Bond Review Board (the "BRB") a certificate of reservation relating to 2022 volume allocation for qualified mortgage bonds totaling \$250,000,000 and the Issuer received from the BRB a non-traditional carryforward of the aforesaid volume allocation (the "2022 Carryforward Allocation") in accordance with applicable federal and state law;

WHEREAS, and \$62,854,526.95 of the 2022 Carryforward Allocation was used by the Issuer for qualified mortgage bonds that closed February 28, 2023, leaving \$187,145,473.05 of the 2022 Carryforward Allocation;

WHEREAS, all of the remaining 2022 Carryforward Allocation in the amount of \$187,145,473.05 may be used by the Issuer for any of its qualified mortgage bond or mortgage credit certificate programs;

WHEREAS, the Issuer has heretofore received from the BRB two 2023 certificates of reservation for qualified mortgage bonds in the total amount of \$336,425,155 (the "2023 Allocation"), consisting of (i) the Issuer's annual volume allocation in the amount of \$116,214,444 and (ii) volume allocation in the amount of \$220,210,711 as a result of the "collapse" of volume allocation pursuant to the Chapter 1372, Texas Government Code, as amended;

WHEREAS, the Issuer desires to elect a non-traditional carryforward of the \$336,425,155 of 2023 Allocation (the "2023 Non-Traditional Carryforward Allocation") and use it for qualified mortgage bonds or mortgage credit certificates;

WHEREAS, the Issuer submitted an Application for Allocation of Private Activity Bonds to the BRB on August 15, 2023 for a maximum of \$500,000,000 for qualified mortgage bonds or mortgage credit certificates (the "Additional 2023 Volume Cap Application");

WHEREAS, the Issuer submitted an Application for Allocation of Private Activity Bonds to the BRB on October 30, 2023 for a reservation of all of the remaining 2022 Carryforward Allocation for mortgage credit certificates;

WHEREAS, Board of Directors of the Issuer desires to submit a 2023 Application for Carryforward for Private Activity Bonds (the "Traditional Carryforward Application") to the BRB for a reservation of 2023 traditional carryforward for qualified mortgage bonds or mortgage credit certificates;

WHEREAS, should Issuer receive a reservation of additional 2023 volume cap from the Additional 2023 Volume Cap Application on November 15, 2023 (the "Additional 2023 Allocation"), the Board of Directors of the Issuer desires to convert all of the remaining 2022 Carryforward Allocation and the Additional 2023 Allocation to mortgage credit certificates pursuant to one or

more qualified mortgage credit certificate programs within the meaning of section 25(c) of the Internal Revenue Code of 1986 as amended (“qualified mortgage credit certificate programs”);

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TEXAS STATE AFFORDABLE HOUSING CORPORATION:

Section 1. That any officer of the Corporation is authorized and directed to execute and deliver to the Texas Bond Review Board the Traditional Carryforward Application and any related certificates or documents to apply for the maximum amount available for qualified mortgage bonds or mortgage credit certificates.

Section 2. That the Corporation hereby authorizes an election to be made by any officer of the Issuer to convert all or any portion of the remaining 2022 Carryforward Allocation, all or any portion of the Additional 2023 Allocation and all or any portion of 2023 Non-Traditional Carryforward Allocation to mortgage credit certificates pursuant to one or more qualified mortgage credit certificate programs.

Section 3. That any officer of the Corporation is authorized and directed to execute and deliver to the Texas Bond Review Board an Application for Allocation of Private Activity Bonds and any related certificates or documents to apply for any portion of the 2023 Non-Traditional Carryforward Allocation for qualified mortgage bonds.

Section 4. That any officer of the Corporation is authorized and directed to execute and deliver any certificates and documents relating to the mortgage credit certificates and to take other actions deemed necessary or appropriate to implement one or more qualified mortgage credit certificate programs.

Section 5. That the publication of the notices required in connection with qualified mortgage credit certificate programs is hereby in all things authorized and approved, and any previously published notices are hereby ratified and confirmed.

Section 6. That all orders, resolutions, or any actions or parts thereof of the Board of Directors of the Issuer in conflict herewith, including Resolution No. 23-24, are hereby expressly repealed to the extent of any such conflict.

Section 7. That this Resolution shall be in full force and effect from and upon its adoption.

PASSED, APPROVED AND EFFECTIVE this November 14, 2023.

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Tab 6

Presentation and Discussion of the Texas State Affordable Housing Corporation's Fiscal Year 2023 and 2024 Strategic Plans.