

AUDIT COMMITTEE MEETING

January 26, 2017

Leslie Bingham Escareño, Chair



Tom H. Gann, Member
T. Tolbert Chisum, Member

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE MEETING**

**AGENDA
8:00 AM
JANUARY 26, 2017**

**WILLIAM B. TRAVIS BUILDING
ROOM 1-111, 1701 CONGRESS AVENUE
AUSTIN, TEXAS**

CALL TO ORDER, ROLL CALL,	Leslie Bingham-Escareño, Chair
CERTIFICATION OF QUORUM	Leslie Bingham-Escareño, Chair

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs will meet to consider and may act on any of the following:	
ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for October 13, 2016	Mark Scott Director of Internal Audit
ITEM 2: Presentation, Discussion and Possible Action to Approve of SAO Audit Reports on TDHCA Financial Statements	Mark Scott Director of Internal Audit
ITEM 3: Presentation, Discussion and Possible Action to Approve the Update to the Internal Audit Charter	Mark Scott Director of Internal Audit
REPORT ITEMS:	Mark Scott Director of Internal Audit
1. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT: REVIEW OF THE COMPLIANCE MONITORING SECTION OF THE COMPLIANCE DIVISION (MULTIFAMILY)	
2. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT SELF ASSESSMENT FOR PEER REVIEW	
3. DISCUSSION OF CONTRACTING FOR PEER REVIEW	
4. STATUS OF NET CLAIMS CONTRACT	
5. DISCUSSION OF RECENT INTERNAL AUDIT AND CONSULTING ACTIVITY	
6. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY	
SPECIAL REQUEST ITEM:	
DISCUSSION OF BOARD REPORT ITEM, "REPORT ON ANONYMOUS ALLEGATIONS OF A COVER-UP IN HIDALGO COUNTY"	Tim Irvine Executive Director

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if

appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551 and under Tex. Gov't Code, §2306.039.

1. Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.
4. Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512.475-3813 and request the information.

Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two (2) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Annette Cornier 512-475-3803 at least three (3) days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Annette Cornier al siguiente número 512-475-3803 por lo menos tres días antes de la junta para hacer los preparativos apropiados

NOTICE AS TO HANDGUN PROHIBITION DURING THE OPEN MEETING OF A GOVERNMENTAL ENTITY IN THIS ROOM ON THIS DATE:

Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun.

De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta.

Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly.

De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista.

NONE OF THESE RESTRICTIONS EXTEND BEYOND THIS ROOM ON THIS DATE AND DURING THE MEETING OF THE AUDIT COMMITTEE OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS.

1

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

January 26, 2017

Presentation, Discussion and Possible Action on Audit Committee Meeting Minutes Summary for October 13, 2016.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for October 13, 2016 are hereby approved as presented.

MINUTES OF THE AUDIT COMMITTEE
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

On Thursday, October 13, 2017, at 8:00 a.m. the meeting of the Audit Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs (the "Department") was held in the John H. Reagan Building Room JHR 140 at 105 W. 15th Street, Austin, Texas. Leslie Bingham Escareño presided over the meeting and Mark Scott served as secretary. Committee members Leslie Bingham Escareño and Tom Gann were in attendance and represented a quorum for the committee meeting.

The minutes of the July 28, 2016, meeting of the Committee were adopted as presented.

Mr. Scott presented the proposed 2017 Internal Audit Plan. The Audit Plan was prepared based on the risk assessment methodology that was completed in the standard matrix format. The first new audit project for 2017 is Information Systems (IS). The Internal Auditing Act requires periodic audits of an agency's information systems. We will assess the various IS functions, such as programming, help desk, network security, and project management.

The second new audit project will be the audit of the bond finance program. This is a complex program that has not had a recent internal audit, and will follow well from the audit we did on sources and uses.

The third new audit project will be the HOME Contract for Deed Conversion program. This program helps people convert from a contract for deed situation to something more like a standard mortgage.

Carryover projects from 2016 are the Multifamily Finance Division and the Low-Income Housing Tax Credit program. I am proposing to combine the two audits. We also had on last year's plan, an audit of the Compliance Section of the Compliance Division. And we are almost complete with that audit and should have that issued by the end of the month.

Ms. Bingham Escareño stated that we are comfortable with the risk assessment methodology and that it is working in terms of identifying priorities and risk areas.

There were no questions or comments about the Information Systems project. Mr. Irvine questioned with regard to the Bond Finance audit, will that also encompass the other non-bond programs that they create and operate such as the TBA program? Mr. Scott answered that he had not really decided that yet. Once we scope the audit, if it looks like that is something that is a good area for audit I will discuss it with you in the meantime. Mr. Irvine said that one of the best values that management derives from the audit process is the dialogue with Internal Audit as they are scoping their audit. Because when you ask a question, that is what triggers the thought, ah hah, that might be an issue we need to look at. Ms. Bingham Escareño concurred that the preference would be for management to stay engaged in the scoping portion.

Mr. Irvine commented that while contracts for deed, in and of themselves are certainly subject to all kinds of abuse, there have been some pretty significant changes in the law, in recent years. So I think that although we have a legislative mandate to offer that program, I think it is moving to a different approach. Mr. Gann elaborated that the laws have changed significantly and they are trying to keep this type of financing to a minimum, and those rules reflect all of that.

Ms. Bingham Escareño inquired about carryover, just to clarify. The Multifamily Finance and the tax credit need to carry over into '17, and you are recommending combining those, because of their similarities, or their alignment? Mr. Scott answered that yes, ma'am, that since the Multifamily Division administrates the housing tax credit program, they can be done at the same time.

Mr. Irvine stated that he thought that made a lot of sense. Many, many affordable housing developments have multiple layers of financing in them. And they are all very closely interrelated. He also informed the committee that there is finally a multifamily direct loan rule and it will have a lot of policy criteria in it and this will be a good chance to scrub those policies up front, and make sure that we caught everything we needed to catch.

Ms. Bingham Escareño questioned if there will be any efficiencies in labor or resources when they are combined? Of which Mr. Scott stated yes ma'am, it is more efficient to combine them. Also, Mr. Irvine stated that yes, efficiency is critical to management in this process.

Mr. Scott moved on to management and Board requests included on the Audit Plan. There is always time allocated for requests. During the course of fiscal year 2016, Internal Audit assisted management with subrecipient monitoring and also the coordination of external audits.

The last section of the audit plan is administrative reports. We scheduled time for the follow-up report, the annual audit plan, annual report on Internal Audit and also the peer review. The first thing we have to do for the peer review is do an internal self-assessment of which we will probably make some kind of management letter out of it. Then we will go through the process of procuring the peer review. Once the procurement is complete the external auditors will come out and complete the peer review. Ms. Bingham Escareño wanted to know if there are guidelines that already exist for the peer review process. Mr. Scott explained that in the State, there are two processes. One is the SAIAF peer review that is a state internal audit forum where you swap peer reviews with other state agencies. The other process is performed by an external third-party, and it is more efficient. Ms. Bingham Escareño inquired again if the third party follows the established policies and guidelines related to conducting peer review. Of which Mr. Scott responded yes.

Ms. Bingham Escareño expressed concern that the follow-up audit report, the annual audit plan, the annual report on internal audit and the peer review, internal audit will find time throughout the year to get those done? Of which Mr. Scott responded yes.

Mr. Gann stated that he was curious to know what kind of timeline on the peer review section, since we seem to be a little behind, somewhere. Mr. Scott stated that as far as the first step, the self-evaluation, Ms. Sanjar has started working on that and once the assessment is complete I will present that to the board and the procurement of the peer review would follow.

Ms. Bingham Escareño expressed concern again if we have an allocation of staff resources to prepare for this self-assessment. Mr. Scott stated yes. Ms. Bingham Escareño stated we will review the self-assessment, make sure that it is inclusive and accurate and represents the functions of the Agency. And then we will procure a third party to do the peer review? Once you secure that third party, then the assessment or audit takes a life of its own? Mr. Irvine informed the committee that in the past we have undergone the peer review utilizing the SAIAF approach. We have never undergone a peer review using a third party private audit firm. I personally like this sort of peer review, not even an interest in state government, but sheer total objectivity. It is attractive to me. Mr. Gann stated that what he was really getting to, and would like to see by the next meeting, or the second meeting from now, we ought to know where we are going with it, and what time it will be back. Mr. Scott answered yes. Then Ms. Bingham Escareño thought that was a good recommendation. By the next Audit Committee meeting, we want to get an update on when we anticipate the self-assessment to be finished. Mr. Bingham likes the idea of the third party, especially if we haven't used that process before. It will give us a good idea of was there some value-add in using a third party, or does it make more sense to go back to the SAIAF. Mr. Scott stated that he hoped to have the self-assessment completed by the next Board meeting or by the next Audit Committee meeting. Also, he has had peer reviews done by both external and by the SAIAF group and they both have had good suggestions. He requested the Committee to approve the Audit Plan to recommend it to the full Board. There was a unanimous vote to present the annual Audit Plan to the Board for their approval.

Mr. Scott presented the audit of TDHCA Fair Housing activities. There is a Federal Fair Housing Act and a Texas Fair Housing Act. Enforcement of the Acts is the responsibility of the Texas Workforce Commission. TDHCA has some compliance responsibilities for Fair Housing, and a major role in Affirmatively Furthering Fair Housing (AFFH). TDHCA has compliance responsibilities with regard to having subrecipients and contractors who provide housing services through TDHCA attest that they comply with the Fair Housing rules. We tested a scientifically chosen random sample of contracts as to whether they contained the proper attestations, all but three did. However, the three were for the Amy Young Barrier Removal Program, and they were not subject to that specific provision. The Fair Housing activities include outreach and education, as well as an advisory function within TDHCA as to what effects various initiatives will have on AFFH. We found that the Fair Housing Activities are well managed. We had recommendations related to documenting policies and procedures, and developing a schedule for making Fair Housing training available to TDHCA staff on a periodic basis. Mr. Gann and Mr. Irvine discussed that there were some issues with this program in the past. HUD is in the process of releasing the new analysis of Fair Housing requirement, as part of a regulation, and that regulation involves a new HUD-created tool. Mr. Irvine said that we have a plan that is going to be more fully developed as that regulation rolls out, and as the tools get finalized and adopted. Right now, we are operating under the analysis of impediments to Fair Housing choice, and we believe we are in compliance.

Ms. Bingham Escareño complimented the memo that was part of the package, great format. It went over all of the areas, the comments. It was very useful and very easy to consume.

Ms. Hemphill, Fair Housing Project Manager, wanted to clarify on the audit, are you accepting staff recommendations and management's comments, just so we know how to move forward for the next year? Mr. Scott said that was correct.

Mr. Scott introduced Ms. Neda Sanjar, new Internal Audit Manager and stated she will be completing the self-assessment and we are finishing up the audit of the Compliance Division. That audit covers the multifamily developments. I meet regularly with the other side of the Compliance Division which is the subrecipient monitoring section, in accordance with the TDHCA Internal Audit Charter. We meet probably once a week, or every other week and go over the various audits that are done by certified public accounting firms of our subrecipients. The subrecipient monitoring is audited by KPMG, so for that reason, the audit is focused on the other side of the Compliance Division. Hopefully it will be completed by the end of the month, because I want to put it on the annual report as completed.

KPMG this year audited the Low-Income Housing Energy Assistance Program (LIHEAP). I have talked to the KPMG people, and at this point, I don't think they have any significant findings. The State Auditor's haven't notified me of any findings or significant findings on the financial portion of the statewide audit. The Department of Energy did some monitoring of LIHEAP, and when we did the exit conference, they were very positive about how TDHCA runs the program. They especially mentioned the communication among the divisions as a best practice.

There being no further business to come before the Committee, the meeting was adjourned at 8:34 a.m.

_____ Leslie Bingham Escareño, Chairman

_____ Mark Scott, Audit Committee Secretary

2

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

JANUARY 26, 2017

Presentation, discussion, and possible action regarding the Texas State Auditor's Office audit report #17-018 "A Report of the Audit of the Texas Department of Housing and Community Affairs' Fiscal year 2016 Financial Statements".

RECOMMENDED ACTION

WHEREAS, the Department is required to undergo an annual audit of its books and accounts, an annual audit of the Housing Trust Fund, and to obtain audited financial statements for the Housing Finance Division and the Supplemental Bond Schedules,

NOW, therefore, it is hereby

RESOLVED, the annual financial audit, audit of the Housing Trust Fund and the audit of the Housing Finance Division and the Supplemental Bond Schedules are hereby accepted.

BACKGROUND

Audit requirements:

- 1) The Department's governing statute, Tex. Gov't Code §2306.074, requires an annual audit of the Department's books and accounts.
- 2) Tex. Gov't Code §2306.204 requires an annual audit of the Housing Trust Fund to determine the amount of unencumbered fund balances that is greater than the amount required for the reserve fund.
- 3) The Department's bond indentures required audited financial statements of the Housing Finance Division and the Supplemental Bond Schedules.

Results of the audits conducted by the State Auditor's Office:

SAO Report on the "The Audit of the Department of Housing and Community Affairs Fiscal Year 2016 Financial Statements" Report # 17-018 available at:

<https://www.sao.texas.gov/SAOReports/ReportNumber?id=17-018>

- a) FY 2016 Basic Financial Statements (SAO Report # 17-307)
- b) FY 2016 Revenue Bond Program Audit (SAO Report # 17-308)
- c) FY 2016 Computation of Unencumbered Fund Balances (SAO Report # 17-309)
- d) FY 2016 Report on Compliance with the Public Funds Investment Act (SAO Report # 17-310)

- e) FY 2016 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report # 17-311)

The basic financial statements will be available in their entirety at: <http://www.tdhca.state.tx.us/pdf/16-BasicFinancials.pdf>



A Report on

The Audit of the Department of Housing and Community Affairs' Fiscal Year 2016 Financial Statements

December 30, 2016

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2016, we concluded that the Department of Housing and Community Affairs' (Department) basic financial statements and Revenue Bond Program Enterprise Fund financial statements for fiscal year 2016 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. We also concluded that the Department's computation of unencumbered fund balances of its Housing Finance Division complies with Texas Government Code, Sections 2306.204 and 2306.205. The Department published our audit reports as part of its basic financial statements, which it intends to post on its Web site at www.tdhca.state.tx.us.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting or any noncompliance with laws or regulations that materially affected the financial statements. In addition, the major internal controls that we tested for the purpose of forming our opinions on the financial statements were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance with laws and regulations.

Additionally, we concluded that the Financial Data Schedule prepared by the Department was fairly stated in all material respects in relation to the fiscal year 2015 basic financial statements taken as a whole. We also issued a report on the Department's compliance with the Public Funds Investment Act for the year ended August 31, 2016. The results of our tests disclosed no issues of noncompliance or other matter that are required to be reported under *Government Audit Standards*.

Auditors also performed agreed-upon procedures to assist the Department in determining whether the electronic submission of certain information to the U.S. Department of Housing and Urban Development, Real Estate Assessment Center agreed with related hard-copy documents. Our procedures determined that the Department's electronically submitted information to the U.S. Department of Housing and Urban Development, Real Estate Assessment Center agreed with the related hard-copy documents.

As required by auditing standards, we will also communicate to the Department's Board of Directors certain matters related to the conduct of a financial statement audit.

SAO Report No. 17-018

Members of the Legislative Audit Committee

December 30, 2016

Page 2

We appreciate the Department's cooperation during this audit. If you have any questions, please contact Hillary Eckford, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA

First Assistant State Auditor

cc: The Honorable Greg Abbott, Governor
Members of the Department's Board of Directors
Mr. J. Paul Oxer, P.E., Chair
Dr. Juan Sanchez Muñoz, Vice Chair
Mr. T. Tolbert Chisum
Ms. Leslie Bingham Escareño
Mr. Tom H. Gann
Mr. J.B. Goodwin
Mr. Timothy Irvine, Executive Director



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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Basic Financial Statements

For the Year Ended August 31, 2016

(With Independent Auditor's Report Thereon)



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
221 E. 11th St., Austin, TX 78701 Main Phone: 512-475-3800 Email: info@tdhca.state.tx.us
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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Greg Abbott
GOVERNOR

BOARD MEMBERS
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Juan S. Muñoz, PhD, *Vice Chair*
Leslie Bingham-Escareño
T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

December 20, 2016

Writer's direct phone # (512) 475-3296
Email: tim.irvine@tdhca.state.tx.us

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Texas Comptroller
Ms. Ursula Parks, Director, Legislative Budget Board
Ms. Lisa R. Collier, CPA, CFE, CIDA, First Assistant State Auditor

RE: AUDITED ANNUAL FINANCIAL REPORT

Dear Governor Abbott, Comptroller Hegar, Ms. Parks, and Ms. Collier:

We are pleased to submit the Audited Annual Financial Report of the Texas Department of Housing and Community Affairs for the year ended August 31, 2016, in compliance with Tex. Gov't Code §2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts, and the Generally Accepted Accounting Principles ("GAAP") reporting requirements. The accompanying annual financial report has been prepared with GAAP reporting requirements. The financial report has been audited by an independent auditor as required by statute.

If you have any questions, please contact David Cervantes, Chief Financial Officer, at (512) 475-3875. Joe Guevara responsible for reporting of federal information may be contacted at (512) 475-3352 for questions related to the Schedule of Expenditures of Federal Awards.

Respectfully,

A handwritten signature in black ink, appearing to read "Timothy K. Irvine".

Timothy K. Irvine
Executive Director

TKI/tt



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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Basic Financial Statements
for the year ended August 31, 2016

T A B L E O F C O N T E N T S

INDEPENDENT AUDITOR’S REPORT		i
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)		v
BASIC FINANCIAL STATEMENTS		
Exhibit I	Statement of Net Position – Government-Wide	1
Exhibit II	Statement of Activities – Government-Wide	3
Exhibit III	Balance Sheet – Governmental Fund	4
Exhibit IV	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund	5
Exhibit V	Statement of Net Position – Proprietary Fund	7
Exhibit VI	Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	9
Exhibit VII	Statement of Cash Flows - Proprietary Fund	10
Exhibit VIII	Statement of Fiduciary Net Position	12
NOTES TO THE FINANCIAL STATEMENTS		13
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)		
Schedule of Changes in Department’s Net Pension Liability		46
Schedule of Employer Contributions		47
Notes to the Required Supplementary Information		48
SUPPLEMENTARY BOND SCHEDULES		
Schedule 1-A	Miscellaneous Bond Information	49
Schedule 1-B	Changes in Bond Indebtedness	52
Schedule 1-C	Debt Service Requirements (Principal & Interest)	54
Schedule 1-D	Analysis of Funds Available for Debt Service	64
Schedule 1-E	Defeased Bonds Outstanding	67
Schedule 1-F	Early Extinguishment and Refunding	68
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		69

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Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice Chair

Mr. T. Tolbert Chisum

Ms. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J.B. Goodwin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department), a component of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department, a component of the State of Texas, as of August 31, 2016, 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.

Emphasis of Matters

Department Financial Statements

As discussed in Note 1, the financial statements of the Department, a component of the State of Texas, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Department's Net Pension Liability, Schedule of Employer Contributions, and Notes to the Required Supplemental Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The supplementary bond schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Department'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 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 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 Department's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lisa R. Collier".

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2016

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Texas Department of Housing and Community Affairs' ("Department") annual financial report presents management's discussion and analysis of the Department's financial performance during the fiscal year that ended on August 31, 2016. Please read it in conjunction with the Department's financial statements, which follow this section.

The Department was created to assist local governments in helping residents overcome financial, social and environmental problems; to address very low to moderate income housing needs; to contribute to the preservation and redevelopment of neighborhoods and communities; to assist the Governor and the Legislature in coordinating federal and state programs affecting local governments; and to continually inform the state and the public about the needs of local government.

The Manufactured Housing Division is administratively attached to the Department and is responsible for establishing standards and requirements for the construction and installation of manufactured housing that are reasonably necessary to protect the health, safety and welfare of the occupants of such housing and the general public. The Manufactured Housing Division has a governing Board of five members appointed by the Governor.

The Department is governed by a Board, composed of seven members, all of whom are appointed by the Governor with the advice and consent of the Texas Senate.

Financial Highlights

- The Department's business-type activities net position increased \$8.2 million and governmental activities net position decreased \$2.5 million.
- The Department's proprietary fund had an operating income of \$5.6 million, a decrease of \$599.6 thousand from the prior year. This impact on operating income resulted primarily from a decrease of \$5.5 million in interest and investment income, an increase of \$3.5 million in other operating expenses and an increase of \$1.1 million in bad debt expense offset by an increase of \$5.0 million in the change in fair value of investments and a decrease of \$5.6 million in interest expense.
- Net position in the Department's governmental activities decreased \$2.5 million to \$469.8 million. The impact on net position resulted primarily from expenditures exceeding revenues for the Neighborhood Stabilization Program ("NSP") for \$3.4 million and the Homeless Housing and Services Program ("HHSP") for \$1.1 million offset by a positive difference in the HOME Program of \$2.5 million.
- The Bond Program's debt outstanding of \$1.5 billion as of August 31, 2016, decreased \$55.0 million due to debt retirements of \$293.9 million offset by \$194.6 million in new bond issuances and \$45.7 million in notes payable.
- Loan originations in the Department's proprietary and governmental funds for the year totaled \$12.5 million and \$22.1 million, respectively.

- In accordance with Governmental Accounting Standards Board Statement (GASB) No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Department identified its derivative instruments, measured their effectiveness, and reported the derivative instruments at fair value. The Department's interest rate swaps, which were primarily used to hedge changes in interest rates, are considered to be derivative instruments under GASB 53. GASB 53 requires the fair value of a derivative to be reported at the end of the fiscal year in the balance sheet and GASB No. 72, *Fair Value Measurement and Application*, requires the fair value of a derivative to be computed taking into account nonperformance risk. As of August 31, 2016, the Department's four interest rate swaps had a total notional amount of \$128.8 million and a negative \$15.1 million fair value which was recorded in the deferred outflow of resources account and as a derivative swap liability.
- In accordance with GASB No. 68, *Accounting and Financial Reporting for Pensions*, the Department has recorded a net pension liability. It has relied on reports issued by the Employees Retirement System of Texas who is the administrator of the plan. The Department has reported its proportionate share of the pension liability according to their reports in the amount of \$38.8 million of which \$19.7 million is reported in business-type activities and \$19.1 million in governmental activities.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two types of statements that present different views of the Department.

- The first set of statements are government-wide financial statements that provide information about the Department's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Position and the Statement of Activities.
- The remaining statements are fund financial statements of the Department's governmental, fiduciary and proprietary funds. The governmental funds activities are funded primarily from federal funds and General Revenue appropriations for which the Department follows a modified accrual basis of accounting. The Department's proprietary fund operates similar to business activities and follows an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section which explains the information presented in the government-wide and fund financial statements and provides additional detailed data.
- The Notes to the Financial Statements are followed by the Required Supplementary Information which includes the "Schedule of Changes in Department's Net Pension Liability" and the "Supplementary Bond Schedules" that present detailed bond information.

The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of these statements.

Government-Wide Financial Statements

The Statement of Net Position shows governmental activities and business-type activities presented on a full accrual basis. The Statement of Activities presents a government-wide format of expenses, charges for services, operating grants, contributions and net expenses by both governmental activities and business-type activities. Both activities are further broken down by function and programs. The second section of the Statement of Activities shows general revenues not associated with a particular program but provides resources for the Department's programs and operations. The fiduciary activity is not included in the government-wide statements.

Statement of Net Position – Governmental Activities

The following tables show a summary of changes from prior year amounts for governmental activities.

Texas Department of Housing and Community Affairs				
Governmental Activities - Condensed Statement of Net Position				
As of August 31, 2016				
	Governmental Activities		Increase / (Decrease)	
	2016	2015	Amount	%
Assets				
Cash in State Treasury	\$ 25,130,698	\$ 18,716,093	\$ 6,414,605	34.3
Federal Receivables	7,689,347	6,257,472	1,431,875	22.9
Legislative Appropriations	5,155,043	5,382,911	(227,868)	(4.2)
Internal Balances	8,009	25,035	(17,026)	(68.0)
Current Loans and Contracts	17,797,304	21,224,662	(3,427,358)	(16.1)
Other Current Assets	54,852	155,753	(100,901)	(64.8)
Non-Current Loans and Contracts	449,510,470	454,173,085	(4,662,615)	(1.0)
Capital Assets	173,792	193,441	(19,649)	(10.2)
Total Assets	505,519,515	506,128,452	(608,937)	(0.1)
DEFERRED OUTFLOWS OF RESOURCES	2,523,670	1,973,457	550,213	27.9
Liabilities				
Accounts Payable	10,599,372	9,067,811	1,531,561	16.9
Unearned Revenues	1,832,747	682,172	1,150,575	168.7
Other Current Liabilities	1,801,874	1,796,082	5,792	0.3
Net Pension Liabilities	19,084,034	21,810,392	(2,726,358)	(12.5)
Other Non-current Liabilities	314,514	399,656	(85,142)	(21.3)
Total Liabilities	33,632,541	33,756,113	(123,572)	(0.4)
DEFERRED INFLOWS OF RESOURCES	4,564,013	2,032,725	2,531,288	124.5
Net Position				
Invested in Capital Assets	173,792	193,441	(19,649)	(10.2)
Restricted	491,577,361	492,575,164	(997,803)	(0.2)
Unrestricted	(21,904,522)	(20,455,534)	(1,448,988)	7.1
Total Net Position	\$ 469,846,631	\$ 472,313,071	\$ (2,466,440)	(0.5)

Net position of the Department's governmental activities decreased \$2.5 million, or .5% to \$469.8 million. The change is primarily a result of a decrease in unrestricted net position, which resulted from recording the net pension liability as required by GASB 68, *Accounting and Financial Reporting for Pensions*. The \$997.8 thousand decrease in Restricted Net Position is primarily related to increase of \$2.5 million in HOME and a decrease of \$3.4 million in the NSP Program.

Cash in state treasury increased by \$6.4 million or 34.3%. The increase is primarily due to additional program income collected and unspent from Tax Credit Assistance Program (“TCAP”).

Internal balances represent expenditure transfers after year end. Included in the 2016 transactions were payroll transfers and benefits allocations according to Accounting Policy Statements.

Loans and contracts decreased \$8.1 million. The variance primarily represents the receipts of loan repayments, disbursements for funding of loans and adjustments of the portfolio for the year. During the fiscal year, HOME loans increased approximately \$2.5 million primarily due to more funding of loans compared to repayments. The NSP loans decreased by \$3.4 million and TCAP loans decreased by approximately \$7.9 million due to larger loan repayments than loan originations.

Other current assets decreased by \$100.9 thousand or 64.8% due to decreases in other intergovernmental receivables and funds due from other entities.

Accounts payable increased by \$1.5 million or 16.9% because of an increase in year end activities recorded in Low Income Home Energy Assistance Program (“LIHEAP”), TCAP, and Community Services Block Grant Program (“CSBG”) grants due to pending contract related payments.

The balance in unearned revenues increased by \$1.2 million or 168.7%. The change is primarily associated with additional cash in state treasury related to unspent program income received from loan repayments of the NSP Program.

Other current liabilities are primarily payroll payables. Also, included in other non-current liabilities is the employees’ compensable leave, which represents unpaid balances of employees’ accumulated annual leave.

A net pension liability was recognized in accordance to GASB 68 in which the Department was required to recognize its proportionate share of the amount reported by the Employees Retirement System, the administrator of the plan. The decrease of \$1.4 million in unrestricted net position is primarily as a result of these transactions.

Business Type Activities

Condensed Statement of Net Position				
	Business-Type Activities		Increase / (Decrease)	
	2016	2015	Amount	%
Assets				
Current Assets:				
Cash & Investments	\$ 211,868,767	\$ 134,812,695	\$ 77,056,072	57.2
Loans and Contracts	26,086,598	12,675,631	13,410,967	105.8
Interest Receivable	8,670,744	11,801,594	(3,130,850)	(26.5)
Other Current Assets	659,251	1,646,127	(986,876)	(60.0)
Non-current Assets:				
Investments	646,470,842	701,151,445	(54,680,603)	(7.8)
Loans and Contracts	1,047,991,187	1,075,954,996	(27,963,809)	(2.6)
Capital Assets	157,082	156,253	829	0.5
Other Non-Current Assets	44,096	202,082	(157,986)	(78.2)
Total Assets	<u>1,941,948,567</u>	<u>1,938,400,823</u>	<u>3,547,744</u>	<u>0.2</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>17,625,459</u>	<u>18,939,222</u>	<u>(1,313,763)</u>	<u>(6.9)</u>
Liabilities				
Current				
Interest Payable	13,676,647	17,593,119	(3,916,472)	(22.3)
Bonds Payable	27,896,818	18,841,004	9,055,814	48.1
Notes and Loans Payable	214,880	214,880	-	-
Other Current Liabilities	8,883,880	8,326,443	557,437	6.7
Non-current				
Net Pension Liability	19,703,396	22,429,754	(2,726,358)	(12.2)
Bonds Payable	1,406,985,542	1,516,769,854	(109,784,312)	(7.2)
Notes and Loans Payable	45,490,181	45,490,181	-	-
Derivative Hedging Instrument	15,095,971	16,909,723	(1,813,752)	(10.7)
Other Non-current Liabilities	142,854,964	88,365,447	54,489,517	61.7
Total Liabilities	<u>1,680,802,279</u>	<u>1,689,235,344</u>	<u>(8,433,065)</u>	<u>(0.5)</u>
DEFERRED INFLOWS OF RESOURCES	<u>4,571,514</u>	<u>2,090,449</u>	<u>2,481,065</u>	<u>118.7</u>
Net Position				
Invested in Capital Assets	157,082	156,252	830	0.5
Restricted	217,016,529	208,295,086	8,721,443	4.2
Unrestricted	57,026,622	57,562,913	(536,291)	(0.9)
Total Net Position	<u>\$ 274,200,233</u>	<u>\$ 266,014,251</u>	<u>\$ 8,185,982</u>	<u>3.1</u>

Net position of the Department's business-type activities increased \$8.2 million, or 3.1%, to \$274.2 million. Restricted net position of the Department's proprietary fund increased \$8.7 million or 4.2%. These restrictions are related to bond covenants and do not significantly affect the availability of resources for future use. The unrestricted net position decreased \$536.3 thousand or .9%.

Cash and investments increased \$22.4 million, or 2.7%, to \$858.3 million, which is reflective of proceeds from bond issuance, fee collections, and interest earnings offset by the liquidation of investments to pay down bonds and the change in fair value of investments. Program loans receivable (current and non-current) decreased \$14.6 million, or 1.3%, to \$1.1 billion, primarily as a result of loan payoffs related to the Department's Multifamily Bond Program and repayment of loans in the Housing Trust Fund Program offset by loan originations related to these programs.

Business Type Activities Cont'd

The Department has \$1.4 billion in bonds outstanding related to its revenue bonds. The Department's Single Family, Residential Mortgage Revenue Bonds and Collateralized Home Mortgage Revenue Bonds have been rated AA+ by Standard & Poor's. Multifamily ratings vary. Total bonds payable (current and non-current) decreased by \$100.7 million, or 6.6%, due to the Department's monthly retirement of existing debt being greater than bond issuance. The \$3.9 million decrease in total interest payable to \$13.7 million is reflective of the decrease of the Department's debt. For more information on the Department's debt, refer to Note 5.

Statement of Activities

The Statement of Activities reflects the sources of the Department's changes in net position as they arise through its various programs and functions. Single Family, Multifamily and Housing Trust Fund are shown as business-type activities, and other state and federal programs are shown as governmental activities. Federal and state assistance activities allocate various subsidy funds to local governments, nonprofit organizations or individuals.

A condensed Statement of Activities for the fiscal years ended August 31, 2015 and 2016 is shown in the table below.

Texas Department of Housing and Community Affairs							
Condensed Statement of Activities							
(In Thousands)							
	Governmental Activities		Business-Type Activities		Total		%
	2016	2015	2016	2015	2016	2015	Change
Program Revenues:							
Charges for Services	\$ 6,416	\$ 6,157	\$ 95,383	\$ 101,615	\$ 101,799	\$ 107,772	(5.5)
Operating Grants and Contributions	201,832	212,177	-	-	201,832	212,177	(4.9)
Total Revenue	208,248	218,334	95,383	101,615	303,631	319,949	(5.1)
Total Expenses:	216,789	225,964	86,152	86,721	302,941	312,685	(3.1)
Net Revenue	(8,541)	(7,630)	9,231	14,894	690	7,264	(90.5)
General Revenues	11,721	13,860	(3,612)	(8,677)	8,109	5,183	56.5
Transfers	(5,646)	(6,419)	2,567	3,244	(3,079)	(3,175)	(3.0)
Change in Net Position	(2,466)	(189)	8,186	9,461	5,720	9,272	(38.3)
Beginning Net Position	472,313	493,186	266,014	277,824	738,327	771,010	(4.2)
Restatement	-	(20,684)	-	(21,271)	-	(41,955)	(100.0)
Beginning Net Position, Restated	472,313	472,502	266,014	256,553	738,327	729,055	1.3
Ending Net Position	\$ 469,847	\$ 472,313	\$ 274,200	\$ 266,014	\$ 744,047	\$ 738,327	0.8

Governmental Activities

Revenues of the Department's governmental activities were received primarily from operating grants and contributions. The majority of the revenues were from the U.S. Department of Housing and Urban Development ("HUD") and the U.S. Department of Health and Human Services ("HHS"). General Revenues are revenues appropriated to the Department in accordance with legislative acts and regulations.

Total program revenues decreased \$10.1 million. This change consisted primarily of decreases in operating grants and contributions as a result of reduced HOME and LIHEAP grant activities.

Expenses of the Department's governmental activities consisted primarily of intergovernmental payments and public assistance payments. The Department distributes program funds to local providers, including local governments, nonprofit and for-profit organizations, community based organizations and real estate developers. Total expenses decreased in Emergency Solutions Grants Program ("ESG"), HOME and LIHEAP in relation to the decrease in grant revenue but were offset by increased expenditures in Section 8 grants.

Transfers include Manufactured Housing's surplus of revenues transferred to the Comptroller's Office and the transfer of Housing Trust Fund from General Revenue to the Texas Treasury Safekeeping Trust Company. There were also transfers of earned federal funds to the State Comptroller's Office.

Net position is primarily composed of restricted net position of non-operational grants. These restrictions, commitments or limitations will not significantly affect the availability of fund resources for future use.

Business-Type Activities

Revenues of the Department's business-type activities were primarily from charges for services of \$95.4 million offset by a decrease in fair value of investments of \$3.7 million. Charges for services consist primarily of earned interest income on loans for the three housing lending programs. It also includes program investment income which is earned within the Department's bond programs, the investments and the income which are restricted to those programs by a pledge to the respective bond indentures. Total charges for services decreased \$6.2 million which is primarily a decrease in interest income on investments and a decrease in interest income on mortgage loans.

Expenses of the Department's business-type activities consist primarily of interest expense of \$57.5 million which decreased \$5.6 million; bad debt expense of \$1.7 million which increased \$1.1 million; and other operating expenses of \$24.5 million. The decrease in interest expense is a result of an increase of the frequency in the retirement of the Department's bonds and lower interest rates related to the Department's variable rate debt. Other operating expenses include general and administrative expenses, allocations involving production or monitoring activities of the Department, as well as internal and external costs.

Business-Type Activities Cont'd

The Department's business-type activities charges for services of \$95.4 million exceeded expenses of \$86.2 million by \$9.2 million. Charges for services, primarily interest income on loans and investment income, are intended to cover bond principal and interest expense as required by the bond indenture covenants. The charges for services also cover other direct expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the Department's most significant funds and the Department as a whole. The Department has three types of funds:

- Governmental fund – The General Revenue Fund is the Department's only governmental fund. It is the principal operating fund used to account for the Department's general activities. The financing for this fund is authorized through state legislative appropriations either as committed or collected revenues. Federal and state programs are also reported within this fund. The Condensed Balance Sheet - Governmental Fund would be substantially the same as the Condensed Statement of Net Position - Governmental-Activities; therefore, it is not included.
- Proprietary fund – The Department's activities in its proprietary fund are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuance of taxable and tax-exempt bonds whose proceeds are used primarily to fund various types of loans to finance low and moderate-income housing. This fund also receives fee income from the Multifamily Tax Credit Program and compliance fees collected for the purpose of covering the operating costs of the Department. The net position of these funds represents accumulated earnings since their inception and is generally restricted for program purposes or debt service. The Condensed Statement of Net Position - Proprietary Fund would be substantially the same as the Condensed Statement of Net Position – business-type activities; therefore, it is not included.
- Fiduciary Fund – The fiduciary fund is used to account for the assets held for distribution by the state as an agent for another entity for which the government has custodial responsibility and accounts for the flow of assets. It includes an escrow account and the Child Support Addenda Deducts Account.

Governmental Fund

Texas Department of Housing and Community Affairs Governmental Fund Condensed Statements of Revenues, Expenditures and Changes in Fund Balances				
			<u>Increase / (Decrease)</u>	
	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>%</u>
OPERATING REVENUES				
Legislative Appropriations	\$ 11,751,498	\$ 12,891,505	\$ (1,140,007)	(8.8)
Federal Revenues	201,832,305	212,086,651	(10,254,346)	(4.8)
Other Revenue	6,735,117	7,398,422	(663,305)	(9.0)
Total Operating Revenues	<u>220,318,920</u>	<u>232,376,578</u>	<u>(12,057,658)</u>	<u>(5.2)</u>
OPERATING EXPENDITURES				
Salaries and Wages	9,631,600	9,723,041	(91,441)	(0.9)
Professional Fees and Services	380,141	285,193	94,948	33.3
Intergovernmental Payments	55,473,679	55,138,472	335,207	0.6
Public Assistance Payments	147,194,136	149,760,142	(2,566,006)	(1.7)
Other Operating Expenditures	4,987,648	9,875,819	(4,888,171)	(49.5)
Total Operating Expenditures	<u>217,667,204</u>	<u>224,782,667</u>	<u>(7,115,463)</u>	<u>(3.2)</u>
Excess of Revenues over Expenditures	2,651,716	7,593,911	(4,942,195)	(65.1)
Other Financing Sources (Uses)	<u>(5,646,020)</u>	<u>(6,419,266)</u>	<u>773,246</u>	<u>(12.0)</u>
CHANGE IN FUND BALANCE	(2,994,304)	1,174,645	(4,168,949)	(354.9)
Beginning Fund Balance	494,922,278	493,930,156	992,122	0.2
Appropriations (Lapsed)	(350,613)	(182,523)	(168,090)	92.1
Ending Fund Balance	<u>\$ 491,577,361</u>	<u>\$ 494,922,278</u>	<u>\$ (3,344,917)</u>	<u>(0.7)</u>

Revenues of the Department's governmental fund totaled \$220.3 million. These revenues were primarily federal grants related to LIHEAP, HOME and Community Services Block Grant ("CSBG") programs. Expenditures of \$217.7 million primarily consisted of intergovernmental and public assistance payments.

Total revenues of the governmental fund decreased by \$12.1 million. HOME grant activity declined in fiscal year 2016 due to continued reduction to the grant award for the past several years. The Department is adjusting its operations under the reduced funding level.

Governmental Fund Cont'd

The Department experienced an increase in intergovernmental payments and a decrease in public assistance payments. These changes were in the LIHEAP program.

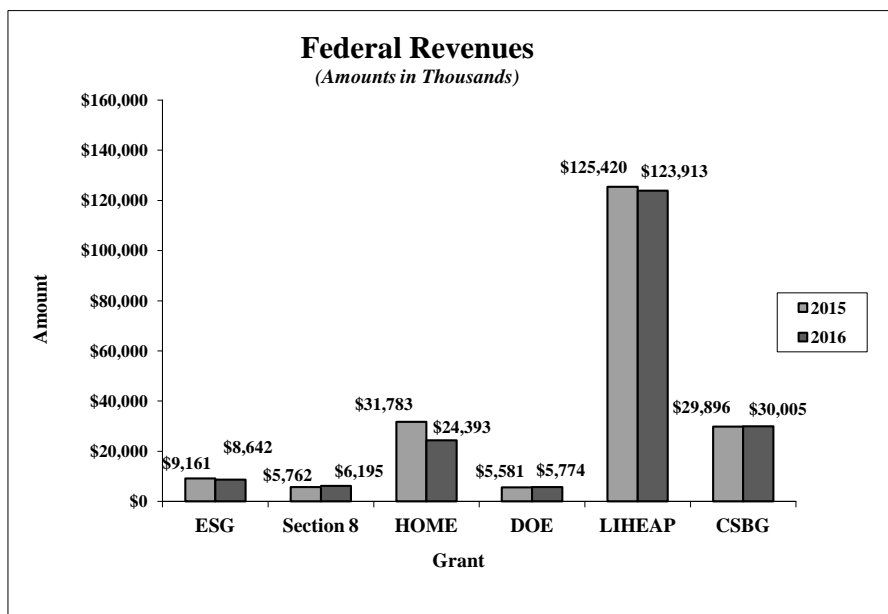
The Department experienced a decrease in other operating expenditures due to a claims and judgments repayment to HUD made in the previous fiscal year. The HUD repayment was allocated to multifamily contracts.

Other Financing Sources (Uses) consisted primarily of the transfer of Housing Trust Fund (“HTF”), including interest earnings and loan repayments from General Revenue to the Texas Treasury Safekeeping Trust Company (“TTSTC”). There were also transfers of earned federal funds and Manufactured Housing revenues.

The following graphs illustrate a comparison between fiscal year 2015 and 2016 for federal revenues, intergovernmental and public assistance payments related to the grants of the Department. The acronyms used in the graphs are defined as follows:

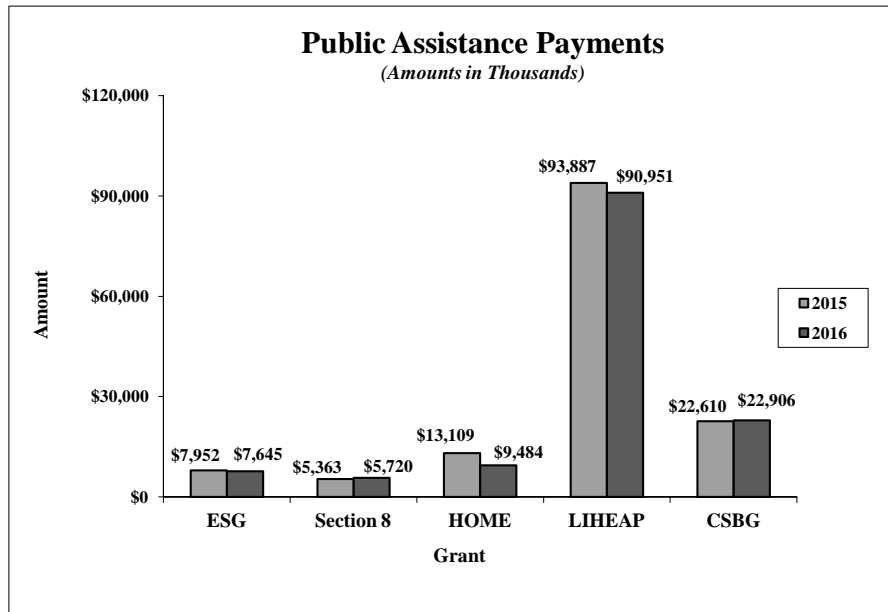
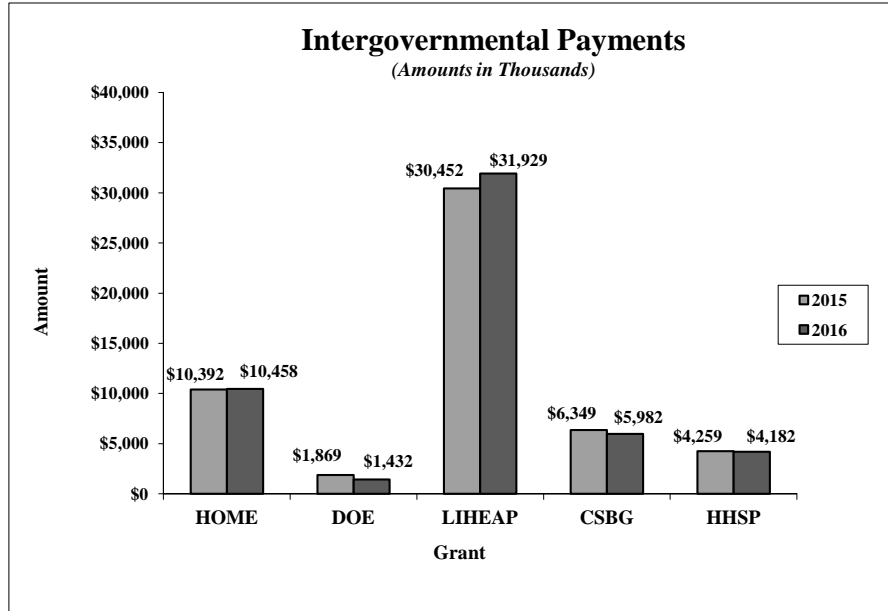
ESG	Emergency Solutions Grants Program
SEC 8	Section 8 Housing Assistance Program
HOME	HOME Investment Partnerships Program
DOE	Department of Energy
LIHEAP	Low-Income Home Energy Assistance Program
HHSP	Homeless Housing and Services Program
CSBG	Community Services Block Grant

Federal Revenues: Receipts from the State’s participation in programs financed with federal funds.



Governmental Fund Cont'd

Intergovernmental and public assistance payments: payment of grants to cities, counties, councils of government, community action groups and organizations for community service programs.



Proprietary Fund

The following table summarizes the Statement of Revenues, Expenses and Changes in Fund Net Position of the Department's proprietary fund for the fiscal years ended August 31, 2016 and August 31, 2015.

Texas Department of Housing and Community Affairs Proprietary Fund Condensed Statements of Revenues, Expenses and Changes in Fund Net Position				
			Increase / (Decrease)	
	2016	2015	Amount	%
OPERATING REVENUES				
Interest and Investment Income	\$ 69,237,779	\$ 74,723,956	\$ (5,486,177)	(7.3)
Net Increase (Decrease) in Fair Value	(3,711,414)	(8,734,724)	5,023,310	(57.5)
Other Operating Revenues	26,244,298	26,949,620	(705,322)	(2.6)
Total Operating Revenues	91,770,663	92,938,852	(1,168,189)	(1.3)
OPERATING EXPENSES				
Professional Fees and Services	2,384,509	2,078,992	305,517	14.7
Depreciation Expense	48,416	40,063	8,353	20.8
Interest	57,510,278	63,071,760	(5,561,482)	(8.8)
Bad Debt Expense	1,729,954	586,374	1,143,580	195.0
Other Operating Expenses	24,478,812	20,943,409	3,535,403	16.9
Total Operating Expenses	86,151,969	86,720,598	(568,629)	(0.7)
Operating Income (Loss)	5,618,694	6,218,254	(599,560)	(9.6)
TRANSFERS	2,567,288	3,243,515	(676,227)	(20.8)
CHANGE IN NET POSITION	8,185,982	9,461,769	(1,275,787)	(13.5)
Beginning Net Position	266,014,251	277,823,717	(11,809,466)	(4.3)
Restatement	-	(21,271,235)	21,271,235	(100.0)
Beginning Net Assets Restated	266,014,251	256,552,482	9,461,769	3.7
Ending Net Position	\$ 274,200,233	\$ 266,014,251	\$ 8,185,982	3.1

Net position of the Department's proprietary fund increased by \$8.2 million, or 3.1%, to \$274.0 million.

Proprietary Fund Cont'd

Earnings within the Department's proprietary fund were \$91.8 million of which \$65.3 million is classified as restricted and \$26.5 million is unrestricted. Restricted earnings are composed of \$68.8 million in interest and investment income, \$3.7 million net decrease in fair value of investments, and \$212.6 thousand in other revenues. Interest and investment income are restricted per bond covenants for debt service. The net decrease in fair value of investments is considered to be unrealized gains and losses since no assets were sold during the year. Unrestricted earnings are composed of \$480.6 thousand in interest and investment income and \$26.0 million in other operating revenue.

Interest earned on program loans decreased by \$2.1 million, or 5.0%, primarily due to a decrease in the Department's Multifamily Bond Program, resulting from lower interest rates related to variable rate debt and the corresponding mortgage loans.

Investment income decreased \$3.4 million or 10.3% due to lower investment yields. The change was primarily due to decreases of \$1.6 million, or 7.7% in the Single Family Revenue Bond Program funds and \$1.7 million, or 15.2% in the Residential Mortgage Revenue Bond Program.

The net change in fair value of investments increased by \$5.0 million primarily due to the decreasing fair value of the Department's mortgage backed securities.

Other operating revenues decreased \$705.3 thousand primarily due to the Taxable Mortgage Program reduced mortgage volume which was caused by changes in market conditions and increased competition offset by varying increases in other fees related to the Bond Program.

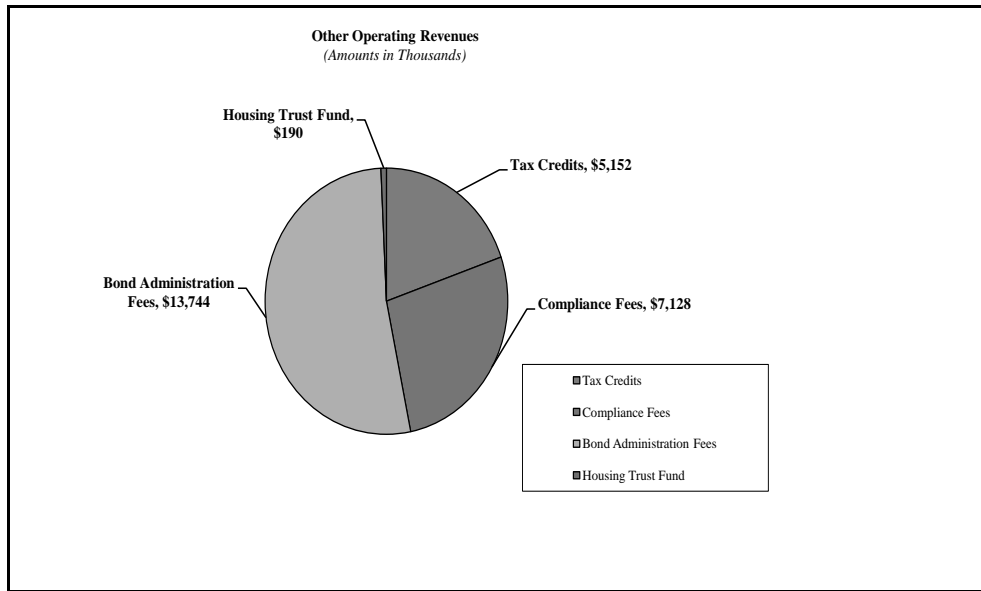
Interest expense decreased \$5.6 million related to the Department's debt. One of the factors in this decrease is the Department's decision to pay down its bonds on a monthly basis as opposed to every six months. Another factor is a decrease in interest rates related to variable rate debt.

Interest and investment income earned from unrestricted investments are used to support various housing initiatives such as those related to the Housing Trust Fund. Sources for other operating revenues are fees from the Tax Credit Program, compliance fees, bond administrative fees, asset management fees and miscellaneous interest earned from funds held by the Comptroller.

Fees earned under the Tax Credit Program are application fees, commitment fees, inspection fees and asset management fees. Yearly compliance fees are generated from the Department's portfolio of multifamily properties. The Department performs on-site visits and desk reviews to ensure the properties are in compliance with the various housing regulations. Bond administrative fees are generated yearly from the various bond issuances to support the Department's administrative expenses.

Proprietary Fund Cont'd

The graph below illustrates the primary composition of \$26.2 million in other operating revenues, classified as unrestricted earnings, according to the different housing programs.



The following table illustrates the changes in net position by program of the Department's proprietary fund for fiscal years 2016 and 2015.

Texas Department of Housing and Community Affairs Proprietary Fund Changes in Net Position by Program (Amounts in Thousands)					
Program	2016	2015	Increase / (Decrease)		
			Amount	%	
Single Family	\$ 99,670	\$ 98,988	\$ 682	0.7	
RMRB	110,207	102,118	8,089	7.9	
CHMRB	1,774	1,744	30	1.7	
Multifamily	(2,391)	(2,171)	(220)	10.1	
General Funds	8,792	8,401	391	4.7	
TMP	7,730	9,448	(1,718)	(18.2)	
Housing Trust Fund	58,078	58,632	(554)	(0.9)	
Administration Fund	(22,712)	(23,142)	430	(1.9)	
Housing Initiatives & Compliance	13,052	11,996	1,056	8.8	
Total	\$ 274,200	\$ 266,014	\$ 8,186	3.1	

Proprietary Fund Cont'd

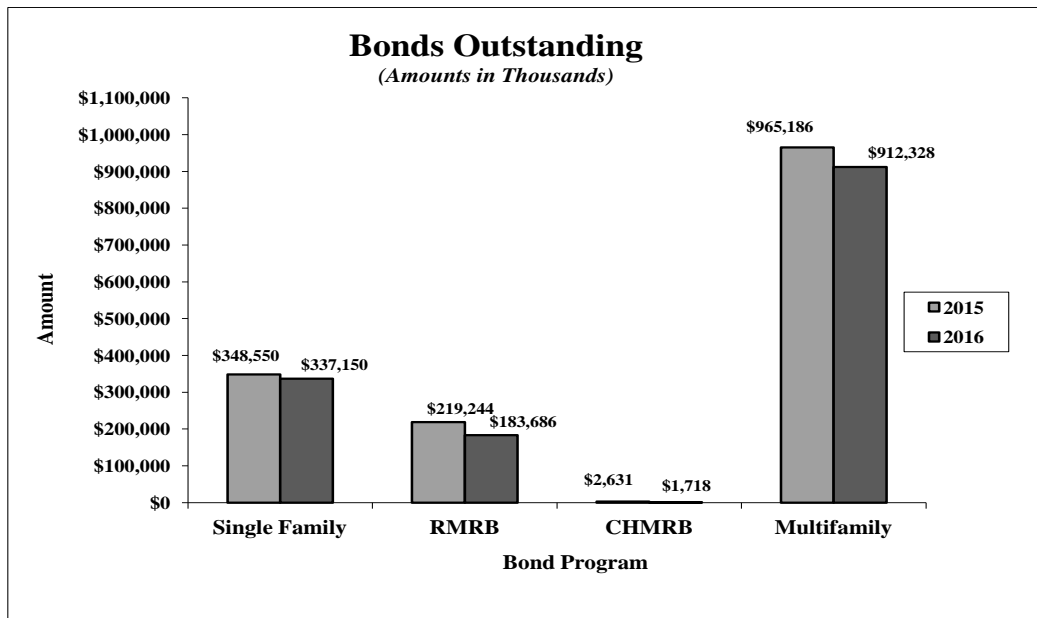
The Net Position of the Residential Mortgage Revenue Bond Program increased by \$8.1 million, or 7.9%, primarily due to a positive difference of \$2.8 million between interest income and bond interest expense, \$6.4 million transferred from the Taxable Mortgage Program to fund down payment assistance loans offset by a negative change in fair value of investments of \$389.0 thousand.

The Net Position of Taxable Mortgage Program decreased \$1.7 million, or 18.2% primarily due to a \$1.7 million decrease in settlement fees collected.

The Net Position of the Housing Initiatives & Compliance Programs increased \$1.1 million or 8.8% which is reflective of a positive difference of \$1.2 million between fees collected of \$12.3 million and \$11.3 million of transfers made to fund the operating budget.

Department Bond Debt

The Department had \$293.9 million in debt retirements during the year primarily due to consumer refinancing and prepayments of original loans. The net result was a decrease in bonds payable of \$100.7 million to \$1.4 billion of which \$27.9 million is due within one year. For additional information, see Note 5, Bond Indebtedness, and supplementary bond information schedules. The following graph illustrates a comparison of bonds outstanding between fiscal year 2015 and 2016 per bond program.



Request for Information

This financial report is designed to provide a general overview of the Texas Department of Housing and Community Affairs' (TDHCA) operations for all parties interested in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Texas Department of Housing and Community Affairs, Chief Financial Officer, P.O. Box 13941, Austin, Texas, 78711-3941.

BASIC
FINANCIAL STATEMENTS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT I
STATEMENT OF NET POSITION - GOVERNMENT-WIDE
 As of August 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3):			
Cash on Hand	\$ 200	\$ 200	\$ 400
Cash in Bank	20,000	329,443	349,443
Cash in State Treasury		1,394,658	1,394,658
Cash Equivalents		33,401,601	33,401,601
Restricted:			
Cash and Cash Equivalents (Note 3):			
Cash in Bank		17,331,630	17,331,630
Cash in State Treasury	25,130,698		25,130,698
Cash Equivalents		159,403,999	159,403,999
Short-term Investments (Note 3)		7,236	7,236
Loans and Contracts	17,797,304	23,383,276	41,180,580
Interest Receivable		8,632,490	8,632,490
Federal Receivable	7,689,347		7,689,347
Legislative Appropriations	5,155,043		5,155,043
Receivables From:			
Interest Receivable	20,557	38,254	58,811
Accounts Receivable		584,109	584,109
Internal Balances (Note 9)	8,009	(8,009)	-
Due From Other Agencies (Note 9)	67		67
Consumable Inventories	14,028	4,387	18,415
Loans and Contracts		2,703,322	2,703,322
Other Current Assets		78,764	78,764
Total Current Assets	<u>55,835,253</u>	<u>247,285,360</u>	<u>303,120,613</u>
Non-Current Assets:			
Investments (Note 3)		1,809,256	1,809,256
Loans and Contracts		49,793,655	49,793,655
Capital Assets (Note 2):			
Depreciable or Amortizable, Net	173,792	157,082	330,874
Restricted Assets:			
Investments (Note 3)		644,661,586	644,661,586
Loans and Contracts	449,510,470	998,197,532	1,447,708,002
Other Non-Current Assets:			
Real Estate Owned, net		44,096	44,096
Total Non-Current Assets	<u>449,684,262</u>	<u>1,694,663,207</u>	<u>2,144,347,469</u>
Total Assets	<u>\$ 505,519,515</u>	<u>\$ 1,941,948,567</u>	<u>\$ 2,447,468,082</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources (Note 16)	\$ 2,523,670	\$ 17,625,459	\$ 20,149,129
Total Deferred Outflows of Resources	<u>\$ 2,523,670</u>	<u>\$ 17,625,459</u>	<u>\$ 20,149,129</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT I (Continued)

STATEMENT OF NET POSITION - GOVERNMENT-WIDE

As of August 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities:			
Payables:			
Accounts Payable	\$ 10,599,372	\$ 1,440,476	\$ 12,039,848
Accrued Bond Interest Payable		13,676,647	13,676,647
Payroll Payable	1,336,242		1,336,242
Unearned Revenues	1,832,747	6,238,776	8,071,523
Employees' Compensable Leave (Note 4)	465,632	796,615	1,262,247
Notes and Loans Payable (Note 4)		214,880	214,880
Revenue Bonds Payable (Notes 4 & 5)		27,896,818	27,896,818
Other Current Liabilities		408,013	408,013
Total Current Liabilities	<u>14,233,993</u>	<u>50,672,225</u>	<u>64,906,218</u>
Non-Current Liabilities:			
Employees' Compensable Leave (Note 4)	314,514	505,945	820,459
Notes and Loans Payable (Note 4)		45,490,181	45,490,181
Net Pension Liability (Note 8)	19,084,034	19,703,396	38,787,430
Revenue Bonds Payable (Notes 4 & 5)		1,406,985,542	1,406,985,542
Derivative Hedging Instrument (Note 6)		15,095,971	15,095,971
Other Non-Current Liabilities (Note 4)		142,349,019	142,349,019
Total Non-Current Liabilities	<u>19,398,548</u>	<u>1,630,130,054</u>	<u>1,649,528,602</u>
Total Liabilities	<u>\$ 33,632,541</u>	<u>\$ 1,680,802,279</u>	<u>\$ 1,714,434,820</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources (Note 16)	\$ 4,564,013	\$ 4,571,514	\$ 9,135,527
Total Deferred Inflows of Resources	<u>\$ 4,564,013</u>	<u>\$ 4,571,514</u>	<u>\$ 9,135,527</u>
NET POSITION			
Invested in Capital Assets	173,792	157,082	330,874
Restricted	491,577,361	217,016,529	708,593,890
Unrestricted	(21,904,522)	57,026,622	35,122,100
Total Net Position	<u>\$ 469,846,631</u>	<u>\$ 274,200,233</u>	<u>\$ 744,046,864</u>

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT II
STATEMENT OF ACTIVITIES - GOVERNMENT-WIDE
 For the Year Ended August 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	2016 Total
Primary Government						
Governmental Activities:						
Manufactured Housing	\$ 5,887,914	\$ 6,244,208	\$	\$ 356,294	\$	\$ 356,294
HOME Investment in Affordable Housing	21,949,461		24,392,510	2,443,049		2,443,049
Energy Assistance	129,681,478		129,687,286	5,808		5,808
Community Services	38,642,250		38,646,564	4,314		4,314
Community Development	2,323,523	10	(1,119,806)	(3,443,319)		(3,443,319)
Section 8	6,203,175		6,195,447	(7,728)		(7,728)
Section 811	9,030		9,030			
Temporary Assistance for Needy Families	20,000		20,000			
Tax Credit Assistance Program - ARRA	2,608,877		2,242,951	(365,926)		(365,926)
Money Follows the Person	179,850	127,245		(52,605)		(52,605)
Homeless Housing & Services Program	5,932,899			(5,932,899)		(5,932,899)
Housing Trust Fund	1,104,441	15		(1,104,426)		(1,104,426)
Administration	2,245,829	44,769	1,758,323	(442,737)		(442,737)
Total Governmental Activities	216,788,727	6,416,247	201,832,305	(8,540,175)		(8,540,175)
Business-type Activities:						
Single Family Bonds	27,829,323	40,798,934			12,969,611	12,969,611
Multifamily Bonds	39,083,027	38,862,729			(220,298)	(220,298)
Housing Trust Fund Program	3,503,940	360,354			(3,143,586)	(3,143,586)
Administration	15,735,681	15,361,368			(374,313)	(374,313)
Total Business-type Activities	86,151,971	95,383,385			9,231,414	9,231,414
Total Primary Government	\$ 302,940,698	\$ 101,799,632	\$ 201,832,305	(8,540,175)	9,231,414	691,239
General Revenues:						
				10,861,448		10,861,448
Original Appropriations				890,050		890,050
Additional Appropriations				161,951	98,694	260,645
Interest & Other Investment Income				(350,613)		(350,613)
Appropriations Lapsed				156,919		156,919
Other Revenues					(3,711,414)	(3,711,414)
Net (Decrease) in Fair Value of Investments				(5,646,020)	2,567,288	(3,078,732)
Transfers In (Out) (Note 9)				6,073,735	(1,045,432)	5,028,303
Total General Revenues and Transfers				(2,466,440)	8,185,982	5,719,542
Change in Net Position						
Net Position, September 1, 2015				472,313,071	266,014,251	738,327,322
Net Position - August 31, 2016				\$ 469,846,631	\$ 274,200,233	\$ 744,046,864

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

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

**EXHIBIT III
BALANCE SHEET - GOVERNMENTAL FUND
As of August 31, 2016**

	<u>Total</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 3):	
Cash on Hand	\$ 200
Cash in Bank	20,000
Restricted:	
Cash and Cash Equivalents (Note 3):	
Cash in State Treasury	25,130,698
Federal Receivable	7,689,347
Legislative Appropriations	5,155,043
Receivables From:	
Interest	20,556
Interfund Receivable (Note 9)	140,442
Due From Other Agencies (Note 9)	67
Consumable Inventories	14,028
Restricted - Loans and Contracts	17,797,304
Total Current Assets	<u>55,967,685</u>
Non-Current Assets:	
Restricted - Loans and Contracts	449,510,470
Total Non-Current Assets	<u>449,510,470</u>
Total Assets	<u>505,478,155</u>
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts Payable	10,599,372
Payroll Payable	1,336,242
Interfund Payable (Note 9)	132,433
Unearned Revenues	1,832,747
Total Liabilities	<u>13,900,794</u>
FUND FINANCIAL STATEMENT-FUND BALANCES	
Fund Balances:	
Reserved for:	
Nonspendable	14,028
Restricted	488,783,994
Committed	67
Assigned	361,032
Unassigned	2,418,240
Total Fund Balances as of August 31	<u>491,577,361</u>
NOTE: Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore not reported in the funds.	173,792
Long term liabilities relating to employees' compensable leave and pensions are not due and payable in the current year therefore are not reported in the funds.	(21,904,522)
NET POSITION AS OF AUGUST 31	<u>\$ 469,846,631</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT IV

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- GOVERNMENTAL FUND**

Year Ended August 31, 2016

	<u>Total</u>
REVENUES	
Legislative Appropriations:	
Original Appropriations (GR)	\$ 10,861,448
Additional Appropriations (GR)	890,050
Federal Revenue (PR-OP G/C)	201,812,305
Federal Revenue Grant Pass-Thru Revenue (PR-OP G/C)	20,000
Licenses, Fees & Permits (PR-C/S)	5,794,372
Interest and Other Investment Income (GR)	161,951
Sales of Goods and Services (PR-C/S)	621,875
Other (GR)	156,919
Total Revenues	<u>220,318,920</u>
EXPENDITURES	
Salaries and Wages	9,631,600
Payroll Related Costs	3,104,163
Professional Fees and Services	380,141
Travel	481,359
Materials and Supplies	221,267
Communication and Utilities	138,499
Repairs and Maintenance	207,937
Rentals & Leases	187,016
Printing and Reproduction	14,637
Claims and Judgments	241,424
Intergovernmental Payments	55,473,679
Public Assistance Payments	147,194,136
Other Expenditures	351,786
Capital Outlay	39,560
Total Expenditures	<u>217,667,204</u>
Excess of Revenues	
Over Expenditures	<u>2,651,716</u>
OTHER FINANCING SOURCES (USES)	
Transfers Out (Note 9)	(5,646,020)
Total Other Financing (Uses)	<u>(5,646,020)</u>
Net Change in Fund Balances	(2,994,304)
FUND FINANCIAL STATEMENT-FUND BALANCES	
Fund Balances--Beginning	494,922,278
Appropriations (Lapsed)	(350,613)
Fund Balances - August 31	<u>\$ 491,577,361</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT IV (Continued)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- GOVERNMENTAL FUND**

Year Ended August 31, 2016

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities.

	<u>Total</u>
Net Change in Fund Balances (Exhibit IV)	\$ (2,994,304)
Appropriations (Lapsed)	(350,613)
Changes in Fund Balances	<u>(3,344,917)</u>
<p>Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because of the adjustments to:</p>	
- capital outlay expense	39,560
- depreciation expense	(59,209)
- payroll expense due to Compensable Leave	152,843
- addl pension expense related to GASB 68/71	745,283
Change in Net Position, August 31 (Exhibit II)	<u>\$ (2,466,440)</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT V

STATEMENT OF NET POSITION - PROPRIETARY FUND

August 31, 2016

	Total
ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 3)	
Cash on Hand	\$ 200
Cash in Bank	329,443
Cash in State Treasury	1,394,658
Cash Equivalents	33,401,601
Restricted Assets:	
Cash and Cash Equivalents (Note 3)	
Cash in Bank	17,331,630
Cash Equivalents	159,403,999
Short-term Investments (Note 3)	7,236
Loans and Contracts	23,383,276
Interest Receivable	8,632,490
Receivable:	
Interest Receivable	38,254
Accounts Receivable	584,109
Consumable Inventories	4,387
Loans and Contracts	2,703,322
Other Current Assets	78,764
Total Current Assets	247,293,369
Non-Current Assets:	
Investments	1,809,256
Loans and Contracts	49,793,655
Capital Assets: (Note 2)	
Depreciable or Amortizable, Net	157,082
Restricted Assets:	
Investments (Note 3)	644,661,586
Loans and Contracts	998,197,532
Real Estate Owned, net	44,096
Total Non-Current Assets	1,694,663,207
Total Assets	\$ 1,941,956,576
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources (Note 16)	\$ 17,625,459
Total Deferred Outflows of Resources	\$ 17,625,459

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT V (Continued)

STATEMENT OF NET POSITION - PROPRIETARY FUND

August 31, 2016

LIABILITIES

Current Liabilities

Payables:

Accounts Payable	\$	1,440,476
Accrued Bond Interest Payable		13,676,647
Interfund Payable (Note 9)		8,009
Unearned Revenues		6,238,776
Employees' Compensable Leave (Note 4)		796,615
Notes and Loans Payable (Note 4)		214,880
Revenue Bonds Payable (Notes 4 & 5)		27,896,818
Other Current Liabilities		408,013
Total Current Liabilities		<u>50,680,234</u>

Non-Current Liabilities

Employees' Compensable Leave (Note 4)		505,945
Notes and Loans Payable (Note 4)		45,490,181
Net Pension Liability (Note 8)		19,703,396
Revenue Bonds Payable (Note 4 & 5)		1,406,985,542
Derivative Hedging Instrument (Note 6)		15,095,971
Other Non-Current Liabilities (Note 4)		142,349,019
Total Non-Current Liabilities		<u>1,630,130,054</u>

Total Liabilities \$ 1,680,810,288

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources (Note 16) \$ 4,571,514

Total Deferred Inflows of Resources \$ 4,571,514

NET POSITION

Invested in Capital Assets		157,082
Restricted		217,016,529
Unrestricted		57,026,622

Total Net Position \$ 274,200,233

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VI

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND

For the fiscal year ended August 31, 2016

	Total
OPERATING REVENUES	
Interest and Investment Income	\$ 69,237,779
Net (Decrease) in Fair Value	(3,711,414)
Other Operating Revenues	<u>26,244,298</u>
Total Operating Revenues	<u>91,770,663</u>
OPERATING EXPENSES	
Salaries and Wages	10,291,805
Payroll Related Costs	2,700,459
Professional Fees and Services	2,384,509
Travel	244,018
Materials and Supplies	432,329
Communications and Utilities	160,991
Repairs and Maintenance	287,734
Rentals and Leases	83,695
Printing and Reproduction	98,924
Depreciation and Amortization	48,416
Interest	57,510,278
Bad Debt Expense	1,729,954
Down Payment Assistance	2,602,342
Other Operating Expenses	<u>7,576,515</u>
Total Operating Expenses	<u>86,151,969</u>
Operating Income	<u>5,618,694</u>
OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS	
Transfers In (Note 9)	<u>2,567,288</u>
Total Other Revenues, Expenses, Gains, Losses and Transfers	<u>2,567,288</u>
CHANGE IN NET POSITION	8,185,982
Net Position, September 1, 2015	<u>266,014,251</u>
NET POSITION, AUGUST 31, 2016	<u>\$ 274,200,233</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VII
STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the fiscal year ended August 31, 2016

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Loan Programs	\$ 118,450,255
Proceeds from Other Revenues	45,256,239
Payments to Suppliers for Goods/Services	(64,646,515)
Payments to Employees	(13,419,127)
Payments for Loans Provided	<u>(12,545,390)</u>
Net Cash Provided by Operating Activities	<u>73,095,462</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Debt Issuance	194,841,500
Proceeds from Note Payable	45,740,000
Proceeds from Transfers from Other Funds	2,815,452
Payments of Principal on Debt Issuance	(251,885,342)
Payments of Interest	(59,327,055)
Payments for Other Cost of Debt	<u>(2,222,555)</u>
Net Cash (Used for) Noncapital Financing Activities	<u>(70,038,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Additions to Capital Assets	<u>(49,246)</u>
Net Cash (Used for) Capital Activities	<u>(49,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	166,145,307
Proceeds from Interest/Investment Income	31,340,610
Payments to Acquire Investments	<u>(123,435,509)</u>
Net Cash Provided By Investing Activities	<u>74,050,408</u>
Net Increase in Cash and Cash Equivalents	77,058,624
Cash and Cash Equivalents, September 1, 2015	<u>134,802,907</u>
Cash and Cash Equivalents, August 31, 2016	<u>\$ 211,861,531</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VII (Continued)
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the fiscal year ended August 31, 2016

	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 5,618,694
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	48,416
Pension Expense	195,903
Provision for Uncollectibles	1,729,954
Operating Income and Cash Flow Categories Classification Differences	(4,444,369)
Changes in Assets and Liabilities:	
Decrease in Receivables	224,160
Decrease in Accrued Interest Receivable	3,130,850
Decrease in Loans / Contracts	14,552,844
Decrease in Property Owned	157,986
Decrease in Other Assets	750,602
Increase in Payables	360,969
Increase in Unearned Revenues	137,526
(Decrease) in Accrued Interest Payable	(3,916,472)
Increase in Other Liabilities	<u>54,548,399</u>
Total Adjustments	<u>67,476,768</u>
Net Cash Provided by Operating Activities	<u>\$ 73,095,462</u>
NON CASH TRANSACTIONS	
Net Change in Fair Value of Investments for 2016 was \$(3,711,414)	

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VIII
STATEMENT OF FIDUCIARY NET POSITION
As of August 31, 2016

AGENCY FUND	Total
ASSETS	
Current Assets:	
Restricted:	
Cash in State Treasury (Note 3)	\$ 357,026
Total Current Assets	<u>357,026</u>
Total Assets	<u><u>\$ 357,026</u></u>
LIABILITIES	
Current Liabilities:	
Funds Held for Others	\$ 357,026
Total Current Liabilities	<u>357,026</u>
Total Liabilities	<u><u>\$ 357,026</u></u>

**NOTES TO THE
FINANCIAL STATEMENTS**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ENTITY

The Texas Department of Housing and Community Affairs (Department) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

Effective September 1, 1991, the Department was created to assist local governments in helping residents overcome financial, social and environmental problems; to address very low to moderate income housing needs; to contribute to the preservation and redevelopment of neighborhoods and communities; to assist the Governor and the legislature in coordinating federal and state programs affecting local governments; and to continually inform the state and the public about the needs of local government (*Texas Government Code Ann., Chapter 2306*). The Department was created by merging two former agencies, the Texas Housing Agency and the Texas Department of Community Affairs.

The regulation of manufactured housing was transferred from the Texas Department of Licensing and Regulation to the Department on September 1, 1995. The Manufactured Housing Division is administratively attached to the Department and is responsible for issuing Statements of Ownership and Location, industry licensing, installation inspection, and consumer protection. The Manufactured Housing Division also serves as a State Administrative Agency, inspecting manufacturing plants on HUD's behalf. The Manufactured Housing Division has a governing Board of five members appointed by the Governor.

The Department is governed by a Board, composed of seven members, all of whom are appointed by the Governor with the advice and consent of the Texas Senate. The Board then appoints the Executive Director, with the approval of the Governor.

The accompanying financial statements of the Department have been prepared to conform to Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). These financial statements represent the financial status of the Department, and are not intended to present the financial position of the State of Texas or its results of operations or cash flows.

Component Units - No component units have been identified which should be included in the Department's financial statements.

FUND STRUCTURE

The Government-Wide Financial Statements are presented on the accrual basis of accounting and consist of the Statement of Net Position and the Statement of Activities. Program revenues include charges to customers who purchase, use or directly benefit from services or privileges provided by the Department and grants/contributions that are restricted to meeting the operational requirements of a particular program. The fiduciary activity is not included in the government-wide statements.

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

Governmental Fund

The Governmental Fund is the principal operating fund used to account for most of the Department's general activities. It accounts for all financial resources except those accounted for in other funds.

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Proprietary Fund Types

Enterprise Funds (Business-Type Activity)

Enterprise Funds account for operations financed and operated in a manner similar to private business. The intent is to recover costs through user charges and where a periodic determination of revenues earned, expenses incurred, and net income are appropriate for management control, accountability, contractual obligations and other purposes.

Fiduciary Fund Types

Agency Funds

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The fiduciary activity is not included in the government-wide financial statements.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental funds are accounted for using the modified accrual basis of accounting. Under modified accrual, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The Department considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for the Fund Financial Statements prepared on the modified accrual basis of accounting. Expenditures and other uses of financial resources are recognized when the related liability is incurred except for certain long-term liabilities.

The Government-Wide Financial Statements are accounted for using the accrual method of accounting. This includes net pension liability, unpaid Employee Compensable leave, capital assets, and accumulated depreciation.

Proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary Funds distinguish operating from non-operating items. Operating revenues result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Agency funds are custodial in nature and do not involve measurement of operations and provide the most appropriate mechanism for accounting for assets and liabilities.

The Department has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 as allowed by GASB Statement No. 20.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

BUDGET AND BUDGETARY ACCOUNTING

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). The state monitors its statewide budget by establishing the legal level of control at the agency level to ensure that expenditures are not made in excess of budgetary authority. Within the Department, procedures are used to ensure that expenditures do not exceed their total budget at the division level, but the State Comptroller ultimately ensures that each total authorized agency budget is not exceeded. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

ASSETS, LIABILITIES AND FUND BALANCES/NET POSITION

Assets

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Investments

Investments are stated at fair value in accordance with Governmental Accounting Standards Board Statement ("GASB") No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Department utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. Fair value of the Department's securitized mortgage loans Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) has been established by each bond issue's trustee using a pricing service. In accordance with GASB No. 72, *Fair Value Measurement and Application*, the Department would be required to disclose the hierarchy within which the fair value measurement is categorized. The Department has concluded that its investments do not meet the definition of investments as prescribed by GASB No. 72 so this disclosure is not necessary in Note 3.

The Department has reported all investment securities at fair value as of August 31, 2016 with exception of some short-term money market investments and nonparticipating interest-earning investment contracts which are reported at amortized cost provided that the fair value of these investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Changes in the fair value of investments for the Enterprise Fund are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Fund as "Net Increase (Decrease) in the Fair Value." These investments are held and pledged per bond covenants and are intended to be held until maturity. The sale of these assets is considered to be incidental to the Department's course of business and any gain/loss on the sale is reported as "Net Increase (Decrease) in the Fair Value."

Restricted Net Position

Restricted Net Position includes monies or other resources restricted by legal or contractual requirements. These assets in the General Fund include federal grants which are restricted by the grantor for specific program purposes. The Proprietary Fund includes certain assets pledged to respective bond indentures, the use of which is restricted by those same bond covenants.

Consumable Inventories

Consumable inventories consist of postage on hand at year-end. Inventories for governmental fund types and proprietary fund types are accounted for using the consumption method of accounting. The cost of these items is expensed when the items are consumed.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Capital Assets

Assets with an initial, individual cost meeting the thresholds established by the Comptroller's Office and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if donated, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the asset (5 years for both Furniture & Equipment and Other Capital Assets) using the straight-line method. All capital assets acquired by proprietary funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the donation date. Depreciation is charged to operations over the estimated useful life of each asset using the straight-line method.

Loans and Contracts

Loans and contracts consist of loans in the Governmental Fund made from federal funds for the purpose of Single Family loans and Multifamily development loans from HOME, Tax Credit Assistance Program (TCAP) and Neighborhood Stabilization Program (NSP) grants. Restricted loans and contracts in proprietary funds consist of mortgage loans made from Single Family and Multifamily bond proceeds. Unrestricted loans and contracts consist of Single Family loans and Multifamily development loans from the Housing Trust Fund and other Housing Initiative Programs. Loans receivable are carried at the unpaid principal balance outstanding, net of the allowance for estimated losses. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status when the Department becomes aware that the borrower has entered bankruptcy proceedings or when they are past due 90 days as to either principal or interest or when payment in full of principal and interest is not expected.

Real Estate Owned

Real estate owned are properties acquired through foreclosure that are carried at the unpaid principal balance on the related property plus accrued interest and reimbursable expenses through the date of foreclosure, less any sales proceeds, reimbursements received from mortgage insurers and an allowance for estimated losses on such properties, which approximates the net realizable value of the property at foreclosure. Loans secured by Single Family properties on which there is an indication that the borrower no longer has the ability to repay the loan and that foreclosure is likely are considered in-substance foreclosures and are classified as real estate owned in the accompanying balance sheet. Interest on real estate owned is credited to income as earned based on a calculation of interest recoverable in accordance with the Department's agreements with its mortgage insurers.

Allowance for Estimated Losses on Loans and Foreclosed Properties

The allowance for estimated losses on loans is calculated for future charge-offs on Single Family and Multifamily loans. The allowance for estimated losses on real estate owned is calculated for future charge-offs on foreclosed Single Family loans.

All losses are charged to the allowance when the loss actually occurs or when a determination is made that a loss is likely to occur. Periodically, management estimates the level of future losses to determine whether the allowances for estimated losses are adequate to absorb anticipated losses in the existing loan and real estate owned portfolios. Based on these estimates, a provision for estimated losses on loans and real estate owned is credited to the allowances in order to adjust the allowances to levels estimated to be adequate to absorb reasonably foreseeable losses.

While management uses available information to recognize losses in the loan and real estate owned portfolios, future additions may be necessary based on changes in economic conditions. However, it is the judgment of management that allowances are currently adequate to absorb reasonably foreseeable losses in the existing loan and real estate owned portfolios.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Deferred Outflows of Resources

Deferred Outflows of Resources

The Department identified its derivative instruments and measured their effectiveness in accordance with Governmental Accounting Standards Board Statement (“GASB”) No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Department contracted a service provider to measure its derivative effectiveness. Since the derivative instruments were deemed to be effective, the Department will be deferring the changes in fair value for these derivatives and reporting them as deferred outflow of resources.

The Department has also implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Department will be reporting its allocated contributions as of the measurement date of August 31, 2015, contributions after the measurement date for fiscal year 2016, and the effect of changes in actuarial assumptions as deferred outflow of resources.

Liabilities

Accounts Payable

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Other Current Liabilities

Other current liabilities primarily consist of escrow fees and arbitrage rebate liability.

Unearned Revenues

Unearned Revenues in the proprietary fund represent fees such as compliance fees that are received in advance of work performed and are recognized over a period of time. Unearned Revenues in the governmental fund represent federal revenues that have not been earned but are available at fiscal year-end in the amount that revenues exceed expenditures.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net position.

Net Pension Liability

The Department has implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*. The Department has relied on reports issued by the Employees Retirement System of Texas who is the administrator of the plan. The Department has reported its proportionate share of the pension liability according to their report.

Bonds Payable – Revenue Bonds

Revenue bonds are accounted for in the proprietary funds. The bonds payable are reported at par less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the statement of net position.

Notes Payable

The Department issues notes to provide funding to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing. These notes are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the notes.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Discounts and Premiums on Debt

Discounts and premiums on debt are recognized using the interest method over the lives of the bonds to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums related to that debt.

Derivative Hedging Instruments

Per GASB Statement No. 72, the Department is to recognize its interest rate swaps at fair value taking into account non-performance risk on the Statement of Net Position. As of August 31, 2016, the fair value of the Department's four swaps is considered to be negative indicating the Department would be obligated to pay the counterparty the fair value as of the termination date. The Department has the option to terminate prior to the maturity date.

Other Non-current Liabilities

Other non-current liabilities primarily account for funds due to Developers as a result of Multifamily bond proceeds. These proceeds are conduit debt issued on behalf of the Developer for the purpose of Multifamily developments and are held by the trustee. Due to the developers' fluctuation in cash flow needs, the current portion cannot be reasonably estimated.

Deferred Inflows of Resources

The Department has implemented GASB No. 68. It will be reporting the difference between expected and actual experience and the difference between projected and actual investment return as deferred inflows of resources.

Fund Balance/Net Position

Fund Balance/Net Position – "Net position" is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources on the government-wide, proprietary and fiduciary fund statements. "Fund balance" is the difference between fund assets and liabilities on the governmental fund statements.

Fund Balance Components

The fund balance amounts for governmental funds were reclassified in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable Fund Balance

Includes amounts that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to be maintained intact.

Restricted Fund Balance

Includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Texas Legislature, the state's highest level of decision-making authority.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Assigned Fund Balance

Includes amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance

This is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the general fund.

Net Position Components

Invested in Capital Assets

Includes amounts for capital assets net of accumulated depreciation. There is no debt associated with these capital assets.

Restricted Net Position

Includes amounts restricted through bond covenants.

Unrestricted Net Position

Includes amounts that do not fall under the Invested in Capital Assets or Restricted Net Position categories. When both restricted and unrestricted resources are available for use, restricted resources are used first, then unrestricted resources are used as they are needed.

Interfund Transactions and Balances

Interfund Receivables and Payables

Interfund transactions are reported as interfund receivables and payables at year end. If repayment is due during the current year or soon thereafter, the balance is classified as "current." Balances for repayment due in two (or more) years are classified as "noncurrent."

Due From and Due To Other Agencies

Represents amounts that must be repaid by other agencies or advances from other agencies.

Transfers

Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 2: CAPITAL ASSETS - A summary of changes in Capital Assets for year ended August 31, 2016 is below:

	PRIMARY GOVERNMENT				
	Balance 09/01/15	Adjustments	Additions	Deletions	Balance 08/31/16
GOVERNMENTAL ACTIVITIES					
Depreciable Assets					
Furniture and Equipment	\$ 633,763	\$ -	\$ 39,560	\$ (11,974)	\$ 661,349
Other Capital Assets	130,964				130,964
Total Depreciable Assets	\$ 764,727	\$ -	\$ 39,560	\$ (11,974)	\$ 792,313
Less Accumulated Depreciation for:					
Furniture and Equipment	\$ (440,322)		\$ (59,209)	\$ 11,974	\$ (487,557)
Other Capital Assets	(130,964)				(130,964)
Total Accumulated Depreciation	(571,286)	-	(59,209)	11,974	(618,521)
Depreciable Assets, Net	\$ 193,441	\$ -	\$ (19,649)	\$ -	\$ 173,792
Amortizable Assets - Intangible					
Computer Software	\$ 1,307,012	\$ -	\$ -	\$ -	\$ 1,307,012
Total Amortizable Assets - Intangible	\$ 1,307,012	\$ -	\$ -	\$ -	\$ 1,307,012
Less Accumulated Amortization for:					
Computer Software	\$ (1,307,012)	\$ -	\$ -	\$ -	\$ (1,307,012)
Total Accumulated Amortization	(1,307,012)	-	-	-	(1,307,012)
Amortizable Assets - Intangible, Net	\$ -	\$ -	\$ -	\$ -	\$ -
Governmental Activities Capital Assets, Net	\$ 193,441	\$ -	\$ (19,649)	\$ -	\$ 173,792

	PRIMARY GOVERNMENT				
	Balance 09/01/15	Adjustments	Additions	Deletions	Balance 08/31/16
BUSINESS-TYPE ACTIVITIES					
Depreciable Assets					
Furniture and Equipment	\$ 550,021	\$ -	\$ 49,246	\$ (1,778)	\$ 597,489
Other Capital Assets	132,279				132,279
Total Depreciable Assets	\$ 682,300	\$ -	\$ 49,246	\$ (1,778)	\$ 729,768
Less Accumulated Depreciation for:					
Furniture and Equipment	\$ (393,769)	\$ -	\$ (48,416)	\$ 1,778	\$ (440,407)
Other Capital Assets	(132,279)				(132,279)
Total Accumulated Depreciation	(526,048)	-	(48,416)	1,778	(572,686)
Depreciable Assets, Net	\$ 156,252	\$ -	\$ 830	\$ -	\$ 157,082
Amortizable Assets - Intangible					
Computer Software	\$ 679,785	\$ -	\$ -	\$ -	\$ 679,785
Total Amortizable Assets - Intangible	\$ 679,785	\$ -	\$ -	\$ -	\$ 679,785
Less Accumulated Amortization for:					
Computer Software	\$ (679,785)	\$ -	\$ -	\$ -	\$ (679,785)
Total Accumulated Amortization	(679,785)	-	-	-	(679,785)
Amortizable Assets - Intangible, Net	\$ -	\$ -	\$ -	\$ -	\$ -
Business-Type Activities Capital Assets, Net	\$ 156,252	\$ -	\$ 830	\$ -	\$ 157,082

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 3: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS

The Department is authorized by statute to make investments following the “prudent person rule” and based upon provisions within the master bond indentures and its Investment Policy adopted by the Board in accordance with the Public Funds Investment Act. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2016, the carrying amount of deposits was \$17,681,073.

Governmental and Business-Type Activities	
CASH IN BANK - CARRYING VALUE	\$ 17,681,073
Governmental Funds Current Assets Cash in Bank	\$ 20,000
Texas Treasury Safekeeping Trust	329,443
Texas Treasury Safekeeping Trust - Restricted	2,627,689
Demand Deposits	14,703,941
Cash in Bank	\$ 17,681,073

At August 31, 2016, the Department’s cash and deposits in the State Treasury amounted to \$26,882,382 which included \$357,026 in Fiduciary Funds. The total amount was fully collateralized by securities held with a trustee in the State’s name, as reported to the Department by the Comptroller of Public Accounts of the State of Texas.

Investments

The types of investments in which the Department may invest are restricted by the provisions of the master bond indentures and the Department’s Investment Policy adopted by its Board in accordance with the Public Funds Investment Act. The indentures allow for investments in direct obligations of or guaranteed by the U.S. Government; obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by agencies or intermediaries of the U.S. Government; obligations issued by public agencies or municipalities; obligations and general obligations of or guaranteed by the state; demand deposits, interest-bearing time deposits or certificates of deposit; repurchase agreements in U.S. Government securities; direct or general obligations of any state within the territorial U.S.; investment agreements with any bank or financial institution; and guaranteed investment contracts. Certain trust indentures restrict the Department from investing in certain of the aforementioned investments.

The Department holds \$98,560,444 in overnight repurchase agreements maturing on the following business day, September 1, 2016, at a rate of .27%.

At August 31, 2016, the fair value of investments (including both short-term and long-term) and cash equivalents are shown below.

Business Type Activities	Carrying Value	Fair Value
U.S. Government Agency Obligations	\$ 562,257,016	\$ 615,065,541
U.S. Treasury Bills	14,829,103	14,829,103
Repurchase Agreements (TTSTC)	98,560,444	98,560,444
Fixed Income Money Markets	79,416,053	79,416,053
Misc (Investment Agreements/GICs)	31,412,537	31,412,537
Total	\$ 786,475,153	\$ 839,283,678

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 3: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS Cont'd

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Preservation and safety of principal is the foremost objective of the investment program. According to the Department's investment policy, investments should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is mitigated by

- Limiting investments to the safest types of securities.
- Pre-qualifying the financial institution, broker/dealers, intermediaries, and advisors with which the Department will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

As of August 31, 2016, the Department's credit quality distribution for securities with credit risk exposure was as follows.

Standard & Poor's

Investment Type	Not Rated	AAA	AA+
U.S. Government Agency Obligations			\$85,030,745
U.S. Treasury Bills			\$14,829,103
Repurchase Agreements (TTSTC)	\$98,560,444		
Misc (Investment Agreements/GICs)	\$31,412,537		
	Not Rated	AAA-M	AA-M
Fixed Income Money Market		\$79,416,053	

Repurchase Agreements, while not rated, are required to be over collateralized such that they meet the requirements set-forth in the various indentures.

A total of \$530,034,796 was not subject to credit risk disclosure due to their explicit guarantee by the U.S. Government which is composed of U.S. Government Agency obligations issued by the Government National Mortgage Association.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2016, the Department's concentration of credit risk is as follows.

Issuer	Carrying Value	% of Total Portfolio
Greenwich	\$98,560,444	11.74%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of any investment. The longer the maturity of an investment will result in greater sensitivity of its fair value to changes in the market interest rates. The Department's investment policy allows for the mitigation of interest rate risk by

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 3: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS Cont'd

Information about the sensitivity of the fair values of the Department's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Department's investments by maturity:

Remaining Maturity (in months)

Business Type Activities	Fair Value	12 months or less	13 to 24 months	25 to 60 months	More than 60 months
U.S. Government Agency Obligations	\$ 615,065,541	\$ 7,236	\$ 49,010	\$ 941,443	\$ 614,067,852
U.S. Treasury Bills	14,829,103	14,829,103			
Repurchase Agreements (TTSTC)	98,560,444	98,560,444			
Fixed Income Money Markets	79,416,053	79,416,053			
Misc (Investment Agreements/GICs)	31,412,537				31,412,537
Total	\$ 839,283,678	\$ 192,812,836	\$ 49,010	\$ 941,443	\$ 645,480,389

Highly Sensitive Investments

Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. These prepayments result in a reduction of expected total cash flows affecting the fair value of these securities and make the fair value of these securities highly sensitive to the changes in interest rates. The Department does not make it a common practice to sell these investments. However, in recent years the Department has sold some of these investments at a premium and used the realized gain to fund Down Payment Assistance loans in connection with the Single Family, First-Time Homebuyer Program. Any other fluctuation in fair value generates an unrealized gain or loss. As of August 31, 2016, the Department holds \$615,065,541 in mortgage backed securities.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 4: SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2016, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/2015	Additions	Reductions	Balance 08/31/2016	Amounts Due Within One Year
Compensable Leave	\$ 932,989	589,045	741,888	\$ 780,146	\$ 465,632
Total Governmental Activities	\$ 932,989	589,045	741,888	\$ 780,146	\$ 465,632

Business-Type Activities	Balance 09/01/2015	Additions	Reductions	Balance 08/31/2016	Amounts Due Within One Year
Revenue Bonds Payable	\$ 1,535,610,858	194,841,500	295,569,998	\$ 1,434,882,360	\$ 27,896,818
Notes Payable	-	45,740,000	34,939	45,705,061	214,880
Compensable Leave	968,324	966,359	632,123	1,302,560	796,615
Total Business-Type Activities	\$ 1,536,579,182	241,547,859	296,237,060	\$ 1,481,889,981	\$ 28,908,313

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Position. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Revenue Bonds Payable

The Department issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. (See Note 5 for more information.) The \$295,569,998 in reductions is inclusive of \$1,657,185 in amortization of bond premium/discount and the \$194,841,500 in additions is inclusive of \$231,500 as a result of multifamily bonds issued at a premium.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 4: SUMMARY OF LONG TERM LIABILITIES Cont'd

Notes Payable

The Department issues notes to provide funding to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing. These notes are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the notes.

Texas Department of Housing and Community Affairs			
Notes Payable Debt Service Requirements			
Business-Type Activities			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 214,880	\$ 1,473,793	\$ 1,688,673
2018	224,147	1,487,321	1,711,468
2019	233,815	1,477,950	1,711,765
2020	243,899	1,470,410	1,714,309
2021	254,419	1,457,980	1,712,399
2022-26	1,446,465	7,123,120	8,569,585
2027-31	1,786,487	6,793,549	8,580,036
2032-36	12,300,949	4,979,370	17,280,319
2037-41	29,000,000	473,604	29,473,604
Totals	<u>\$ 45,705,061</u>	<u>\$ 26,737,097</u>	<u>\$ 72,442,158</u>

Other Non-Current Liabilities

Other non-current liabilities in the Enterprise Fund are compromised primarily of funds due to developers as a result of Multifamily bond proceeds which have corresponding investment balances not adjusted to market value in the amount of \$142,348,859. These proceeds are conduit debt issued on behalf of the Developer for the purpose of Multifamily developments and are held by the trustee. Due to the various variables related to the balance, the current portion cannot be reasonably estimated.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 5: BONDED INDEBTEDNESS

The Department has 99 bond issues outstanding at August 31, 2016. All series are revenue bonds backed by the pledged revenue sources and restricted funds specified in the bond resolutions. Each series is designed to be self-supporting with no repayment nor obligation from the State’s General Revenue. The Department issues bonds to assist in financing the purchase of homes by or the construction of rental housing for families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. (Detailed supplemental bond information is disclosed in Schedules 1-A, 1-B, 1-C, 1-D, 1-E, and 1-F)

Proceeds from the issuance of bonds under the Single Family indenture prior to 1987 and Residential Mortgage Revenue Bonds (RMRB) Series 1987A Programs were used to acquire loans. Proceeds from Collateralized Home Mortgage Revenue Bond (CHMRB) and the remaining Single Family and RMRB programs were used to acquire pass-through certificates (GNMA, FNMA, FHLMC) backed by mortgage loans. Proceeds from the remaining Multifamily bond issues were used to finance mortgage loans.

Interest on bonds and collateralized mortgage obligations is payable periodically.

The Single Family, RMRB and CHMRB bonds are collateralized by the revenues and assets pledged under the trust indentures, primarily Single Family mortgage loans, mortgage-backed securities and investments. The Multifamily bonds are collateralized by varying methods, including, but not limited to, the mortgage loans on the applicable housing developments, certificates of deposit, letters of credit, guarantees provided by third parties and collateralized mortgage obligations issued by federally chartered, privately owned corporations.

The trust indentures contain positive and negative covenants. Events of default include the following: failure to make timely payment of both principal and interest on any outstanding bond; failure to make timely payment of any other monies required to be paid to the Trustee; and non-performance or non-observance of any other covenants, agreements or conditions contained in the indentures. Management believes they are in compliance with the covenants of the indentures.

Actual maturities will differ from contractual maturities since the Department has the right to call or prepay obligations with or without call or prepayment penalties as the related loans and mortgage backed securities mature or prepay. Bond contractual maturities (principal only) at August 31, 2016, are as follows (in thousands):

Description	2017	2018	2019	2020	2021	2022 to 2026	2027 to 2031
Single-family	\$ 385	\$ 3,660	\$ 430	\$ 430	\$ 445	\$ 22,745	\$ 29,900
RMRB	4,655	4,990	4,820	5,190	5,330	29,290	32,960
CHMRB						1,700	
Multifamily	<u>22,772</u>	<u>35,421</u>	<u>9,441</u>	<u>10,014</u>	<u>10,665</u>	<u>88,572</u>	<u>107,305</u>
Total	<u>\$ 27,812</u>	<u>\$ 44,071</u>	<u>\$ 14,691</u>	<u>\$ 15,634</u>	<u>\$ 16,440</u>	<u>\$ 142,307</u>	<u>\$ 170,165</u>
Description	2032 to 2036	2037 to 2041	2042 to 2046	2047 to 2051	2052 to 2056	2057 to 2061	Total
Single-family	\$ 108,875	\$ 120,390	\$ 49,890	\$	\$	\$	\$ 337,150
RMRB	40,910	54,465					182,610
CHMRB							1,700
Multifamily	<u>165,003</u>	<u>319,448</u>	<u>115,643</u>	<u>21,988</u>	<u>5,993</u>		<u>912,265</u>
Total	<u>\$ 314,788</u>	<u>\$ 494,303</u>	<u>\$ 165,533</u>	<u>\$ 21,988</u>	<u>\$ 5,993</u>	<u>\$</u>	<u>\$ 1,433,725</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 5: BONDED INDEBTEDNESS Cont'd

Interest requirements on variable rate debt are calculated using the interest rate in effect at August 31, 2016. Interest rates on variable rate debt reset on a weekly basis by the remarketing agent.

The interest payment requirements at August 31, 2016, are as follows (in thousands):

Description	2017	2018	2019	2020	2021	2022 to 2026	2027 to 2031
Single-family	\$ 7,597	\$ 7,677	\$ 7,643	\$ 7,623	\$ 7,598	\$ 37,341	\$ 35,889
RMRB	6,676	6,526	6,353	6,170	5,960	26,109	19,008
CHMRB	112	124	112	112	124	336	
Multifamily	<u>37,432</u>	<u>36,873</u>	<u>36,148</u>	<u>35,579</u>	<u>34,966</u>	<u>163,696</u>	<u>133,009</u>
Total	<u>\$ 51,817</u>	<u>\$ 51,200</u>	<u>\$ 50,256</u>	<u>\$ 49,484</u>	<u>\$ 48,648</u>	<u>\$ 227,482</u>	<u>\$ 187,906</u>
Description	2032 to 2036	2037 to 2041	2042 to 2046	2047 to 2051	2052 to 2056	2057 to 2061	Total
Single-family	\$ 32,702	\$ 18,105	\$ 7,602	\$	\$	\$	\$ 169,777
RMRB	12,120	4,540					93,462
CHMRB							920
Multifamily	<u>101,319</u>	<u>54,112</u>	<u>17,220</u>	<u>3,011</u>	<u>639</u>		<u>654,004</u>
Total	<u>\$ 146,141</u>	<u>\$ 76,757</u>	<u>\$ 24,822</u>	<u>\$ 3,011</u>	<u>\$ 639</u>	<u>\$</u>	<u>\$ 918,163</u>

Changes in Bonds Payable

Description	Bonds Outstanding 09/01/15	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/16	Amounts Due Within One Year
Single Family	\$ 347,390,000	\$ 144,940,000	\$ 3,055,000	\$ 152,125,000	\$ 337,150,000	\$ 385,000
RMRB	217,685,000		4,700,000	30,375,000	182,610,000	4,730,509
CHMRB	2,600,000			900,000	1,700,000	2,276
Multifamily	<u>965,352,798</u>	<u>49,670,000</u>	<u>8,044,834</u>	<u>94,712,979.00</u>	<u>912,264,985</u>	<u>22,779,033</u>
Total Principal	<u>\$ 1,533,027,798</u>	<u>\$ 194,610,000</u>	<u>\$ 15,799,834</u>	<u>\$ 278,112,979</u>	<u>\$ 1,433,724,985</u>	<u>\$ 27,896,818</u>
Unamortized Premium	<u>2,583,060</u>				<u>1,157,375</u>	
Total	<u>\$ 1,535,610,858</u>				<u>\$ 1,434,882,360</u>	

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 5: BONDED INDEBTEDNESS Cont'd

Demand Bonds

The Department currently holds six single family bond series in the amount \$141,560,000 in variable rate demand bonds. The proceeds of these bonds were used to refund outstanding bonds or provide funds for the primary purpose of purchasing mortgaged-backed securities which are pools of first time homebuyer loans. These bond series have the following terms.

Demand Bonds - Standby Purchase Agreements					
Single Family Bond Series	Remarketing Agent	Liquidity Provider	Commitment Fee Rate	Outstanding Variable Rate Demand Bonds as of 8/31/16	Liquidity Facility Expiration Date
2007A	JP Morgan	Comptroller of Public Accounts	0.12%	\$ 38,405,000	8/31/2017
2005A	JP Morgan	Comptroller of Public Accounts	0.12%	31,130,000	8/31/2017
2004D	Piper Jaffray	Comptroller of Public Accounts	0.12%	25,700,000	8/31/2017
2004B	JP Morgan	Comptroller of Public Accounts	0.12%	39,380,000	8/31/2017
2005C	JP Morgan	Comptroller of Public Accounts	0.12%	3,090,000	8/31/2017
2004A Jr. Lien	JP Morgan	Comptroller of Public Accounts	0.12%	3,855,000	8/31/2017
Total Demand Bonds				\$ 141,560,000	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to remarket any bonds, the liquidity facility will purchase the bonds (bank bonds). The liquidity agreement is subject to renewal on an ongoing basis. The Department shall use its best effort to cause the bonds to be purchased from the liquidity facility as soon as possible. The purchased bonds are not subject to term out provisions. For fiscal year 2016, the Trustee did not draw from the liquidity provider, Comptroller of Public Accounts, related to the Department's demand bonds.

Federal Arbitrage Regulations

In accordance with Federal law, the Department is required to rebate to the Internal Revenue Service (IRS) the excess of the amount derived from investing the bond proceeds over the amount that would have been earned if those investments had a rate equal to the yield on the bond issue. As of August 31, 2016, the Bond Program had no liabilities to the IRS or reported in the Statement of Net Position.

Pledged and Other Sources

GASB Statement No. 48 requires the following disclosures for "specific revenues that have been formally committed to directly collateralize or secure debt of the Department." The following table summarizes by indenture, pledged and other sources and related expenditures for the Department's revenue bonds. A detail schedule of each bond issue is included in Schedule 1-D.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 5: BONDED INDEBTEDNESS Cont'd

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016						Pledged Revenue for Future Debt Service	Terms of Commitment Year Ending August 31,	Percentage of Revenue Pledged
	Net Available for Debt Service		Debt Service						
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest					
Total Single Family Bonds	\$ 169,658,121	\$ 2,716,623	\$ 3,055,000	\$ 12,232,010	\$ 506,925,648	2046	100%		
Total Residential Mtg Revenue Bonds	38,379,888	252,155	4,700,000	7,289,920	276,071,307	2041	100%		
Total 1992 CHMRB	1,151,133	701		155,857	2,621,324	2024	100%		
Total Multifamily Bonds	133,327,054		8,044,834	38,615,467	1,566,269,555	2054	100%		
Total	\$ 342,516,196	\$ 2,969,479	\$ 15,799,834	\$ 58,293,254	\$ 2,351,887,834				

Current Refunding

On October 29, 2015, the Department issued Series 2015 A & B Single Family Revenue Bonds. Series 2015 A for \$33,825,000 was issued for the primary purpose of refunding and redeeming the Single Family Mortgage Revenue Bonds Series 2006H. Refunding the 2006H Bonds will allow the Department to reduce its outstanding variable rate debt, terminate the related liquidity facility, and terminate the 2006H Swap. This refunding transaction resulted in a deferred amount of \$405,254 which represented the termination fee and fair value of the interest rate swap hedging the variable rate debt. During the current period, \$405,254 of the deferral amount has been recognized as period bond interest expense. This transaction also gave rise to a \$16,046,131 economic loss and a cash flow loss of \$24,735,357.

On February 24, 2016, the Department issued Series 2016 A & B Single Family Revenue Bonds. Series 2016 B for \$59,735,000 was issued for the primary purpose of refunding and redeeming the Single Family Mortgage Revenue Bonds Series 2006ABCDE. This transaction also gave rise to a \$16,175,194 economic gain and a cash flow gain of \$15,136,636.

NOTE 6: DERIVATIVE INSTRUMENTS

Variable to Fixed Interest Rate Swap

Objective

In order to hedge against increases in interest rates on variable rate demand bond issues, the Department has entered into four interest rate swap agreements with the objective of reducing the interest rate risk of certain variable rate demand bonds. The variable rate demand bonds were issued at an expected lower total interest cost than attainable through traditional fixed rate bond structures. The Department has entered into interest rate swap agreements with various rated counterparties. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments that are expected to be comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 6: DERIVATIVE INSTRUMENTS Cont'd

Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

Summary

The fair value balances and notional amounts of derivative instruments outstanding as of August 31, 2016, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the 2016 financial statements are as follows.

Business Type Activities		Changes in Fair Value		Fair Value at August 31, 2016		Notional
Cash Flow Hedges	Bond Issue	Classification	Amount	Classification	Amount	
Pay-fixed, receive-variable interest rate swap	2004B	Deferred outflow of resources	\$ 383,594	Debt	\$ (2,874,866)	\$ 33,530,000
Pay-fixed, receive-variable interest rate swap	2004D	Deferred outflow of resources	89,725	Debt	(1,645,410)	25,700,000
Pay-fixed, receive-variable interest rate swap	2005A	Deferred outflow of resources	(39,722)	Debt	(5,276,164)	31,130,000
Pay-fixed, receive-variable interest rate swap	2006H	Deferred outflow of resources	582,595	Debt		
Pay-fixed, receive-variable interest rate swap	2007A	Deferred outflow of resources	797,560	Debt	(5,299,531)	38,405,000
			<u>\$ 1,813,752</u>		<u>\$ (15,095,971)</u>	<u>\$ 128,765,000</u>

Terms and Fair Value

The terms, including the fair value of the outstanding swaps as of August 31, 2016 are as follows. The notional amounts of the swaps match the principal amount of the associated debt.

Counterparty	Notional Amount	Fair Value	Effective Date	Fixed Rate	Variable Rate	Swap Termination Date
Bank of New York Mellon	\$ 33,530,000	\$ (2,874,866)	3/1/2014	3.67%	65.5% of LIBOR + .20%	9/1/34 (a)
Goldman Sachs Bank USA	25,700,000	(1,645,410)	1/1/2005	3.08%	Less of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	3/1/35 (b)
JP Morgan Chase Bank	31,130,000	(5,276,164)	8/1/2005	4.01%	Less of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	9/1/36 (c)
JP Morgan Chase Bank	38,405,000	(5,299,531)	6/5/2007	4.01%	Less of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR	9/1/38 (c)
Total	\$ 128,765,000	\$ (15,095,971)				

- Swap Agreement has an optional early par termination date of September 1, 2015 and every March and September thereafter. The Swap Agreement has 100% optional par termination rights on or after September 1, 2021.
- Swap Agreement has an optional early par termination date of March 1, 2015 and every March and September thereafter. The Swap Agreement has 100% optional par termination rights on or after September 1, 2021.
- Swap Agreement is subject to mandatory early termination date each March 1 and September 1 from mortgage loan repayments.

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 6: DERIVATIVE INSTRUMENTS Cont'd

During the year ended August 31, 2016, the Department adopted GASB Statement No. 72 – Fair Value Measurement and Application, which addresses accounting and financial reporting issues related to fair value measurements. In accordance to GASB 72, the fair value of these derivative instruments was measured using the Income Approach. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of non-performance risk. The fair value hierarchy disclosure is as follows:

Derivative Instruments	Total	Input Level 1	Input Level 2	Input Level 3
Pay-fixed, receive-variable interest rate swap	\$ (15,095,971)		\$ (15,095,971)	
Total	\$ (15,095,971)		\$ (15,095,971)	

- Level 1- Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in the pricing asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Credit Risk

As of August 31, 2016, the Department is not exposed to credit risk on any of its outstanding swaps because the swaps currently have a negative fair value indicating an obligation for the Department to pay the counterparty as opposed to receive payments should the Department exercise it’s optional right to terminate. If interest rates change and the fair value of the swaps become positive, the department would be exposed to credit risk on those swaps. The swap agreements contain varying collateral provisions. The schedule payments under the 2004 Series B Swap Agreement are insured by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.). The credit ratings for the counterparties are as follows.

Counterparty	Standard & Poor's	Moody's
Bank of New York Mellon	AA-/Stable	Aa2/Stable
Goldman Sachs Bank USA*	A/Review Upgrade	A1/Stable
JP Morgan Chase Bank	A+/Stable	Aa3/Stable

* Guaranteed by Goldman Sachs Group, Inc.

Basis Risk

The Department’s variable-rate bond coupon payments are related to the Securities Industry and Financial Markets Association (“SIFMA”) rate. The swap agreements designate a function of London Interbank Offered Rate (“LIBOR”) as the rate for payments received on these swaps. The Department will be exposed to basis risk should LIBOR and SIFMA rates converge. The swap agreements provide an option to terminate as stated in the Terms and Fair Value table on previous page.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 6: DERIVATIVE INSTRUMENTS Cont'd

Rollover Risk

Rollover risk is the risk that arises when a derivative associated with a government's variable-rate debt does not extend all the way to the maturity date of the associated debt, thereby creating a gap in the protection otherwise afforded by the derivative. The Department is not exposed to rollover risk on swap agreements because the variable rate debt has been structured to decline with the swap notional balances. The counterparties in the swap agreements have limited rights to terminate the swap. They can terminate only if the Department were to be downgraded below investment grade or default on any swap payments. The swap providers cannot unilaterally terminate any of the swaps subjecting the Department to rollover risk.

The Department has retained par optional termination rights which are listed below. The par optional termination rights are intended to keep the notional amount in line with bonds outstanding to the extent the Department receives prepayments.

Associated Debt Issuance	Debt Maturity Date	Swap Termination Date
2004B Single Family	September 2034	Optional early par termination rights beginning September 2015, with 100% par termination rights in September 2021.
2004D Single Family	March 2035	Optional early par termination rights beginning March 2015, with 100% par termination rights in September 2021.
2005A Single Family	September 2036	Mandatory par termination each March 1 and September 1 from mortgage loan repayments.
2007A Single Family	September 2038	Mandatory par termination each March 1 and September 1 from mortgage loan repayments.

Swap Payments and Associated Debt

Using rates as of August 31, 2016, debt service requirements of the Department's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate debt bond interest payments and new swap payments will vary. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds outstanding.

Fiscal Year Ending August 31	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2017	\$ -	\$ 719,353	\$ 3,957,094	\$ 4,676,447
2018		874,718	3,957,094	4,831,812
2019		874,718	3,957,094	4,831,812
2020		876,721	3,957,094	4,833,815
2021		872,714	3,957,094	4,829,808
2022-2026	20,125,000	4,089,238	19,133,884	43,348,122
2027-2031	26,780,000	3,369,564	16,277,490	46,427,054
2032-2036	72,305,000	1,764,286	8,466,143	82,535,429
2037-2041	15,405,000	108,250	690,107	16,203,357
	\$ 134,615,000	\$ 13,549,562	\$ 64,353,094	\$ 212,517,656

Netting Arrangements The Department's swap agreements allow for netting arrangements. On each payment date, September 1 and March 1, the party with the lesser obligation will be automatically satisfied and discharged and, the obligation of the party with the greater obligation will become the excess of the larger aggregate amount over the smaller aggregate amount. As of August 31, 2016, the Department has an aggregate liability related to the interest rate swaps in the amount of \$2,102,880 payable on September 1, 2016.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 7: LEASES

Operating Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations: \$150,130 for Governmental activities (01, 0001 & 0127) and \$53,562 for Enterprise Fund (05, 0896).

The Department’s operating lease for office space located at 1106 Clayton Lane, Austin, Texas expires on September 30, 2020. The Department’s operating leases for Toshiba copiers expires on August 31, 2017 and August 31, 2019. Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are:

Year Ended August 31	Governmental Activities	Business-Type Activities	Total
2017 (Future Year 1)	\$ 140,711	\$ 64,075	\$ 204,786
2018 (Future Year 2)	123,801	36,525	160,326
2019 (Future Year 3)	123,801	36,525	160,326
2020 (Future Year 4)	119,830	30,062	149,892
2021 (Future Year 5)	9,986	2,505	12,491
Total Minimum Future Lease Rental Payments	\$ 518,129	\$ 169,692	\$ 687,821

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN

The state of Texas has three retirement systems in its financial reporting entity – Employees Retirement System (“ERS”), Teacher Retirement System (“TRS”), and Texas Emergency Services Retirement System (“TESRS”). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (“ERS Plan”), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (“LECOS”), the Judicial Retirement System of Texas Plan One (“JRS 1”) and Judicial Retirement System of Texas Plan Two (“JRS2”).
- TRS – the Teacher Retirement System of Texas plan (“TRS Plan”).
- TESRS – the Texas Emergency Services Retirement System plan.

ERS, LECOS, JRS2, TRS, and TESRS plans are administered through trust; JRS1 plan is on a pay-as-you-go basis.

ERS plan

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. ERS and the Texas Treasury Safekeeping Trust company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The ERS Plan is considered a single employer defined benefit plan under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The ERS plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the State of Texas except those who are included in the coverage of TRS, JRS 1 and JRS2. Elected class includes elected state officials not included in the coverage of JRS1 and JRS2, and members

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN Cont’d

of the Legislature and district and criminal district attorneys. The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member’s average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

The ERS plan’s membership as of the measurement date of Aug. 31, 2015 is presented in the table below:

Employees Retirement	
Retirees and Beneficiaries Currently Receiving Benefits	100,003
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	101,122
Vested and Non-Vested	142,409
Total Members	343,534

The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal 2015 are presented in the table below:

Required Contribution Rates						
	Employer			Members		
		Elected	Elected		Elected	Elected
Plan	Employee Class – Class	Legislators	Class – Other	Employee Class	Class – Legislators	Class – Other
ERS	8.00%	8.00%	8.00%	6.60%	8.00%	6.60%

The amount of Department’s contributions recognized in the ERS plan during the fiscal 2015 measurement period was \$1,463,345. It is the proportionate share of the collective amounts in the ERS Plan. The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2006 through August 31, 2011. There is a slight modification in the assumption of withdraw rate of member contributions in the fiscal 2015 valuation. Higher percentage of individuals was assumed to withdraw their contributions when terminating due to higher member contribution level.

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN Cont’d

Additionally, the actuarial valuation as of August 31, 2015 also incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the current fiscal 2014-2015 biennium.

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2015:

Actuarial Methods and Assumptions	
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Actuarial Assumptions:	
Discount Rate	6.86%
Investment Rate of Return	8.00%
Inflation	3.50%
Salary Increase	0% to 11.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected

A single blended discount rate of 6.86% was applied to measure the total pension liability. The 6.86% discount rate incorporated an 8% long-term expected rate of return on pension plan investments and 3.79% 20-year municipal bond rate based on Federal Reserve Statistical Release H. 15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal 2053 and the municipal bond rate was applied to all benefit payments thereafter.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of Legislature’s commitment to increase funding for the pension fund. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the member contribution rates for fiscal 2016 and 2017. The state contribution rates also increased as the result of this legislative session. The Legislature also maintained some changes made by Senate Bill 1459 in the 83rd legislative session. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level. The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN Cont’d

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan’s investment portfolio are presented below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Department’s net pension liability. The result of the analysis is presented in the table below:

Sensitivity of Department’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate		
1% Decrease	Current Discount Rate	1% Increase
5.86%	6.86%	7.86%
\$51,792,857	\$38,787,427	\$27,884,549

Note: Some amounts in this schedule are for the Department’s proportionate share (.29237245%) of the collective amounts for ERS. The proportionate amount is split between Proprietary 50% and Governmental 50%.

The pension plan’s fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement Nos. 67 and 31. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues stand-alone audited Comprehensive Annual Financial Report (“CAFR”). More detailed information on the plan’s investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS’ fiscal 2015 CAFR:

Employees Retirement System of Texas
 P. O. Box 13207
 Austin, Texas 78711-3207

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN Cont’d

The Department’s total pension liability is based on an actuarial valuation performed as of August 31, 2015. For fiscal 2016 reporting, the measurement date of the net pension liability is August 31, 2015. The schedule of changes in the Department’s net pension liability for the fiscal year ending August 31, 2016 is presented below:

Net Pension Liability	
For Fiscal Year Ending August 31, 2016	
Total Pension Liability	\$ 108,952,375
Plan Fiduciary Net Position	70,164,945
Net Pension Liability	<u>\$ 38,787,430</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.40%

The amounts in this schedule are for the Department’s proportionate share (.29237245 %) of the collective amounts for ERS. The proportionate amount is split between Proprietary 50% and Governmental 50%.

The change of discount rate and a slight change in the assumption of the withdraw rate of member contributions at termination are the assumption changes during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date. Agency’s proportion of the entire ERS plan was .29237245% in fiscal 2016 as compared with the .305931519% in the prior measurement period.

For the fiscal year ending August 31, 2016, the Department recognized pension expense of \$391,806. At August 31, 2016, the Department reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		\$ 871,638
Changes of assumptions	1,410,895	8,263,889
Net difference between projected and actual investment return	1,759,891	
Contributions subsequent to the measurement date	1,882,372	
Total	\$ 5,053,158	\$ 9,135,527

The \$1,882,372 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 8: PENSION PLANS – DEPARTMENT’S NOTE DISCLOSURE – ERS PLAN Cont’d

Year ended August 31:		
2017	\$	(2,874,672)
2018		(3,542,615)
2019		(660,065)
2020		1,112,609
2021		-
Thereafter		-

Note: The amounts in this schedule are for the Department’s proportionate share (.29237245 %) of the collective amounts for ERS. The proportionate amount is split between Proprietary 50% and Governmental 50%.

NOTE 9: INTERFUND ACTIVITY AND TRANSACTIONS

As explained in Note 1 on Interfund Transactions and Balances, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due To Other Agencies
- Transfers In or Transfers Out

The Department experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statements. Individual balances and activity at August 31, 2016, follows:

Fund	Current Interfund Receivable	Current Interfund Payable	Purpose
Governmental Fund (01)			
General Revenue (0001)	\$ 126,961	\$ 132,433	Expenditure Transfer
Consolidated Federal (0127, 0369)	13,481	-	Expenditure Transfer
Subtotal Governmental Fund (01)	\$ 140,442	\$ 132,433	
Governmental Fund (01) (Exhibit III)	8,009		<i>Net Receivable/Payable above</i>
Enterprise Fund (05, 0896) (Exhibit V)		8,009	Expenditure Transfer
Total Internal Balances (Exhibit I)	\$ 8,009	\$ 8,009	

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 9: INTERFUND ACTIVITY AND TRANSACTIONS Cont'd

Governmental Fund (01)	Due From Other Agencies	Due To Other Agencies	Source
Appd Fund 0802, D23 Fund 0802			
(Agency 608, D23 Fund 0802)	\$ 67		Transfers
Total Due From Other Agencies/Due To Other Agencies (Exhibit I)	\$ 67		

Governmental Fund	Transfers In	Transfers Out	Purpose
General Fund (01)			
Appd Fund 0001, D23 Fund 0001		\$ 2,567,288	Article VII-6, Rider 9
Appd Fund 0001, D23 Fund 0001		1,786,641	Article IX, Sect. 13.11
Appd Fund 0001, D23 Fund 0066		1,160,215	Gov't Code, Sect. 403.021
Appd Fund 0369, D23 Fund 0369		131,876	Article IX, Sect. 13.11
Total Transfers for Fund 0001 (Exhibit II & IV)		\$ 5,646,020	
Enterprise Fund (05)			
Appd Fund 3054, D23 Fund 0999	\$ 2,567,288		Article VII-6, Rider 9
Total Transfers for Fund 3054 (Exhibit II & V)	\$ 2,567,288		
Total Transfers*	\$ 2,567,288	\$ 5,646,020	

*The difference between total transfers in and out represents transfers to the Comptroller's Office of \$3,078,732.

NOTE 10: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2025 unless continued in existence as provided by the Act. If abolished, the Department may continue until September 1, 2026 to close out its operations.

NOTE 11: CONTINGENCIES AND COMMITMENTS

The Department is a defendant in one legal action; *Rick Sims vs. Texas Department of Housing and Community Affairs, et al.* ("Sims").

In *Sims*, the Plaintiff alleges violations of the Fair Housing Act, Rehabilitation Act of 1973, and the Americans with Disabilities Act, and seeks declaratory and injunctive relief. We are in the early phase of this lawsuit. Plaintiff has amended its complaint and TDHCA has filed a motion to dismiss. The court has stayed any discovery until after he rules on the motion to dismiss.

DERIVATIVE INSTRUMENTS

All of the Department's derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If the Department fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. The table below lists the triggering event and the collateral exposure for each instrument.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal year ended August 31, 2016

NOTE 11: CONTINGENCIES AND COMMITMENTS Cont'd

Series	Collateral Posting Exposure at Current Credit Rating	Credit Rating Downgrade Threshold	MTM Threshold for TDHCA or Counterparty
2004B ⁽¹⁾	None	A3/A- or below for AGM and TDHCA	After downgrade of AGM and TDHCA or counterparty, collateral exposure with no threshold
2004D	Yes, if MTM exceeds (\$7.5M)	A3/A- or below	After downgrade, collateral exposure with no threshold
2005A	None	A2/A	After downgrade to A2/A, collateral exposure if MTM exceeds (\$7.5M); after downgrade to A3/A or below, collateral exposure with no threshold
2007A	None	A2/A	After downgrade to A2/A, collateral exposure if MTM exceeds (\$7.5M); after downgrade to A3/A or below, collateral exposure with no threshold

(1) AGM Swap Insurance in effect. Collateral posting only required if AGM is downgraded to A3/A- or below AND TDHCA is downgraded to A3/A- or below.

As of August 31, 2016, the Department’s credit rating related to the Single Family Indenture was AA+ issued by Standard & Poor’s and Aa1 by Moody’s, therefore no collateral was posted. The Department’s aggregate fair value of all hedging derivative instruments with these collateral provisions is \$15,095,971. If the collateral posting requirements had been triggered at August 31, 2016, the Department would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments.

TAXABLE MORTGAGE PROGRAM

On July 26, 2012, the Department approved the Taxable Mortgage Program (“TMP”). The TMP market facilitates the forward trading of Mortgage Backed Securities (“MBSs”) issued by Ginnie Mae and Fannie Mae. In a TMP trade, the seller and buyer agree to the type of security, coupon, face value, price and settlement date at the time of trade but do not specify the actual pools to be traded. The securities are “to be announced” two business days prior to the trade settlement date. The TMP program was created to provide loans to low to moderate income first time homebuyers. The program is paid for from revenues generated by the packaging and sale of the TMP MBSs. Escrow agreements were negotiated and established to limit the recourse to the servicer and the to-be-announced provider who delivers the MBSs to the purchaser. The total amount of the escrow is \$4 million, which is funded from the Department’s general funds. The TMP program commenced on October 1, 2012.

NOTE 12: SUBSEQUENT EVENTS

Bond Issuance	Series	Amount	Date of Issuance	Purpose
Revenue Bonds	Multifamily Revenue Bonds MF Series 2016 Skyline Place Apartments	\$ 18,750,000	9/15/2016	The multifamily bonds are issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily rental housing developments. The Skyline Place Apartments will be located in Dallas, Texas.
Governmental Note	Multifamily Governmental Note 2016 Mercantile Apartments	\$ 29,500,000	9/30/2016	The multifamily governmental notes are issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily rental housing developments. The Mercantile Apartments will be located in Fort Worth, Texas.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 13: RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. It is the Department's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. The Department carries Public Official Liabilities Insurance coverage in the amount of \$10,000,000 that includes Network Security and Cyber Liability in the amount of \$1,000,000; Automobile Liability Insurance in the amount of \$1,000,000; Errors and Omissions Insurance in the amount of \$500,000 related to loan servicing for others; Crime Insurance in the amount of \$350,000; and Commercial Property, Equipment Breakdown & Terrorism Insurance for the Alpine Retirement Center, the Insurance Annex Building and the Twin Towers Office Center in the amount of \$4,245,671.

The Department's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. The Department did not incur any claims in fiscal year 2016.

NOTE 14: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Department's Enterprise Fund 0896 reported a positive change in Net Position of \$430,177 resulting in a negative Net Position balance of (\$22,711,678) at August 31, 2016.

NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUND

The Segment information below is for the Department's direct debt associated with the issuance of Single Family bonds only and does not include the Multifamily bonds where the Department is only a conduit issuer. Therefore, this note represents less than what is reported in the Enterprise Fund as a whole. Each grouping consists of separate indentures that have one or more bonds outstanding with the revenue stream and assets exclusively pledged in support of that debt. Bonds are issued for the primary purpose of providing funds for the purchase of mortgage-backed securities which represent securitized loans financing single family housing. Each indenture imposes the requirement of separate accounting of the revenues, expenses, gains, losses, assets, and liabilities.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUND Cont'd

CONDENSED STATEMENT OF NET POSITION

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Restricted Assets:			
Current Assets	\$ 42,171,616	\$ 25,923,923	\$ 79,984
Non-Current Assets	<u>400,778,342</u>	<u>269,164,308</u>	<u>3,414,130</u>
Total Assets	<u>442,949,958</u>	<u>295,088,231</u>	<u>3,494,114</u>
Deferred Outflows of Resources:	<u>15,095,971</u>	<u>-</u>	<u>-</u>
Liabilities:			
Current Liabilities	6,514,724	5,925,398	4,607
Non-Current Liabilities	<u>351,860,971</u>	<u>178,955,546</u>	<u>1,715,559</u>
Total Liabilities	<u>358,375,695</u>	<u>184,880,944</u>	<u>1,720,166</u>
Deferred Inflows of Resources:	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:			
Restricted Net Position	\$ 99,670,234	\$ 110,207,287	\$ 1,773,948
Net Position	<u>\$ 99,670,234</u>	<u>\$ 110,207,287</u>	<u>\$ 1,773,948</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUND Cont'd

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Operating Revenues:			
Interest and Investment Income	\$ 19,995,870	\$ 9,647,405	\$ 251,133
Net Increase (Decrease) in Fair Value	(3,266,756)	(389,009)	(77,557)
Other Operating Revenues	212,634	-	-
Operating Expenses	<u>(15,864,584)</u>	<u>(7,545,452)</u>	<u>(143,649)</u>
Operating Income (Loss)	1,077,164	1,712,944	29,927
Nonoperating Revenues (Expenses):			
Transfers In (Out)	<u>(394,555)</u>	<u>6,376,424</u>	<u>-</u>
Changes in Net Position	<u>682,609</u>	<u>8,089,368</u>	<u>29,927</u>
Net Position, September 1, 2015	98,987,625	102,117,919	1,744,021
Net Position, August 31, 2016	<u>\$ 99,670,234</u>	<u>\$ 110,207,287</u>	<u>\$ 1,773,948</u>

CONDENSED STATEMENT OF CASH FLOWS

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Net Cash Provided (Used) By:			
Operating Activities	\$ (3,077,392)	\$ (5,405,701)	\$ (620)
Noncapital Financing Activities	(25,845,820)	(36,196,523)	(1,066,386)
Investing Activities	<u>35,260,629</u>	<u>46,067,985</u>	<u>1,058,447</u>
Net Increase (Decrease)	6,337,417	4,465,761	(8,559)
Beginning Cash and Cash Equivalents	<u>34,039,525</u>	<u>20,541,913</u>	<u>71,013</u>
Ending Cash and Cash Equivalents	<u>\$ 40,376,942</u>	<u>\$ 25,007,674</u>	<u>\$ 62,454</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

NOTES TO THE FINANCIAL STATEMENTS
 For the fiscal year ended August 31, 2016

NOTE 16: Deferred Outflows of Resources and Deferred Inflows of Resources

Business-Type Activities	Deferred Outflows of Resources	Deferred Inflows of Resources
Derivatives (Note 6)	\$ 15,095,971	\$
Pension Plans (Note 8):		
To record the effect of changes of assumptions on total pension liability less the amortization related to the current period	733,468	4,131,945
To record contribution to the plan in fiscal year 2016 after the measurement date of August 31, 2015	941,186	
To record effect on total pension liability between expected and actual experience less the amortization related to the current period.		439,569
To record difference between projected and actual investment return less the amortization related to the current period.	854,834	
Total	\$ 17,625,459	\$ 4,571,514

Governmental Type Activities	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Plans (Note 8):		
To record the effect of changes of assumptions on total pension liability less the amortization related to the current period	\$ 677,427	\$ 4,131,945
To record contribution to the plan in fiscal year 2016 after the measurement date of August 31, 2015	941,186	
To record effect on total pension liability between expected and actual experience less the amortization related to the current period.		432,068
To record difference between projected and actual investment return less the amortization related to the current period.	905,057	
Total	\$ 2,523,670	\$ 4,564,013
Grand Total	\$ 20,149,129	\$ 9,135,527

Deferred outflows of resources in the amount of \$15,095,971 reported in Business-Type Activities is due to the implementation of GASB 63, requiring to recognize interest rate swaps hedging interest rate risk on variable rate debt which is in a liability position. Details on the Department's derivative instruments are disclosed in Note 6.

Due to the implementation of GASB 68 by the State of Texas and recognition of its pension liability, TDHCA recorded total deferred outflows of resources of \$5,053,158 and total deferred inflows of resources of \$9,135,527. Business-Type activities reported \$2,529,488 in deferred outflows of

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 16: Deferred Outflows of Resources and Deferred Inflows of Resources Cont'd

resources and Governmental-Type activities reported \$2,523,670. Business-Type activities reported \$4,571,514 in deferred inflows of resources and Governmental-Type activities reported \$4,564,013.

These accounts reflect the unamortized balances of changes in net pension liability related to the changes of assumptions, difference between expected and actual experience, and difference between projected and actual investment return based on the 8/31/15 actuarial valuation performed for the ERS plan, and contributions made after the measurement date of 8/31/15. Details of the deferred outflows and deferred inflows of resources related to the agency employees' pension are disclosed in Note 8.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Required Supplementary Information
Schedule of Changes in Department's Net Pension Liability (Unaudited)
For the fiscal year ended August 31, 2016

	2016	2015
Total Pension Liability-For Department	Pension Liability	Pension Liability
Proportionate Share	0.29237245%	0.30593152%
Net Pension Liability	\$ 38,787,430	\$ 44,240,146
Covered-Employee Payroll	\$ 25,728,027	\$ 26,724,096
Net Pension Liability as a Percentage of Covered-Employee Payroll	150.76%	165.54%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.40%	63.40%

*The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

Notes to Schedule:

1. The amounts in this schedule are for the Department's proportionate share of the collective amounts in ERS.
2. The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
3. The covered employee payroll is the actual annual payroll for the fiscal year – measurement period.
4. The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
5. This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Required Supplementary Information (Continued)
Schedule of Employer Contributions (Unaudited)
For the fiscal year ended August 31, 2016

Schedule of Employer Contributions			
	2016	2015	2014
Required Employer Contributions	\$ 1,882,372	\$ 1,463,345	\$ 1,475,596
Contributions Made to the Plan	<u>1,882,372</u>	<u>1,463,345</u>	<u>1,475,596</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 25,728,027	\$ 26,724,096	\$ 24,787,150
Contributions as a percentage of covered-employee payroll	7.32%	8.14%	8.10%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Notes to the Required Supplementary Information
Summary of Actuarial Assumptions (Unaudited)
For the fiscal year ended August 31, 2016

Summary of Actuarial Assumptions	
Valuation Date	Actuarially determined contribution rates are calculated based on the actuarial valuation as of August 31, 2015.
Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from September 1, 2006 through August 31, 2011.
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Other Information:	
<ol style="list-style-type: none"> 1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses. 2. Members and employers contribute based on statutorily fixed rates. 3. Beginning in fiscal 2016, the Actuarially Determined Contribution will include the impact of House Bill 9 passed by the 84th Legislature. 	

SUPPLEMENTARY BOND
SCHEDULES

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Supplementary Bond Schedules

SCHEDULE 1-A

MISCELLANEOUS BOND INFORMATION

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		
				First Year	Final Maturity Date	First Call Date
2004 Single Family Series B	\$ 53,000,000	VAR - Weekly	2015	09/01/2034	03/01/2015 (e)	
2004 Single Family Series A (Jr. Lien)	4,140,000	VAR - Weekly	2036	09/01/2036	09/01/2036 (e)	
2004 Single Family Series D	35,000,000	VAR - Weekly	2035	03/01/2035	(f)	
2005 Single Family Series A	100,000,000	VAR - Weekly	2007	09/01/2036	03/01/2006	
2005 Single Family Series B	25,495,000	4.38% 4.38%	2006	09/01/2026	03/01/2006	
2005 Single Family Series C	8,970,000	VAR - Weekly	2017	09/01/2017	03/01/2006	
2005 Single Family Series D	3,730,000	5.00% 5.00%	2025	09/01/2035	03/01/2006	
2006 Single Family Series A	59,555,000	5.00% 5.00%	2008	09/01/2037	09/01/2006	
2006 Single Family Series B	70,485,000	5.00% 5.00%	2008	09/01/2034	09/02/2006	
2006 Single Family Series C	105,410,000	5.13% 5.13%	2008	09/01/2037	09/03/2006	
2006 Single Family Series D	29,685,000	4.50% 4.50%	2018	09/01/2028	09/04/2006	
2006 Single Family Series E	17,295,000	4.06% 4.06%	2007	09/01/2017	09/05/2006	
2006 Single Family Series H	36,000,000	VAR - Weekly	2016	09/01/2037	03/01/2016	
2007 Single Family Series A	143,005,000	VAR - Weekly	2008	09/01/2038	03/01/2008 (e)	
2007 Single Family Series B	157,060,000	3.90% 5.63%	2008	09/01/2039	03/01/2008	
2013 Single Family Series A	42,500,000	2.80% 2.80%	2013	03/01/2036	09/01/2020	
2015 Single Family Series A	33,825,000	3.20% 3.20%	2039	09/01/2039	09/01/2024	
2015 Single Family Series B	19,870,000	3.13% 3.13%	2046	03/01/2046	09/01/2024	
2016 Single Family Series A	31,510,000	3.00% 3.00%	2046	03/01/2046	03/01/2025	
2016 Single Family Series B	59,735,000	3.18% 3.18%	2039	03/01/2039	03/01/2025	
2009 RMRB Series A	80,000,000	5.13% 5.13%	2011	07/01/2039	01/01/2019	
2009 RMRB Series B	22,605,000	4.72% 4.72%	2010	07/01/2022	01/01/2019	
2009 RMRB Series C-1	89,030,000	0.70% 3.57%	2029	07/01/2041	04/01/2011	
2009 RMRB Series C-2	60,080,000	0.60% 2.48%	2034	07/01/2041	11/01/2011	
2011 RMRB Series A	60,000,000	0.70% 5.05%	2012	07/01/2029	01/01/2021	
2011 RMRB Series B	87,955,000	0.30% 4.45%	2012	01/01/2034	01/01/2021	
1992 Coll Home Mtg Rev Bonds, Series C	72,700,000	3.48% 10.27%	2024	07/01/2024	05/04/1995	
TOTAL SINGLE FAMILY & RMRB BONDS	\$ 1,508,640,000					
1996 MF Series A/B (Brighton's Mark Development)	\$ 10,174,000	6.13% 6.13%	2026	04/01/2026	01/01/2003	
1998 MF Series A-C (Residence at the Oaks Projects)	8,200,000	5.98% 7.18%	2001	11/01/2030	05/01/2001	
1999 MF Series A-C (Mayfield Apartments)	11,445,000	5.70% 7.25%	2001	05/01/2031	05/01/2002	
2000 MF Series A (Timber Point Apartments)	8,100,000	VAR - Weekly	2003	09/01/2032	07/01/2000 (a)	
2000 MF Series A/B (Oaks at Hampton Apartments)	10,060,000	7.20% 9.00%	2002	03/01/2040	03/01/2017 (a)	
2000 MF Series A (Deerwood Apartments)	6,435,000	5.25% 6.40%	2003	12/01/2032	06/01/2010	
2000 MF Series A (Creek Point Apartments)	7,200,000	VAR - Weekly	2004	10/01/2032	07/01/2000 (a)	
2000 MF Series A/B (Parks at Westmoreland Apartments)	9,990,000	7.20% 9.00%	2002	07/01/2040	07/01/2017 (a)	
2000 MF Series A-C (Highland Meadow Village Apartments)	13,500,000	6.75% 8.00%	2004	11/01/2033	05/01/2019	
2000 MF Series A/B (Greenbridge at Buckingham Apartments)	20,085,000	7.40% 10.00%	2003	10/01/2040	03/01/2014	
2000 MF Series A-C (Collingham Park Apartments)	13,500,000	6.72% 7.72%	2004	11/01/2033	05/01/2019	
2000 MF Series A/B (Williams Run Apartments)	12,850,000	7.65% 9.25%	2002	11/01/2040	01/01/2011	
2001 MF Series A (Bluffview Apartments)	10,700,000	7.65% 7.65%	2003	05/01/2041	05/01/2018	
2001 MF Series A (Knollwood Apartments)	13,750,000	7.65% 7.65%	2003	05/01/2041	05/01/2018	
2001 MF Series A (Skyway Villas Apartments)	13,250,000	6.00% 6.50%	2005	12/01/2034	12/01/2011	
2001 MF Series A/B (Meridian Apartments)	14,310,000	5.45% 6.85%	2004	12/01/2034	12/01/2011	
2001 MF Series A/B (Wildwood Apartments)	14,365,000	5.45% 6.75%	2004	12/01/2034	12/01/2011	
2001 MF Series A (Oak Hollow Apartments)	8,625,000	7.00% 7.90%	2003	12/01/2041	11/01/2018	
2001 MF Series A/B (Hillside Apartments)	12,900,000	7.00% 9.25%	2003	12/01/2041	11/01/2018	
2002 MF Series A (Park Meadows Apartments)	4,600,000	6.53% 6.53%	2004	06/01/2034	05/01/2012	
2002 MF Series A (Clarkridge Villas Apartments)	14,600,000	7.00% 7.00%	2004	09/01/2042	08/01/2019	
2002 MF Series A (Hickory Trace Apartments)	11,920,000	7.00% 7.00%	2004	11/01/2042	12/01/2019	
2002 MF Series A (Green Crest Apartments)	12,500,000	7.00% 7.00%	2004	11/01/2042	11/01/2019	
2002 MF Series A/B (Ironwood Crossing)	16,970,000	5.50% 8.75%	2005	11/01/2042	10/01/2027	
2003 MF Series A/B (Reading Road)	12,200,000	VAR-Weekly	2007	07/01/2036	01/01/2004 (a)	
2003 MF Series A/B (North Vista Apartments)	14,000,000	4.10% 5.41%	2006	06/01/2036	06/01/2013	
2003 MF Series A/B (West Virginia Apartments)	9,450,000	4.15% 5.41%	2006	06/01/2036	06/01/2013	
2003 MF Series A/B (Primrose Houston School)	16,900,000	5.50% 8.00%	2006	07/01/2036	07/01/2003 (a)	
2003 MF Series A/B (Timber Oaks Apartments)	13,200,000	6.75% 8.75%	2005	11/01/2038	06/01/2020	
2003 MF Series A/B (Ash Creek Apartments)	16,375,000	5.60% 15.00%	2006	04/01/2036	10/01/2003 (a)	
2003 MF Series A/B (Peninsula Apartments)	12,400,000	4.25% 5.30%	2007	10/01/2024	10/01/2013	

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-A (Continued)

MISCELLANEOUS BOND INFORMATION

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		
				First Year	Final Maturity Date	First Call Date
2003 MF Series A/B (Arlington Villas)	\$ 17,100,000	6.75%	8.00%	2007	12/01/2036	01/01/2007 (a)
2003 MF Series A/B (Parkview Townhomes)	16,600,000	6.60%	8.50%	2006	04/01/2041	12/01/2020
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	31,500,000	VAR - Weekly		2007	07/01/2033	07/01/2007 (a)
2004 MF Series A/B (Timber Ridge II Apartments)	7,500,000	5.75%	8.00%	2007	08/01/2036	03/01/2007 (a)
2004 MF Series A/B (Century Park Townhomes)	13,000,000	5.75%	5.75%	2007	06/01/2037	05/01/2007 (a)
2004 MF Series A/B (Providence at Veterans Memorial)	16,300,000	6.60%	8.50%	2006	01/01/2041	03/01/2006 (a)
2004 MF Series A (Providence at Rush Creek II)	10,000,000	5.38%	6.70%	2006	01/01/2044	03/01/2021
2004 MF Series A (Humble Parkway Townhomes)	11,700,000	6.60%	6.60%	2007	01/01/2041	07/01/2021
2004 MF Series A (Chisholm Trail Apartments)	12,000,000	VAR - Weekly (b)		2006	04/15/2037	10/15/2006 (a)
2004 MF Series A (Evergreen at Plano Parkway)	14,750,000	5.25%	6.55%	2007	05/01/2044	06/01/2021
2004 MF Series A (Montgomery Pines Apartments)	12,300,000	VAR - Weekly		2006	06/15/2037	12/15/2006 (a)
2004 MF Series A (Bristol Apartments)	12,625,000	VAR - Weekly		2007	06/15/2037	06/15/2007 (a)
2004 MF Series A (Pinnacle Apartments)	14,500,000	VAR - Weekly (c)		2007	06/15/2037	09/01/2007 (a)
2004 MF Series A (Churchill at Pinnacle Park)	10,750,000	5.25%	6.55%	2007	07/01/2044	09/01/2021 (d)
2004 MF Series A (Providence at Village Fair)	14,100,000	5.00%	6.50%	2007	12/01/2044	12/01/2021
2005 MF Series A (Homes at Pecan Grove)	14,030,000	5.00%	6.50%	2007	01/01/2045	01/01/2022
2005 MF Series A (Providence at Prairie Oaks)	11,050,000	4.75%	6.50%	2007	01/01/2045	01/01/2022
2005 MF Series A (Port Royal Homes)	12,200,000	5.00%	6.50%	2007	02/01/2045	02/01/2022
2005 MF Series A (Mission Del Rio Homes)	11,490,000	5.00%	6.50%	2007	02/01/2045	02/01/2022
2005 MF Series A (Atascocita Pines Apartments)	11,900,000	VAR - Weekly (c)		2007	04/15/2038	(e)
2005 MF Series A (Tower Ridge Apartments)	15,000,000	VAR - Weekly (b)		2009	04/01/2038	(e)
2005 MF Series A (Prairie Ranch Apartments)	12,200,000	4.85%	4.85%	2007	06/20/2045	12/20/2015
2005 MF Series A (St Augustine Estate Apartments)	7,650,000	VAR - Weekly		2009	09/15/2038	n/a
2005 MF Series A (Park Manor Senior Community)	10,400,000	5.00%	6.40%	2008	07/01/2045	09/01/2022
2005 MF Series A (Providence at Mockingbird Apartments)	14,360,000	6.40%	6.40%	2007	08/01/2040	08/01/2022
2005 MF Series A (Plaza at Chase Oaks Apartments)	14,250,000	5.05%	5.05%	2007	08/01/2035	(g)
2005 MF Series A (Coral Hills Apartments)	5,320,000	5.05%	5.05%	2009	08/01/2026	08/01/2015
2006 MF Series A (Harris Branch Apartments)	15,000,000	VAR - Weekly		2009	03/15/2039	(i)
2006 MF Series A (Bella Vista Apartments)	6,800,000	6.15%	6.15%	2008	04/01/2046	04/01/2016
2006 MF Series A (Village Park Apartments)	13,660,000	4.75%	5.13%	2009	12/01/2026	06/01/2021
2006 MF Series A (Oakmoor Apartments)	14,635,000	5.50%	6.00%	2008	03/01/2046	03/01/2023
2006 MF Series A (The Residences at Sunset Pointe)	15,000,000	VAR - Weekly		2039	07/15/2039	(h)
2006 MF Series A (Hillcrest Apartments)	12,435,000	5.25%	5.25%	2009	04/01/2027	04/01/2021
2006 MF Series A (Pleasant Village)	6,000,000	6.00%	6.00%	2008	03/01/2023	(j)
2006 MF Series A (Red Hills Villas)	5,015,000	VAR - Weekly		2036	09/15/2036	(i)
2006 MF Series A (Champion Crossing Apartments)	5,125,000	VAR - Weekly		2036	09/15/2036	(i)
2006 MF Series A (Meadowlands Apartments)	13,500,000	6.00%	6.00%	2009	09/01/2046	09/01/2023
2006 MF Series A (East Tex Pines)	13,500,000	4.95%	4.95%	2010	10/01/2046	(k)
2006 MF Series A (Villas at Henderson)	7,200,000	VAR - Weekly		2010	11/01/2023	(l)
2006 MF Series A (Aspen Park)	9,800,000	5.00%	5.00%	2010	07/01/2027	07/01/2021
2006 MF Series A (Idlewilde)	14,250,000	VAR - Weekly		2010	06/15/2040	(i)
2007 MF Series A (Lancaster)	14,250,000	VAR - Weekly		2010	07/15/2040	(i)
2007 MF Series A (Park Place at Loyola)	15,000,000	5.80%	5.80%	2010	02/01/2047	03/01/2024
2007 MF Series A (Terrace at Cibolo)	8,000,000	VAR - Weekly		2010	05/01/2040	(l)
2007 MF Series A (Santora Villas)	13,072,000	5.80%	5.80%	2010	05/01/2047	06/01/2024
2007 MF Series A (Villas at Mesquite Creek)	16,860,000	5.00%	5.81%	2010	01/20/2047	01/20/2017
2007 MF Series A (Summit Point)	11,700,000	4.80%	5.25%	2009	06/20/2047	06/20/2017
2007 MF Series A (Costa Rialto)	12,385,000	5.35%	5.35%	2010	07/01/2047	08/01/2025
2007 MF Series A (Windshire)	14,000,000	VAR - Weekly		2010	01/15/2041	(i)
2007 MF Series A (Residences at Onion Creek)	15,000,000	VAR - Weekly		2011	12/15/2040	(j)
2008 MF Series A (West Oaks Apartments)	13,125,000	VAR - Weekly		2011	07/01/2041	(m)
2008 MF Series A (Costa Ibiza Apartments)	13,900,000	VAR - Weekly		2011	08/01/2041	(e)
2008 MF Series A (Addison Park Apartments)	14,000,000	VAR - Weekly		2008	01/01/2044	(m)
2008 MF Series A (Alta Cullen Apartments Refunding)	14,000,000	VAR - Weekly		2011	03/01/2045	(m)
2009 MF Series A (Costa Mariposa Apartments)	13,690,000	VAR - Weekly		2012	05/01/2042	(m)
2009 MF Series A (Woodmont Apartments)	15,000,000	VAR - Weekly		2012	06/01/2042	(m)
2013 MF Series A (Waters at Willow Run Apartments)	14,500,000	0.35%	0.35%	2014	10/01/2016	10/01/2014
2014 MF Series A (Decatur-Angle Apartments)	23,000,000	5.75%	5.75%	2016	01/01/2054	09/01/2016
2014 MF Series A (Northcrest Apartments)	2,900,000	0.35%	0.35%	2014	06/01/2017	01/01/2015

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-A (Continued)

MISCELLANEOUS BOND INFORMATION

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		
				First Year	Final Maturity Date	First Call Date
2015 MF Series A (Good Samaritan Towers)	\$ 5,620,000	0.95%	0.95%	2017	09/01/2017	03/01/2017
2015 MF Series A (Williamsburg Apartments)	23,150,000	3.45%	3.45%	2016	01/01/2032	01/26/2016 (n)
2016 MF Series A (Chisolm Trace/Cheyenne Village)	13,500,000	0.80%	0.80%	2017	06/01/2018	06/01/2017
2016 MF Series A (Fifty Oaks & Edinburg Village)	7,400,000	0.65%	0.65%	2017	08/01/2018	08/01/2017
TOTAL MULTIFAMILY BONDS	<u>\$ 1,175,101,000</u>					
TOTAL BONDS ISSUED	<u>\$ 2,683,741,000</u>					

FOOTNOTES:

- (a) The taxable bonds shall be subject to redemption prior to maturity in whole or any part on any interest payment date after the completion date from the proceeds of an optional prepayment of the loan by the borrower.
- (b) Variable rate not to exceed the maximum rate permitted by applicable law.
- (c) Variable rate could change to fixed rate provided the conversion option is exercised.
- (d) The bonds are subject to redemption, in whole, at the option of the Issuer acting at the direction of the Holders of a majority of the outstanding principal amount of the Bonds.
- (e) The Bonds shall be subject to redemption prior to maturity, after giving the required notice, as follows: During the variable interest rate period the bonds shall be subject to optional redemption by the Department, in whole or in part on any business day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.
- (f) The Series bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows: During a daily interest rate period or weekly interest rate period for the Series bonds, the bonds shall be subject to optional redemption by the Department, in whole or in part on any business day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.
- (g) The bonds are subject to redemption at the option of the Issuer, at the direction of the Borrower, in whole or in part on the first day of any month, in the event and to the extent the trustee receives funds from the Borrower representing an optional prepayment of the principal of the note, at a redemption price equal to the principal thereof, plus accrued interest to the redemption date plus any premium remitted therewith as required by the note.
- (h) Bonds are subject to redemption if and to the extent the Borrower is entitled to make, or is required to make, a prepayment pursuant to the loan agreement.
- (i) The Bonds are subject to optional redemption in whole or in part upon optional prepayment of the Loan by the Borrower.
- (j) The Bonds are subject to optional redemption at the direction of the Borrower on any interest payment date, in whole or in part, at the redemption price (as calculated by the sole bondholder) calculated in accordance with the Exhibit H in the bond documents plus accrued and unpaid interest, redemption if any, to the date. Optional redemptions may be made only in denominations of \$100,000 plus integral multiples of \$5,000 or for the entire amount of the bonds outstanding.
- (k) The Bonds shall be subject to redemption prior to maturity in whole but not in part on any Bond Payment Date on or after fifteen years from Conversion Date, from the proceeds of an optional prepayment of the Loan by the Borrower at a redemption price equal to the principal amount plus accrued and unpaid interest to the date fixed for redemption.
- (l) The Bonds may be redeemed by the Trustee at the option of the Issuer, but only upon the written request of the Borrower pursuant to the Loan Agreement, and with the prior written consent of the Bank, in whole or in part, at a redemption price equal to the principal amount, without premium, plus accrued interest to the date of redemptions.
- (m) With the prior Written consent of the Credit Facility Provider, the Bonds are subject to optional redemption, in whole or in part, upon optional prepayments on the Bond Mortgage Loan in accordance with the prepayment restrictions set forth in the Bond Mortgage Note and Financing Agreement.
- (n) The bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows: that the Pass-Through Certificate will be prepaid, the Trustee, in accordance with the provisions of this Indenture, shall use its best efforts to give not less than 20 nor more than 30 days' notice, in the name of the Issuer, of the redemption of the Bonds, which notice shall specify the following: (i) the maturity and principal amounts of the Bonds to be redeemed; (ii) the CUSIP number, if any, of the Bonds to be redeemed; (iii) the date of such notice; (iv) the issuance date for such Bonds; (v) the interest rate on the Bonds to be redeemed; (vi) the redemption date; (vii) any conditions to the occurrence of the redemption; (viii) the place or places where amounts due upon such redemption will be payable; (ix) the Redemption Price; (x) the Trustee's name and address with a contact person and a phone number; and (xi) that on the redemption date, the Redemption Price shall be paid. Neither the giving of such notice by the Trustee nor the receipt of such notice by the Bondholders shall be a condition precedent to the effectiveness of any such redemption.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-B

CHANGES IN BOND INDEBTEDNESS

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Outstanding 09/01/2015	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2016	Amounts Due Within One Year
2004 Single Family Series B	\$ 44,260,000	\$	\$	\$ 4,880,000	\$ 39,380,000	\$
2004 Single Family Series A (Jr. Lien)	3,855,000				3,855,000	
2004 Single Family Series D	29,585,000			3,885,000	25,700,000	
2005 Single Family Series A	37,115,000			5,985,000	31,130,000	
2005 Single Family Series B	1,635,000		120,000	720,000	795,000	80,000
2005 Single Family Series C	3,090,000				3,090,000	
2005 Single Family Series D	825,000			395,000	430,000	
2006 Single Family Series A	15,430,000		130,000	15,300,000		
2006 Single Family Series B	16,195,000		280,000	15,915,000		
2006 Single Family Series C	25,840,000		315,000	25,525,000		
2006 Single Family Series D	5,395,000			5,395,000		
2006 Single Family Series E	5,155,000		1,645,000	3,510,000		
2006 Single Family Series H	36,000,000			36,000,000		
2007 Single Family Series A	48,190,000			9,785,000	38,405,000	
2007 Single Family Series B	46,495,000		565,000	10,450,000	35,480,000	305,000
2013 Single Family Series A	28,325,000			4,940,000	23,385,000	
2015 Single Family Series A		33,825,000		4,145,000	29,680,000	
2015 Single Family Series B		19,870,000		950,000	18,920,000	
2016 Single Family Series A		31,510,000		540,000	30,970,000	
2016 Single Family Series B		59,735,000		3,805,000	55,930,000	
2009 RMRB Series A	29,265,000		315,000	3,725,000	25,225,000	312,875
2009 RMRB Series B	8,310,000		815,000	895,000	6,600,000	815,000
2009 RMRB Series C-1	53,120,000			7,535,000	45,585,000	
2009 RMRB Series C-2	42,210,000			6,100,000	36,110,000	
2011 RMRB Series A	29,925,000		1,505,000	4,180,000	24,240,000	1,537,669
2011 RMRB Series B	54,855,000		2,065,000	7,940,000	44,850,000	2,064,965
1992 Coll Home Mtg Rev Bonds, Series C	2,600,000			900,000	1,700,000	2,276
Total Single Family Bonds	\$ 567,675,000	\$ 144,940,000	\$ 7,755,000	\$ 183,400,000	\$ 521,460,000	\$ 5,117,785
1996 MF Series A/B (Brighton's Mark Development)	\$ 8,075,000	\$	\$	\$	\$ 8,075,000	\$
1998 MF Series A-C (Residence at the Oaks Projects)	5,775,000		304,000		5,471,000	312,000
1999 MF Series A-C (Mayfield Apartments)	8,345,000		162,000	8,183,000		
2000 MF Series A (Timber Point Apartments)	6,470,000			200,000	6,270,000	
2000 MF Series A/B (Oaks at Hampton Apartments)	8,949,126		137,994		8,811,132	148,265
2000 MF Series A (Deerwood Apartments)	5,140,000		155,000		4,985,000	170,000
2000 MF Series A (Creek Point Apartments)	5,460,000			100,000	5,360,000	
2000 MF Series A/B (Parks at Westmoreland Apartments)	8,921,102		134,021		8,787,081	143,995
2000 MF Series A-C (Highland Meadow Village Apts)	7,321,000		207,000		7,114,000	221,000
2000 MF Series A/B (Greenbridge at Buckingham Apts)	19,201,598		132,697	19,068,901		
2000 MF Series A-C (Collingham Park Apartments)	10,947,000		327,000		10,620,000	348,000
2000 MF Series A/B (Williams Run Apartments)	11,471,869		18,647	11,453,222		
2001 MF Series A (Bluffview Apartments)	9,860,743		108,788		9,751,955	117,350
2001 MF Series A (Knollwood Apartments)	12,671,516		139,798		12,531,718	150,801
2001 MF Series A (Skyway Villas Apartments)	6,430,000		180,000		6,250,000	195,000
2001 MF Series A/B (Meridian Apartments)	7,980,000		105,000		7,875,000	108,000
2001 MF Series A/B (Wildwood Apartments)	6,160,000		84,000		6,076,000	89,000
2001 MF Series A (Oak Hollow Apartments)	5,967,842		69,771		5,898,071	74,815
2001 MF Series A/B (Hillside Apartments)	12,136,477		78,573		12,057,904	84,253
2002 MF Series A (Park Meadows Apartments)	3,710,000		105,000		3,605,000	105,000
2002 MF Series A (Clarkridge Villas Apartments)	12,952,368		141,579		12,810,789	151,814
2002 MF Series A (Hickory Trace Apartments)	10,712,555		116,315		10,596,240	124,723
2002 MF Series A (Green Crest Apartments)	10,693,610		86,957		10,606,653	91,863
2002 MF Series A/B (Ironwood Crossing)	16,040,594		149,198		15,891,396	160,780
2003 MF Series A/B (Reading Road)	10,450,000		40,000	200,000	10,210,000	40,000
2003 MF Series A/B (North Vista Apartments)	11,035,000		290,000		10,745,000	310,000
2003 MF Series A/B (West Virginia Apartments)	7,970,000		205,000		7,765,000	215,000
2003 MF Series A/B (Primrose Houston School)	15,699,796		150,631		15,549,165	163,327
2003 MF Series A/B (Timber Oaks Apartments)	12,474,139		104,630		12,369,509	109,710
2003 MF Series A/B (Ash Creek Apartments)	15,418,897		151,881		15,267,016	164,649
2003 MF Series A/B (Peninsula Apartments)	10,545,000		240,000	25,000	10,280,000	260,000
2003 MF Series A/B (Arlington Villas)	16,253,361		141,142		16,112,219	152,933
2003 MF Series A/B (Parkview Townhomes)	13,182,338		115,973		13,066,365	121,603
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	17,710,000			570,000	17,140,000	(9,343)
2004 MF Series A/B (Timber Ridge II Apartments)	6,314,809		59,619		6,255,190	63,909
2004 MF Series A/B (Century Park Townhomes)	11,025,000		255,000		10,770,000	275,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE I-B (Continued)
CHANGES IN BOND INDEBTEDNESS
For the fiscal year ended August 31, 2016

Description of Issue	Bonds Outstanding 09/01/2015	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2016	Amounts Due Within One Year
2004 MF Series A/B (Providence at Veterans Memorial)	\$ 6,696,684	\$	\$ 59,801	\$	\$ 6,636,883	\$ 62,704
2004 MF Series A (Providence at Rush Creek II)	8,320,029		83,432		8,236,597	89,196
2004 MF Series A (Humble Parkway Townhomes)	10,605,000		165,000		10,440,000	180,000
2004 MF Series A (Chisholm Trail Apartments)	10,600,000			300,000	10,300,000	
2004 MF Series A (Evergreen at Plano Parkway)	13,927,403		134,309		13,793,094	143,376
2004 MF Series A (Montgomery Pines Apartments)	11,100,000			300,000	10,800,000	
2004 MF Series A (Bristol Apartments)	11,500,000			200,000	11,300,000	
2004 MF Series A (Pinnacle Apartments)	13,265,000				13,265,000	
2004 MF Series A (Churchill at Pinnacle Park)	9,412,003		113,209		9,298,794	120,851
2004 MF Series A (Providence at Village Fair)	13,240,694		133,890		13,106,804	142,857
2005 MF Series A (Homes at Pecan Grove)	13,038,978		83,223		12,955,755	88,796
2005 MF Series A (Providence at Prairie Oaks)	10,385,016		104,309	32,899	10,247,808	110,996
2005 MF Series A (Port Royal Homes)	11,475,076		114,603		11,360,473	122,279
2005 MF Series A (Mission Del Rio Homes)	8,879,635		56,675		8,822,960	60,471
2005 MF Series A (Atascocita Pines Apartments)	10,890,000			100,000	10,790,000	
2005 MF Series A (Tower Ridge Apartments)	15,000,000				15,000,000	
2005 MF Series A (Prairie Ranch Apartments)	11,100,000		85,000	11,015,000		
2005 MF Series A (St Augustine Estate Apartments)	5,980,000			100,000	5,880,000	
2005 MF Series A (Park Manor Senior Community)	10,400,000			10,400,000		
2005 MF Series A (Providence at Mockingbird Apts)	10,753,459		92,903		10,660,556	98,045
2005 MF Series A (Plaza at Chase Oaks Apartments)	12,268,637		310,759		11,957,878	326,820
2005 MF Series A (Coral Hills Apartments)	4,485,000		100,000		4,385,000	100,000
2006 MF Series A (Harris Branch Apartments)	13,490,000			13,490,000		
2006 MF Series A (Bella Vista Apartments)	6,430,000		65,000		6,365,000	70,000
2006 MF Series A (Village Park Apartments)	9,580,000		195,000		9,385,000	205,000
2006 MF Series A (Oakmoor Apartments)	13,759,468		135,150		13,624,318	143,486
2006 MF Series A (The Residences at Sunset Pointe)	15,000,000				15,000,000	
2006 MF Series A (Hillcrest Apartments)	10,175,000		195,000		9,980,000	210,000
2006 MF Series A (Pleasant Village)	5,343,923		248,966	5,094,957	0	
2006 MF Series A (Red Hills Villas)	4,615,000			100,000	4,515,000	
2006 MF Series A (Champion Crossing Apartments)	4,475,000			100,000	4,375,000	100,000
2006 MF Series A (Meadowlands Apartments)	11,862,618		110,631		11,751,987	117,454
2006 MF Series A (East Tex Pines)	13,000,000		125,000		12,875,000	125,000
2006 MF Series A (Villas at Henderson)	6,615,000			100,000	6,515,000	
2006 MF Series A (Aspen Park)	9,115,000		125,000		8,990,000	135,000
2006 MF Series A (Idlewild)	13,390,000			200,000	13,190,000	
2007 MF Series A (Lancaster)	13,380,000			200,000	13,180,000	
2007 MF Series A (Park Place at Loyola)	13,864,741		109,423		13,755,318	115,941
2007 MF Series A (Terrace at Cibolo)	4,900,000			100,000	4,800,000	
2007 MF Series A (Santora Villas)	11,766,999		97,025		11,669,974	102,804
2007 MF Series A (Villas at Mesquite Creek)	15,775,000		210,000		15,565,000	220,000
2007 MF Series A (Summit Point)	8,960,000			8,960,000		
2007 MF Series A (Costa Rialto)	10,296,693		94,312		10,202,381	99,483
2007 MF Series A (Windshire)	13,300,000			100,000	13,200,000	
2007 MF Series A (Residences at Onion Creek)	15,000,000				15,000,000	
2008 MF Series A (West Oaks Apartments)	12,215,000			140,000	12,075,000	
2008 MF Series A (Costa Ibiza Apartments)	13,120,000			200,000	12,920,000	
2008 MF Series A (Addison Park Apartments)	12,805,000			210,000	12,595,000	
2008 MF Series A (Alta Cullen Apartments Refunding)	12,100,000			200,000	11,900,000	
2009 MF Series A (Costa Mariposa Apartments)	13,270,000			105,000	13,165,000	
2009 MF Series A (Woodmont Apartments)	14,555,000			265,000	14,290,000	
2013 MF Series A (Waters @ Willow Run)	14,500,000				14,500,000	14,500,000
2014 MF Series A (Decatur Angle Apartments)	23,000,000				23,000,000	152,311
2014 MF Series A (Northcrest Apartments)	2,900,000			2,900,000		
2015 MF Series A (Good Samaritan Towers)		5,620,000			5,620,000	
2015 MF Series A (Williamsburg Apts)		23,150,000			23,150,000	172,716
2016 MF Series A (Chisholm Trace/Cheyenne Village)		13,500,000			13,500,000	
2016 MF Series A (Fifty Oaks & Edinburg Village)		7,400,000			7,400,000	
Total Multifamily Bonds	\$ 965,352,798	\$ 49,670,000	\$ 8,044,834	\$ 94,712,979	\$ 912,264,985	\$ 22,779,033
	\$ 1,533,027,798	\$ 194,610,000	\$ 15,799,834	\$ 278,112,979	\$ 1,433,724,985	\$ 27,896,818

FOOTNOTES:

(a) Bonds Outstanding balance at 8/31/16 does not include unamortized premium or discounts.
Bonds Outstanding per schedule \$ 1,433,724,985
Unamortized (Discount)/Premium:
RMRB 1,076,055
CHMRB 17,835
Multi-Family 63,485
Bonds Outstanding **\$ 1,434,882,360**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)

August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2004 Single Family, Series A (Junior Lien)	Principal	-	-	-	-	-
2004 Single Family, Series A (Junior Lien)	Interest	22,745	25,828	25,828	25,888	25,769
2004 Single Family, Series B	Principal	-	-	-	-	-
2004 Single Family, Series B	Interest	214,750	267,784	267,784	268,397	267,171
2004 Single Family, Series D	Principal	-	-	-	-	-
2004 Single Family, Series D	Interest	132,546	161,910	161,910	162,281	161,539
2005 Single Family, Series A	Principal	-	-	-	-	-
2005 Single Family, Series A	Interest	166,565	199,232	199,232	199,688	198,776
2005 Single Family, Series B	Principal	80,000	75,000	70,000	70,000	85,000
2005 Single Family, Series B	Interest	37,665	33,825	30,345	26,985	23,625
2005 Single Family, Series C	Principal	-	3,090,000	-	-	-
2005 Single Family, Series C	Interest	16,986	9,346	-	-	-
2005 Single Family, Series D	Principal	-	-	-	-	-
2005 Single Family, Series D	Interest	21,500	21,500	21,500	21,500	21,500
2007 Single Family, Series A	Principal	-	-	-	-	-
2007 Single Family, Series A	Interest	205,491	245,792	245,792	246,355	245,229
2007 Single Family, Series B	Principal	305,000	495,000	360,000	360,000	360,000
2007 Single Family, Series B	Interest	1,822,258	1,807,840	1,786,803	1,768,623	1,750,443
2013 Single Family, Series A	Principal	-	-	-	-	-
2013 Single Family, Series A	Interest	654,780	654,780	654,780	654,780	654,780
2015 Single Family, Series A	Principal	-	-	-	-	-
2015 Single Family, Series A	Interest	949,760	949,760	949,760	949,760	949,760
2015 Single Family, Series B	Principal	-	-	-	-	-
2015 Single Family, Series B	Interest	591,250	591,250	591,250	591,250	591,250
2016 Single Family, Series A	Principal	-	-	-	-	-
2016 Single Family, Series A	Interest	947,166	929,100	929,100	929,100	929,100
2016 Single Family, Series B	Principal	-	-	-	-	-
2016 Single Family, Series B	Interest	1,813,157	1,778,574	1,778,574	1,778,574	1,778,574
TOTAL SINGLE FAMILY BONDS		7,981,619	11,336,521	8,072,658	8,053,181	8,042,516
2009 Residential Mtg Revenue Bonds, Series A	Principal	305,000	300,000	295,000	-	-
2009 Residential Mtg Revenue Bonds, Series A	Interest	1,317,810	1,306,240	1,294,465	1,285,665	1,285,665
2009 Residential Mtg Revenue Bonds, Series B	Principal	815,000	1,100,000	790,000	1,300,000	1,300,000
2009 Residential Mtg Revenue Bonds, Series B	Interest	324,337	281,993	232,928	187,425	119,175
2009 Residential Mtg Revenue Bonds, Series C-1	Principal	-	-	-	-	-
2009 Residential Mtg Revenue Bonds, Series C-1	Interest	1,310,569	1,310,569	1,310,569	1,310,569	1,310,569
2009 Residential Mtg Revenue Bonds, Series C-2	Principal	-	-	-	-	-
2009 Residential Mtg Revenue Bonds, Series C-2	Interest	895,528	895,528	895,528	895,528	895,528
2011 Residential Mtg Revenue Bonds, Series A	Principal	1,515,000	1,570,000	1,640,000	1,720,000	1,785,000
2011 Residential Mtg Revenue Bonds, Series A	Interest	1,101,387	1,051,725	993,659	927,750	855,081
2011 Residential Mtg Revenue Bonds, Series B	Principal	2,020,000	2,020,000	2,095,000	2,170,000	2,245,000
2011 Residential Mtg Revenue Bonds, Series B	Interest	1,725,878	1,679,482	1,625,529	1,563,300	1,494,455
TOTAL RESIDENTIAL MTG REVENUE BONDS		11,330,509	11,515,537	11,172,678	11,360,237	11,290,473
1992 Coll Home Mtg Rev Bonds, Series C	Principal	-	-	-	-	-
1992 Coll Home Mtg Rev Bonds, Series C	Interest	112,474	123,722	112,474	112,474	123,722
TOTAL COLL HOME MTG REV BONDS		112,474	123,722	112,474	112,474	123,722

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued

August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
-	-	-	3,855,000	-	-	-	3,855,000
129,141	129,141	129,201	12,989	-	-	-	526,530
11,850,000	15,080,000	12,450,000	-	-	-	-	39,380,000
1,173,370	713,764	172,854	-	-	-	-	3,345,874
8,275,000	8,600,000	8,825,000	-	-	-	-	25,700,000
690,749	433,347	129,235	-	-	-	-	2,033,517
-	3,100,000	25,225,000	2,805,000	-	-	-	31,130,000
996,160	993,494	547,210	9,025	-	-	-	3,509,382
415,000	-	-	-	-	-	-	795,000
49,981	-	-	-	-	-	-	202,426
-	-	-	-	-	-	-	3,090,000
-	-	-	-	-	-	-	26,332
45,000	250,000	135,000	-	-	-	-	430,000
107,000	59,250	16,875	-	-	-	-	290,625
-	-	25,805,000	12,600,000	-	-	-	38,405,000
1,228,960	1,228,960	914,986	99,224	-	-	-	4,660,789
2,160,000	2,870,000	13,050,000	15,520,000	-	-	-	35,480,000
8,448,361	7,813,857	6,274,525	1,722,152	-	-	-	33,194,862
-	-	23,385,000	-	-	-	-	23,385,000
3,273,900	3,273,900	3,273,900	-	-	-	-	13,095,600
-	-	-	29,680,000	-	-	-	29,680,000
4,748,800	4,748,800	4,748,800	3,324,161	-	-	-	22,319,361
-	-	-	-	18,920,000	-	-	18,920,000
2,956,250	2,956,250	2,956,250	2,956,251	2,956,248	-	-	17,737,499
-	-	-	-	30,970,000	-	-	30,970,000
4,645,500	4,645,500	4,645,500	4,645,501	4,645,499	-	-	27,891,066
-	-	-	55,930,000	-	-	-	55,930,000
8,892,870	8,892,870	8,892,870	5,335,722	-	-	-	40,941,785
60,086,042	65,789,133	141,577,206	138,495,025	57,491,747	-	-	506,925,648
4,465,000	6,335,000	5,995,000	7,530,000	-	-	-	25,225,000
6,056,917	4,566,064	2,964,572	956,696	-	-	-	21,034,094
1,295,000	-	-	-	-	-	-	6,600,000
50,925	-	-	-	-	-	-	1,196,783
-	6,735,000	17,685,000	21,165,000	-	-	-	45,585,000
6,552,845	6,382,141	4,490,535	1,653,193	-	-	-	25,631,559
-	-	10,340,000	25,770,000	-	-	-	36,110,000
4,477,640	4,477,640	4,221,208	1,930,188	-	-	-	19,584,316
10,600,000	5,410,000	-	-	-	-	-	24,240,000
2,862,093	451,126	-	-	-	-	-	8,242,821
12,930,000	14,480,000	6,890,000	-	-	-	-	44,850,000
6,108,646	3,130,640	443,804	-	-	-	-	17,771,734
55,399,066	51,967,611	53,030,119	59,005,077	-	-	-	276,071,307
1,700,000	-	-	-	-	-	-	1,700,000
336,458	-	-	-	-	-	-	921,324
2,036,458	-	-	-	-	-	-	2,621,324

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)

August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
1996 MF Series A/B (Brighton's Mark)	Principal	-	-	-	-	-
1996 MF Series A/B (Brighton's Mark)	Interest	494,998	494,998	494,998	494,998	494,998
1998 MF Series A-C (Residence Oaks)	Principal	312,000	321,000	329,000	339,000	347,000
1998 MF Series A-C (Residence Oaks)	Interest	148,850	140,166	131,262	122,111	112,699
2000 MF Series A (Creek Point Apts)	Principal	-	-	-	-	-
2000 MF Series A (Creek Point Apts)	Interest	35,759	36,448	36,448	36,490	36,406
2000 MF Series A (Deerwood Apts)	Principal	170,000	180,000	190,000	205,000	220,000
2000 MF Series A (Deerwood Apts)	Interest	315,618	304,750	293,253	280,968	267,840
2000 MF Series A/B (Oaks at Hampton)	Principal	148,265	159,298	171,152	183,892	197,578
2000 MF Series A/B (Oaks at Hampton)	Interest	629,570	618,536	606,681	593,943	580,257
2000 MF Series A (Timber Point Apts)	Principal	-	-	-	-	-
2000 MF Series A (Timber Point Apts)	Interest	41,830	42,636	42,636	42,685	42,587
2000 MF Series A/B (Parks @ Westmoreland)	Principal	143,995	154,715	166,227	178,599	191,891
2000 MF Series A/B (Parks @ Westmoreland)	Interest	627,979	617,262	605,748	593,377	580,084
2000 MF Series A-C (Collingham Park)	Principal	348,000	370,000	392,000	417,000	444,000
2000 MF Series A-C (Collingham Park)	Interest	707,918	684,163	658,930	632,184	603,691
2000 MF Series A-C (Highland Meadow Apts)	Principal	221,000	237,000	253,000	271,000	290,000
2000 MF Series A-C (Highland Meadow Apts)	Interest	476,517	461,330	445,062	427,681	409,085
2001 MF Series A (Bluffview Senior Apts)	Principal	117,350	126,586	136,549	147,296	158,889
2001 MF Series A (Bluffview Senior Apts)	Interest	737,117	727,882	717,919	707,172	695,579
2001 MF Series A (Knollwood Villas Apts)	Principal	150,801	162,669	175,472	189,282	204,180
2001 MF Series A (Knollwood Villas Apts)	Interest	947,229	935,361	922,558	908,747	893,850
2001 MF Series A (Oak Hollow Apts.)	Principal	74,815	80,224	86,023	92,242	98,910
2001 MF Series A (Oak Hollow Apts.)	Interest	410,495	405,086	399,287	393,068	386,400
2001 MF Series A (Skyway Villas)	Principal	195,000	205,000	215,000	225,000	245,000
2001 MF Series A (Skyway Villas)	Interest	348,257	337,290	325,777	313,719	300,942
2001 MF Series A/B (Hillside Apts.)	Principal	84,253	90,344	96,875	103,878	111,387
2001 MF Series A/B (Hillside Apts.)	Interest	841,385	835,294	828,763	821,760	814,251
2001 MF Series A/B (Meridian Apts.)	Principal	108,000	119,000	123,000	132,000	147,000
2001 MF Series A/B (Meridian Apts.)	Interest	469,530	462,775	455,565	447,870	439,695
2001 MF Series A/B (Wildwood Apts.)	Principal	89,000	96,000	100,000	108,000	114,000
2001 MF Series A/B (Wildwood Apts.)	Interest	362,200	356,580	350,790	344,490	337,935
2002 MF Series A (Clarkridge Villas Apts)	Principal	151,814	162,788	174,556	187,175	200,706
2002 MF Series A (Clarkridge Villas Apts)	Interest	891,946	880,972	869,204	856,585	843,054
2002 MF Series A (Green Crest Apts)	Principal	91,863	97,044	102,518	108,301	114,410
2002 MF Series A (Green Crest Apts)	Interest	581,073	575,891	570,417	564,634	558,525
2002 MF Series A (Hickory Trace Apts)	Principal	124,723	133,740	143,408	153,775	164,891
2002 MF Series A (Hickory Trace Apts)	Interest	737,784	728,768	719,100	708,733	697,617
2002 MF Series A (Park Meadows Apts)	Principal	105,000	120,000	125,000	135,000	140,000
2002 MF Series A (Park Meadows Apts)	Interest	233,611	226,591	218,592	210,429	201,614
2002 MF Series A/B (Ironwood Crossing)	Principal	160,780	173,262	186,713	201,208	225,179
2002 MF Series A/B (Ironwood Crossing)	Interest	706,402	693,921	680,470	665,975	650,345
2003 MF Series A/B (Ash Creek Apts)	Principal	164,649	178,399	191,406	204,713	218,945
2003 MF Series A/B (Ash Creek Apts)	Interest	1,005,412	991,916	979,262	966,231	952,295
2003 MF Series A/B (North Vista Apts)	Principal	310,000	325,000	340,000	360,000	380,000
2003 MF Series A/B (North Vista Apts)	Interest	542,108	526,227	509,440	491,903	473,356
2003 MF Series A/B (Peninsula Apts)	Principal	260,000	275,000	295,000	315,000	335,000
2003 MF Series A/B (Peninsula Apts)	Interest	541,395	527,483	512,643	496,743	479,783
2003 MF Series A/B (Primrose Houston School)	Principal	163,327	177,095	192,023	207,856	222,182
2003 MF Series A/B (Primrose Houston School)	Interest	1,013,032	999,469	984,762	969,992	956,036

Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
8,075,000	-	-	-	-	-	-	8,075,000
2,474,985	-	-	-	-	-	-	4,949,975
1,886,000	1,937,000	-	-	-	-	-	5,471,000
413,268	136,304	-	-	-	-	-	1,204,660
-	-	5,360,000	-	-	-	-	5,360,000
182,240	182,240	42,564	-	-	-	-	588,595
1,360,000	1,935,000	725,000	-	-	-	-	4,985,000
1,102,080	589,920	46,878	-	-	-	-	3,201,307
1,231,607	1,763,397	2,524,810	2,431,133	-	-	-	8,811,132
2,657,572	2,125,781	1,364,369	331,347	-	-	-	9,508,056
-	-	6,270,000	-	-	-	-	6,270,000
213,180	213,180	46,296	-	-	-	-	685,030
1,196,152	1,712,639	2,451,137	2,591,726	-	-	-	8,787,081
2,663,722	2,147,235	1,407,812	383,975	-	-	-	9,627,194
2,679,000	3,669,000	2,301,000	-	-	-	-	10,620,000
2,524,032	1,483,071	235,805	-	-	-	-	7,529,794
1,778,000	2,479,000	1,585,000	-	-	-	-	7,114,000
1,717,844	1,017,834	164,093	-	-	-	-	5,119,446
1,002,904	1,464,777	2,139,354	4,458,250	-	-	-	9,751,955
3,269,434	2,807,563	2,132,981	1,120,038	-	-	-	12,915,685
1,288,780	1,882,305	2,749,170	5,729,059	-	-	-	12,531,718
4,201,369	3,607,844	2,740,981	1,439,302	-	-	-	16,597,241
612,716	868,601	1,231,354	1,745,598	1,007,588	-	-	5,898,071
1,813,834	1,557,949	1,195,200	680,954	22,299	-	-	7,264,572
1,450,000	1,955,000	1,760,000	-	-	-	-	6,250,000
1,281,046	812,328	204,103	-	-	-	-	3,923,462
690,012	978,179	1,386,690	1,965,807	6,550,479	-	-	12,057,904
3,938,179	3,650,011	3,241,497	2,662,381	151,479	-	-	17,785,000
900,000	6,336,000	10,000	-	-	-	-	7,875,000
2,047,455	1,364,640	1,975	-	-	-	-	5,689,505
683,000	4,881,000	5,000	-	-	-	-	6,076,000
1,575,220	792,250	1,000	-	-	-	-	4,120,465
1,243,313	1,762,551	2,498,638	3,542,133	2,887,115	-	-	12,810,789
3,975,486	3,456,245	2,720,159	1,676,666	186,332	-	-	16,356,649
676,452	890,010	1,170,989	7,355,066	-	-	-	10,606,653
2,688,226	2,474,668	2,193,689	100,823	-	-	-	10,307,946
1,021,924	1,448,035	2,052,770	2,910,059	2,442,915	-	-	10,596,240
3,290,970	2,864,343	2,259,607	1,402,319	177,553	-	-	13,586,794
865,000	1,195,000	920,000	-	-	-	-	3,605,000
853,308	525,339	107,908	-	-	-	-	2,577,392
1,250,259	1,549,551	1,920,494	10,223,950	-	-	-	15,891,396
3,085,653	2,786,362	2,415,420	942,987	-	-	-	12,627,535
1,345,341	1,882,694	11,080,869	-	-	-	-	15,267,016
4,516,062	3,989,870	3,064,870	-	-	-	-	16,465,918
2,240,000	2,935,000	3,855,000	-	-	-	-	10,745,000
2,050,694	1,406,257	561,393	-	-	-	-	6,561,378
8,800,000	-	-	-	-	-	-	10,280,000
1,534,614	-	-	-	-	-	-	4,092,661
1,360,979	1,895,133	11,330,570	-	-	-	-	15,549,165
4,535,378	4,012,486	3,237,009	-	-	-	-	16,708,164

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)

August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2003 MF Series A/B (Reading Road)	Principal	40,000	40,000	50,000	50,000	50,000
2003 MF Series A/B (Reading Road)	Interest	168,249	166,816	163,947	160,639	157,131
2003 MF Series A/B (Timber Oaks Apts)	Principal	109,710	115,036	120,621	126,477	132,617
2003 MF Series A/B (Timber Oaks Apts)	Interest	859,970	850,158	839,870	829,083	817,773
2003 MF Series A/B (West Virginia Apts)	Principal	215,000	235,000	245,000	255,000	275,000
2003 MF Series A/B (West Virginia Apts)	Interest	391,835	380,661	368,581	356,001	342,921
2004 MF Series A (Bristol)	Principal	-	-	-	-	-
2004 MF Series A (Bristol)	Interest	76,099	76,840	76,840	76,920	76,760
2004 MF Series A (Chisholm Trail)	Principal	-	-	-	-	-
2004 MF Series A (Chisholm Trail)	Interest	69,365	70,040	70,040	70,113	69,967
2004 MF Series A (Churchill @ Pinnacle)	Principal	120,851	129,009	137,717	147,014	156,938
2004 MF Series A (Churchill @ Pinnacle)	Interest	605,485	597,327	588,619	579,323	569,399
2004 MF Series A (Evergreen @ Plano)	Principal	143,376	153,054	163,385	174,414	186,188
2004 MF Series A (Evergreen @ Plano)	Interest	899,195	889,516	879,185	868,156	856,383
2004 MF Series A (Humble Park)	Principal	180,000	190,000	205,000	215,000	235,000
2004 MF Series A (Humble Park)	Interest	686,070	674,025	661,320	647,625	633,105
2004 MF Series A (Montgomery Pines)	Principal	-	-	-	-	-
2004 MF Series A (Montgomery Pines)	Interest	72,732	73,440	73,440	73,516	73,364
2004 MF Series A (Pinnacle)	Principal	-	-	-	-	-
2004 MF Series A (Pinnacle)	Interest	89,333	90,202	90,202	90,296	90,108
2004 MF Series A (Rush Creek)	Principal	89,196	95,360	101,949	108,993	116,524
2004 MF Series A (Rush Creek)	Interest	549,146	542,983	536,394	529,350	521,819
2004 MF Series A/B (Century Park)	Principal	275,000	290,000	305,000	325,000	345,000
2004 MF Series A/B (Century Park)	Interest	576,885	561,775	546,003	529,292	511,487
2004 MF Series A/B (Timber Ridge)	Principal	63,909	68,509	73,439	78,722	84,391
2004 MF Series A/B (Timber Ridge)	Interest	420,275	415,821	411,045	405,927	400,440
2004 MF Series A/B (Veterans Memorial)	Principal	62,704	65,748	68,940	72,287	75,796
2004 MF Series A/B (Veterans Memorial)	Interest	436,154	431,924	427,489	422,839	417,963
2003 MF Series A/B (Parkview Twnhms)	Principal	121,603	127,507	133,697	140,188	146,994
2003 MF Series A/B (Parkview Twnhms)	Interest	858,733	850,530	841,929	832,910	823,453
2003 MF Series A/B (Arlington Villas)	Principal	152,933	165,710	179,553	194,552	210,803
2003 MF Series A/B (Arlington Villas)	Interest	1,095,952	1,083,255	1,069,498	1,054,592	1,038,441
2003 MF Series A (NHP-Asmara) Refunding	Principal	-	-	-	-	-
2003 MF Series A (NHP-Asmara) Refunding	Interest	107,416	109,696	109,696	109,822	109,570
2004 MF Series A (Village Fair)	Principal	142,857	152,424	162,632	173,524	185,145
2004 MF Series A (Village Fair)	Interest	847,737	838,169	827,961	817,069	805,448
2005 MF Series A (Pecan Grove)	Principal	88,796	94,743	101,088	107,858	115,082
2005 MF Series A (Pecan Grove)	Interest	839,510	833,563	827,218	820,448	813,224
2005 MF Series A (Prairie Oaks)	Principal	110,996	118,430	126,361	134,824	143,853
2005 MF Series A (Prairie Oaks)	Interest	662,840	655,406	647,475	639,012	629,983
2005 MF Series A (Port Royal)	Principal	122,279	130,468	139,206	148,527	158,475
2005 MF Series A (Port Royal)	Interest	734,831	726,642	717,904	708,581	698,634

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued

August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
330,000	460,000	9,190,000	-	-	-	-	10,210,000
726,078	596,646	410,551	-	-	-	-	2,550,057
766,142	98,906	-	10,900,000	-	-	-	12,369,509
3,899,021	3,681,582	3,678,750	1,655,439	-	-	-	17,111,646
1,620,000	2,130,000	2,790,000	-	-	-	-	7,765,000
1,485,487	1,018,994	406,215	-	-	-	-	4,750,695
-	-	-	11,300,000	-	-	-	11,300,000
384,200	384,200	384,280	63,919	-	-	-	1,600,058
-	-	-	10,300,000	-	-	-	10,300,000
350,200	350,200	350,273	46,558	-	-	-	1,446,756
958,638	1,328,924	1,842,234	2,553,814	1,923,654	-	-	9,298,793
2,673,042	2,302,761	1,789,450	1,077,871	194,827	-	-	10,978,104
1,137,312	1,576,608	2,185,591	3,029,795	5,043,370	-	-	13,793,093
4,075,542	3,636,242	3,027,262	2,183,056	727,327	-	-	18,041,864
1,425,000	1,955,000	2,710,000	3,325,000	-	-	-	10,440,000
2,908,950	2,362,800	1,612,545	573,870	-	-	-	10,760,310
-	-	-	10,800,000	-	-	-	10,800,000
367,200	367,200	367,276	61,091	-	-	-	1,529,259
-	-	-	13,265,000	-	-	-	13,265,000
451,010	451,010	451,104	75,032	-	-	-	1,878,297
715,109	998,748	1,394,889	1,948,156	2,667,673	-	-	8,236,597
2,476,604	2,192,963	1,796,821	1,243,557	340,590	-	-	10,730,227
2,035,000	2,720,000	3,620,000	855,000	-	-	-	10,770,000
2,254,279	1,625,901	789,667	34,756	-	-	-	7,430,045
522,283	739,302	4,624,635	-	-	-	-	6,255,190
1,905,034	1,694,865	1,397,367	-	-	-	-	7,050,774
437,884	555,011	703,464	4,595,049	-	-	-	6,636,883
2,007,970	1,845,229	1,638,953	1,197,442	-	-	-	8,825,963
849,199	1,076,342	1,364,243	9,106,592	-	-	-	13,066,365
3,958,548	3,642,937	3,242,908	2,506,327	-	-	-	17,558,275
1,323,334	1,868,604	2,635,853	9,380,877	-	-	-	16,112,219
4,927,643	4,394,269	3,643,704	209,307	-	-	-	18,516,661
-	-	17,140,000	-	-	-	-	17,140,000
548,480	548,480	210,076	-	-	-	-	1,853,236
1,129,185	1,561,456	2,159,210	2,985,792	4,454,579	-	-	13,106,804
3,823,785	3,391,513	2,793,758	1,967,174	700,515	-	-	16,813,129
701,873	970,563	1,342,111	9,433,642	-	-	-	12,955,756
3,939,654	3,670,966	3,299,419	848,804	-	-	-	15,892,806
877,350	1,213,213	1,677,652	2,319,889	3,525,240	-	-	10,247,808
2,991,832	2,655,967	2,191,527	1,549,294	566,326	-	-	13,189,662
966,524	1,336,528	1,848,176	2,555,690	3,954,600	-	-	11,360,473
3,319,020	2,949,015	2,437,368	1,729,855	648,693	-	-	14,670,543

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)

August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2005 MF Series A (Del Rio)	Principal	60,471	64,521	68,842	73,452	78,372
2005 MF Series A (Del Rio)	Interest	571,712	567,662	563,341	558,730	553,811
2005 MF Series A (Atascocita Pines)	Principal	-	-	-	-	-
2005 MF Series A (Atascocita Pines)	Interest	72,665	73,372	73,372	73,448	73,296
2005 MF Series A (Tower Ridge)	Principal	-	-	-	-	-
2005 MF Series A (Tower Ridge)	Interest	104,567	105,000	105,000	105,109	104,891
2005 MF Series A (St Augustine)	Principal	-	-	-	-	-
2005 MF Series A (St Augustine)	Interest	39,599	39,984	39,984	40,026	39,942
2005 MF Series A (Mockingbird)	Principal	98,045	103,473	109,201	115,246	121,625
2005 MF Series A (Mockingbird)	Interest	573,268	567,841	562,113	556,068	549,688
2005 MF Series A (Chase Oaks)	Principal	326,820	343,712	361,477	380,160	399,809
2005 MF Series A (Chase Oaks)	Interest	596,377	579,485	561,720	543,037	523,388
2005 MF Series A (Coral Hills)	Principal	100,000	100,000	110,000	115,000	125,000
2005 MF Series A (Coral Hills)	Interest	220,180	215,130	209,954	204,399	198,465
2006 MF Series A (Bella Vista)	Principal	70,000	70,000	80,000	80,000	85,000
2006 MF Series A (Bella Vista)	Interest	391,447	387,142	382,837	377,917	372,997
2006 MF Series A (Village Park)	Principal	205,000	220,000	235,000	245,000	265,000
2006 MF Series A (Village Park)	Interest	474,219	464,244	453,675	442,394	430,638
2006 MF Series A (Oakmoor)	Principal	143,486	152,336	161,731	171,707	182,297
2006 MF Series A (Oakmoor)	Interest	813,556	804,706	795,310	785,335	774,745
2006 MF Series A (Sunset Pointe)	Principal	-	-	-	-	-
2006 MF Series A (Sunset Pointe)	Interest	104,567	105,000	105,000	105,109	104,891
2006 MF Series A (Hillcrest)	Principal	210,000	225,000	230,000	245,000	265,000
2006 MF Series A (Hillcrest)	Interest	521,194	510,038	498,094	485,888	472,631
2006 MF Series A (Red Hills Villas)	Principal	-	-	-	-	-
2006 MF Series A (Red Hills Villas)	Interest	29,660	29,799	29,799	29,830	29,768
2006 MF Series A (Champion Crossing)	Principal	100,000	100,000	100,000	100,000	100,000
2006 MF Series A (Champion Crossing)	Interest	28,137	27,612	26,952	26,319	25,605
2006 MF Series A (Meadowlands)	Principal	117,454	124,698	132,389	140,555	149,224
2006 MF Series A (Meadowlands)	Interest	701,925	694,681	686,990	678,824	670,155
2006 MF Series A (East Tex Pines)	Principal	125,000	135,000	145,000	155,000	160,000
2006 MF Series A (East Tex Pines)	Interest	743,125	735,585	727,465	718,765	709,630
2006 MF Series A (Villas at Henderson)	Principal	-	-	-	-	-
2006 MF Series A (Villas at Henderson)	Interest	43,148	43,651	43,651	43,696	43,605
2006 MF Series A (Aspen Park Apts)	Principal	135,000	140,000	150,000	160,000	165,000
2006 MF Series A (Aspen Park Apts)	Interest	447,875	441,000	433,875	426,250	418,250
2006 MF Series A (Idlewilde Apts)	Principal	-	-	-	-	-
2006 MF Series A (Idlewilde Apts)	Interest	88,827	89,692	89,692	89,785	89,599
2007 MF Series A (Lancaster Apts)	Principal	-	-	-	-	-
2007 MF Series A (Lancaster Apts)	Interest	88,760	89,624	89,624	89,717	89,531

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued

August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
477,980	660,960	913,988	6,424,374	-	-	-	8,822,960
2,682,932	2,499,952	2,246,926	611,120	-	-	-	10,856,186
-	-	-	10,790,000	-	-	-	10,790,000
366,860	366,860	366,936	122,145	-	-	-	1,588,954
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	170,768	-	-	-	2,270,444
-	-	-	5,880,000	-	-	-	5,880,000
199,920	199,920	199,962	83,321	-	-	-	882,658
716,890	938,530	1,228,698	7,228,848	-	-	-	10,660,556
2,639,678	2,418,034	2,127,866	1,433,954	-	-	-	11,428,510
2,331,214	2,999,243	4,815,444	-	-	-	-	11,957,879
2,284,771	1,616,746	685,506	-	-	-	-	7,391,030
3,835,000	-	-	-	-	-	-	4,385,000
887,158	-	-	-	-	-	-	1,935,286
530,000	710,000	970,000	1,320,000	2,450,000	-	-	6,365,000
1,777,349	1,594,079	1,344,696	1,006,446	546,125	-	-	8,181,035
1,560,000	6,655,000	-	-	-	-	-	9,385,000
1,935,714	170,532	-	-	-	-	-	4,371,416
1,094,667	1,476,542	1,991,635	2,686,418	5,563,499	-	-	13,624,318
3,690,540	3,308,663	2,793,570	2,098,788	1,107,944	-	-	16,973,157
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	305,973	-	-	-	2,405,649
1,615,000	7,190,000	-	-	-	-	-	9,980,000
2,131,369	372,487	-	-	-	-	-	4,991,701
200,000	1,000,000	1,300,000	2,015,000	-	-	-	4,515,000
147,128	123,156	86,379	1,128	-	-	-	506,647
500,000	1,000,000	1,300,000	1,075,000	-	-	-	4,375,000
118,256	92,136	55,352	601	-	-	-	400,970
896,068	1,208,663	1,630,305	2,199,037	2,966,171	2,187,424	-	11,751,988
3,200,824	2,888,231	2,466,590	1,897,857	1,130,722	10,937	-	15,027,736
955,000	1,265,000	1,675,000	2,225,000	2,950,000	3,085,000	-	12,875,000
3,392,855	3,073,275	2,649,005	2,086,985	1,341,830	89,465	-	16,267,985
6,515,000	-	-	-	-	-	-	6,515,000
96,628	-	-	-	-	-	-	314,379
1,005,000	7,235,000	-	-	-	-	-	8,990,000
1,952,250	358,748	-	-	-	-	-	4,478,248
-	-	-	13,190,000	-	-	-	13,190,000
448,460	448,460	448,553	343,820	-	-	-	2,136,888
-	-	-	13,180,000	-	-	-	13,180,000
448,120	448,120	448,213	350,904	-	-	-	2,142,613

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

Supplementary Bond Schedules

SCHEDULE 1-C

DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)

August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2007 MF Series A (Park Place)	Principal	115,941	122,847	130,165	137,918	146,133
2007 MF Series A (Park Place)	Interest	794,760	787,853	780,536	772,782	764,567
2007 MF Series A (Terrace at Cibolo)	Principal	-	-	-	-	-
2007 MF Series A (Terrace at Cibolo)	Interest	31,419	32,160	32,160	32,197	32,123
2007 MF Series A (Santora Villas)	Principal	102,804	108,928	115,416	122,291	129,576
2007 MF Series A (Santora Villas)	Interest	674,155	668,031	661,543	654,668	647,384
2007 MF Series A (Villas @ Mesquite Creek)	Principal	220,000	235,000	245,000	260,000	275,000
2007 MF Series A (Villas @ Mesquite Creek)	Interest	779,631	766,704	752,946	740,000	726,875
2007 MF Series A (Costa Rialto)	Principal	99,483	104,938	110,691	116,761	123,163
2007 MF Series A (Costa Rialto)	Interest	543,414	537,959	532,205	526,135	519,733
2007 MF Series A (Windshire)	Principal	-	-	-	-	-
2007 MF Series A (Windshire)	Interest	88,895	89,760	89,760	89,853	89,667
2007 MF Series A (Residences @ Onion Creek)	Principal	-	-	-	-	-
2007 MF Series A (Residences @ Onion Creek)	Interest	104,567	105,000	105,000	105,109	104,891
2008 MF Series A (Addison Park)	Principal	-	-	-	-	-
2008 MF Series A (Addison Park)	Interest	87,242	88,165	88,165	88,266	88,064
2008 MF Series A (Costa Ibiza)	Principal	-	-	-	-	-
2008 MF Series A (Costa Ibiza)	Interest	76,443	77,520	77,520	77,609	77,431
2008 MF Series A (West Oaks)	Principal	-	-	-	-	-
2008 MF Series A (West Oaks)	Interest	80,320	82,110	82,110	82,204	82,016
2009 MF Series A (Costa Mariposa Apartments)	Principal	-	-	-	-	-
2009 MF Series A (Costa Mariposa Apartments)	Interest	77,892	78,990	78,990	79,080	78,900
2009 MF Series A (Woodmont Apartments)	Principal	-	-	-	-	-
2009 MF Series A (Woodmont Apartments)	Interest	84,549	85,740	85,740	85,838	85,642
2008 MF Series A (Alta Cullen Apartments)	Principal	-	-	-	-	-
2008 MF Series A (Alta Cullen Apartments)	Interest	77,540	78,540	78,540	78,630	78,450
2013 MF Series A (Waters @ Willow Run)	Principal	14,500,000	-	-	-	-
2013 MF Series A (Waters @ Willow Run)	Interest	47,125	-	-	-	-
2014 MF Series A (Decatur Angle Apartments)	Principal	152,311	161,464	171,167	181,453	192,357
2014 MF Series A (Decatur Angle Apartments)	Interest	1,318,528	1,309,532	1,299,995	1,289,884	1,279,166
2015 MF Series A (Good Samaritan Towers)	Principal	-	5,620,000	-	-	-
2015 MF Series A (Good Samaritan Towers)	Interest	53,390	26,695	-	-	-
2015 MF Series A (Williamsburg Apts)	Principal	156,691	273,696	286,332	296,738	313,252
2015 MF Series A (Williamsburg Apts)	Interest	808,368	799,950	790,175	782,126	769,352
2016 MF Series A (Chisolm Trace/Cheyenne Village)	Principal	-	13,500,000	-	-	-
2016 MF Series A (Chisolm Trace/Cheyenne Village)	Interest	108,000	108,000	-	-	-
2016 MF Series A (Fifty Oaks-Edinburg)	Principal	-	7,400,000	-	-	-
2016 MF Series A (Fifty Oaks-Edinburg)	Interest	44,893	48,100	-	-	-
TOTAL MULTIFAMILY BONDS		60,204,117	72,293,416	45,588,977	45,592,907	45,630,846
Total		79,628,719	95,269,196	64,946,787	65,118,799	65,087,557
Less Interest		51,816,368	51,198,421	50,255,866	49,484,921	48,647,795
Total Principal		27,812,351	44,070,775	14,690,921	15,633,878	16,439,762

Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
872,082	1,164,660	1,555,399	2,077,226	2,774,121	4,658,827	-	13,755,319
3,681,419	3,388,839	2,998,100	2,476,270	1,779,374	131,209	-	18,355,709
-	-	-	4,800,000	-	-	-	4,800,000
160,800	160,800	160,837	120,556	-	-	-	763,052
773,273	1,032,701	1,379,167	1,841,867	2,459,805	3,604,147	-	11,669,975
3,111,526	2,852,096	2,505,629	2,042,924	1,424,988	148,452	-	15,391,396
1,595,000	2,025,000	2,610,000	3,340,000	4,270,000	490,000	-	15,565,000
3,411,875	2,966,250	2,396,750	1,665,875	731,750	12,250	-	14,950,906
724,831	946,568	1,236,140	1,614,296	2,108,136	3,017,375	-	10,202,382
2,489,647	2,267,908	1,978,336	1,600,177	1,106,336	138,004	-	12,239,854
-	-	-	13,200,000	-	-	-	13,200,000
448,800	448,800	448,893	396,571	-	-	-	2,190,999
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	455,000	-	-	-	2,554,676
-	-	-	-	12,595,000	-	-	12,595,000
440,825	440,825	440,926	440,724	213,287	-	-	2,416,489
-	-	-	12,920,000	-	-	-	12,920,000
387,600	387,600	387,689	387,511	-	-	-	1,936,923
-	-	-	12,075,000	-	-	-	12,075,000
410,550	410,550	410,644	403,483	-	-	-	2,043,987
-	-	-	-	13,165,000	-	-	13,165,000
394,950	394,950	395,040	394,860	59,081	-	-	2,032,733
-	-	-	-	14,290,000	-	-	14,290,000
428,700	428,700	428,798	428,602	71,411	-	-	2,213,720
-	-	-	-	11,900,000	-	-	11,900,000
392,700	392,700	392,790	392,610	281,237	-	-	2,243,737
-	-	-	-	-	-	-	14,500,000
-	-	-	-	-	-	-	47,125
1,149,715	1,539,261	2,060,796	2,759,036	3,693,854	4,945,411	5,993,175	23,000,000
6,211,115	5,828,226	5,315,610	4,629,304	3,710,464	2,480,304	638,744	35,310,872
-	-	-	-	-	-	-	5,620,000
-	-	-	-	-	-	-	80,085
1,794,120	2,248,421	17,780,750	-	-	-	-	23,150,000
3,670,499	3,319,077	259,484	-	-	-	-	11,199,031
-	-	-	-	-	-	-	13,500,000
-	-	-	-	-	-	-	216,000
-	-	-	-	-	-	-	7,400,000
-	-	-	-	-	-	-	92,993
252,268,358	240,313,806	266,322,515	373,560,600	132,863,289	24,998,805	6,631,919	1,566,269,555
369,789,924	358,070,550	460,929,840	571,060,702	190,355,036	24,998,805	6,631,919	2,351,887,834
227,482,814	187,905,924	146,141,615	76,757,523	24,822,237	3,010,621	638,744	918,162,849
142,307,110	170,164,626	314,788,225	494,303,179	165,532,799	21,988,184	5,993,175	1,433,724,985

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Supplementary Bond Schedules
SCHEDULE 1-D
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
2004 Single Family Series A (Jr. Lien)	\$ 211	\$ 792		\$ 14,308
2004 Single Family Series B	6,847,289	87,052		1,168,425
2004 Single Family Series D	5,084,724	61,166		764,604
2005 Single Family Series A	7,490,814	77,227		1,259,545
2005 Single Family Series B	779,725	2,386	120,000	56,518
2005 Single Family Series C	232,138	9,274		11,558
2005 Single Family Series D	427,304	1,291		30,854
2006 Single Family Series A	15,739,986	4,485	130,000	356,688
2006 Single Family Series B	16,374,116	4,680	280,000	371,021
2006 Single Family Series C	26,251,934	7,410	315,000	609,960
2006 Single Family Series D	5,567,169	1,755		129,193
2006 Single Family Series E	3,624,779	1,170	1,645,000	74,493
2006 Single Family Series H	36,463,942	286,917		197,345
2007 Single Family Series A	11,929,259	96,131		1,583,977
2007 Single Family Series B	12,785,576	11,919	565,000	2,078,431
2013 Single Family Series A	6,133,994	10,740		709,427
2015 Single Family Series A	5,443,774	527,795		856,480
2015 Single Family Series B	1,777,925	336,452		513,124
2016 Single Family Series A	1,380,524	423,381		488,606
2016 Single Family Series B	5,322,938	764,600		957,453
Total Single Family Bonds	\$ 169,658,121	\$ 2,716,623	\$ 3,055,000	\$ 12,232,010
2009 RMRB Series A	\$ 5,236,059	\$ 166,267	\$ 315,000	\$ 1,426,361
2009 RMRB Series B	1,290,361	43,503	815,000	373,024
2009 RMRB Series C-1	9,565,617	12,506		1,416,081
2011 RMRB Series A	5,259,788	6,650	1,505,000	1,232,450
2009 RMRB Series C-2	7,432,744	10,361		956,494
2011 RMRB Series B	9,595,319	12,868	2,065,000	1,885,510
Total Residential Mtg Revenue Bonds	\$ 38,379,888	\$ 252,155	\$ 4,700,000	\$ 7,289,920
1992 CHMRB Series C	1,151,133	701		155,857
Total 1992 CHMRB	\$ 1,151,133	\$ 701	\$	\$ 155,857
1996 MF Series A/B (Brighton's Mark Development)	\$ 503,247	\$	\$	\$ 503,247
1998 MF Series A-C (Residence at the Oaks Projects)	154,502		304,000	154,502
1999 MF Series A-C (Mayfield Apartments)	8,492,904		162,000	309,902
2000 MF Series A (Creek Point Apartments)	112,492			12,492
2000 MF Series A (Deerwood Apartments)	323,099		155,000	323,099
2000 MF Series A (Timber Point Apartments)	214,712			14,712
2000 MF Series A/B (Greenbridge at Buckingham Apartments)	20,231,623		132,697	1,162,722
2000 MF Series A/B (Oaks at Hampton Apartments)	639,014		137,994	639,014
2000 MF Series A/B (Parks at Westmoreland Apartments)	637,150		134,021	637,150
2000 MF Series A/B (Williams Run Apartments)	11,642,308		18,647	189,086
2000 MF Series A-C (Collingham Park Apartments)	722,904		327,000	722,904
2000 MF Series A-C (Highland Meadow Village Apartments)	486,067		207,000	486,067
2001 MF Series A (Bluffview Apartments)	744,990		108,788	744,990
2001 MF Series A (Knollwood Apartments)	957,347		139,798	957,347
2001 MF Series A (Oak Hollow Apartments)	415,132		69,771	415,132
2001 MF Series A (Skyway Villas Apartments)	355,729		180,000	355,729
2001 MF Series A/B (Hillside Apartments)	846,606		78,573	846,606
2001 MF Series A/B (Meridian Apartments)	475,455		105,000	475,455
2001 MF Series A/B (Wildwood Apartments)	366,870		84,000	366,870
2002 MF Series A (Clarkridge Villas Apartments)	901,355		141,579	901,355
2002 MF Series A (Park Meadows Apartments)	238,916		105,000	238,916
2002 MF Series A (Green Crest Apartments)	585,580		86,957	585,580
2002 MF Series A (Hickory Trace Apartments)	745,516		116,315	745,516
2002 MF Series A/B (Ironwood Crossing)	717,053		149,198	717,053
2003 MF Series A (NHP Foundation-Asmara Project) Refunding	613,803			34,459
2003 MF Series A/B (Reading Road)	332,269		40,000	132,268
2003 MF Series A/B (Arlington Villas)	1,106,728		141,142	1,106,728
2003 MF Series A/B (Ash Creek Apartments)	1,017,011		151,881	1,017,011
2003 MF Series A/B (North Vista Apartments)	553,147		290,000	553,147
2003 MF Series A/B (Parkview Townhomes)	865,918		115,973	865,918

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Supplementary Bond Schedules
SCHEDULE 1-D (Continued)
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
2003 MF Series A/B (Peninsula Apartments)	\$ 574,412	\$	\$ 240,000	\$ 549,412
2003 MF Series A/B (Primrose Houston School)	1,024,537		150,631	1,024,537
2003 MF Series A/B (Timber Oaks Apartments)	868,564		104,630	868,564
2003 MF Series A/B (West Virginia Apartments)	399,590		205,000	399,590
2004 MF Series A (Bristol Apartments)	224,658			24,658
2004 MF Series A (Chisholm Trail Apartments)	322,537			22,537
2004 MF Series A (Churchill at Pinnacle Park)	612,509		113,209	612,509
2004 MF Series A (Evergreen at Plano Parkway)	907,527		134,309	907,527
2004 MF Series A (Humble Parkway Townhomes)	695,475		165,000	695,475
2004 MF Series A (Montgomery Pines Apartments)	323,620			23,620
2004 MF Series A (Pinnacle Apartments)	28,804			28,804
2004 MF Series A (Providence at Rush Creek II)	554,445		83,432	554,445
2004 MF Series A (Providence at Village Fair)	855,978		133,890	855,978
2004 MF Series A/B (Century Park Townhomes)	587,227		255,000	587,227
2004 MF Series A/B (Timber Ridge II Apartments)	424,093		59,619	424,093
2004 MF Series A/B (Providence at Veterans Memorial)	395,433		59,801	395,433
2005 MF Series A (Atascocita Pines Apartments)	123,447			23,447
2005 MF Series A (Mission Del Rio Homes)	575,201		56,675	575,201
2005 MF Series A (Park Manor Senior Community)	10,400,000			-
2005 MF Series A (Homes at Pecan Grove)	844,632		83,223	844,632
2005 MF Series A (Plaza at Chase Oaks Apartments)	611,131		310,759	611,131
2005 MF Series A (Port Royal Homes)	741,885		114,603	741,885
2005 MF Series A (Providence at Prairie Oaks)	703,931		104,309	671,032
2005 MF Series A (Prairie Ranch Apartments)	11,416,919		85,000	401,919
2005 MF Series A (Providence at Mockingbird Apartments)	577,992		92,903	577,992
2005 MF Series A (St Augustine Estate Apartments)	112,776			12,776
2005 MF Series A (Tower Ridge Apartments)	42,822			42,822
2006 MF Series A (Aspen Park)	453,208		125,000	453,208
2006 MF Series A (Bella Vista Apartments)	393,779		65,000	393,779
2006 MF Series A (Champion Crossing Apartments)	110,176			10,176
2005 MF Series A (Coral Hills Apartments)	224,809		100,000	224,809
2006 MF Series A (East Tex Pines)	747,354		125,000	747,354
2006 MF Series A (Harris Branch Apartments)	13,490,331			333
2006 MF Series A (Hillcrest Apartments)	527,428		195,000	527,428
2006 MF Series A (Idlewilde)	228,693			28,693
2006 MF Series A (Meadowlands Apartments)	708,194		110,631	708,194
2006 MF Series A (Oakmoor Apartments)	821,216		135,150	821,216
2006 MF Series A (Pleasant Village)	5,260,618		248,967	165,662
2006 MF Series A (Red Hills Villas)	110,655			10,655
2006 MF Series A (The Residences at Sunset Pointe)	42,822			42,822
2006 MF Series A (Village Park Apartments)	481,341		195,000	481,341
2006 MF Series A (Villas at Henderson)	114,096			14,096
2007 MF Series A (Villas at Mesquite Creek)	790,588		210,000	790,588
2007 MF Series A (Costa Rialto)	548,162		94,312	548,162
2007 MF Series A (Lancaster)	228,705			28,705
2007 MF Series A (Park Place at Loyola)	800,748		109,423	800,748
2007 MF Series A (Santora Villas)	679,465		97,024	679,465
2007 MF Series A (Summit Point)	9,061,745			101,745
2007 MF Series A (Terrace at Cibolo)	110,393			10,393
2007 MF Series A (Windshire)	128,710			28,710
2007 MF Series A (Residences at Onion Creek)	42,822			42,822
2008 MF Series A (West Oaks Apartments)	166,242			26,242
2008 MF Series A (Costa Ibiza Apartments)	226,329			26,329
2008 MF Series A (Addison Park Apartments)	246,186			36,186
2008 MF Series A (Alta Cullen Apartments Refunding)	227,620			27,619
2009 MF Series A (Costa Mariposa Apartments)	131,737			26,737
2009 MF Series A (Woodmont Apartments)	294,191			29,191

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Supplementary Bond Schedules
SCHEDULE 1-D (Continued)
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
2013 MF Series A (Waters at Willow Run)	\$ 69,479	\$	\$	\$ 69,479
2014 MF Series A (Decatur Angle Apartments)	1,322,500			1,322,500
2014 MF Series A (Northcrest Apartments)	2,903,263			3,263
2015 MF Series A (Good Samaritan Towers)	53,093			53,093
2015 MF Series A (Williamsburg Apartments)	599,362			610,099
2015 MF Series A (Chisolm Trace/Cheyenne Village)	30,600			30,600
2015 MF Series A (Fifty Oaks & Edinburg Village)	802			802
Total Multifamily Bonds	<u>\$ 133,327,054</u>	<u>\$ -</u>	<u>\$ 8,044,834</u>	<u>\$ 38,615,467</u>
Total	<u>\$ 342,516,196</u>	<u>\$ 2,969,479</u>	<u>\$ 15,799,834</u>	<u>\$ 58,293,254</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Supplementary Bond Schedules
SCHEDULE 1-E
MISCELLANEOUS BOND INFORMATION - DEFEASED BONDS OUTSTANDING
 For the fiscal year ended August 31, 2016

Description of Issue	Year Refunded	Par Value Outstanding
Business-Type Activities		
2007 MF Series A (Summit Point)	2016	\$ 8,850,000
Total Business-Type Activities		<u>\$ 8,850,000</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Supplementary Bond Schedules
SCHEDULE 1-F
EARLY EXTINGUISHMENT AND REFUNDING
For the fiscal year ended August 31, 2016

Description of Issue	Category	Amount Extinguished or Refunded	For Refunding Only		
			Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Business-Type Activities					
2004 Single Family Series B	Early Extinguishment	\$ 4,880,000			
2004 Single Family Series D	Early Extinguishment	3,885,000			
2005 Single Family Series A	Early Extinguishment	5,985,000			
2005 Single Family Series B	Early Extinguishment	720,000			
2005 Single Family Series D	Early Extinguishment	395,000			
2006 Single Family Series A	Early Extinguishment	1,380,000			
2006 Single Family Series A	Current Refunding	13,920,000	13,811,330	3,499,742	3,740,561
2006 Single Family Series B	Early Extinguishment	1,435,000			
2006 Single Family Series B	Current Refunding	14,480,000	14,366,960	3,640,536	3,891,043
2006 Single Family Series C	Early Extinguishment	2,300,000			
2006 Single Family Series C	Current Refunding	23,225,000	23,043,690	5,839,189	6,240,986
2006 Single Family Series D	Early Extinguishment	200,000			
2006 Single Family Series D	Current Refunding	5,195,000	5,154,445	1,306,118	1,395,992
2006 Single Family Series E	Early Extinguishment	125,000			
2006 Single Family Series E	Current Refunding	3,385,000	3,358,575	851,051	909,612
2006 Single Family Series H	Early Extinguishment	1,260,000			
2006 Single Family Series H	Current Refunding	34,740,000	33,825,000	(24,735,357)	(16,046,131)
2007 Single Family Series A	Early Extinguishment	9,785,000			
2007 Single Family Series B	Early Extinguishment	10,450,000			
2013 Single Family Series A	Early Extinguishment	4,940,000			
2015 Single Family Series A	Early Extinguishment	4,145,000			
2015 Single Family Series B	Early Extinguishment	950,000			
2016 Single Family Series A	Early Extinguishment	540,000			
2016 Single Family Series B	Early Extinguishment	3,805,000			
2009 RMRB Series A	Early Extinguishment	3,725,000			
2009 RMRB Series B	Early Extinguishment	895,000			
2009 RMRB Series C-1	Early Extinguishment	7,535,000			
2009 RMRB Series C-2	Early Extinguishment	6,100,000			
2011 RMRB Series A	Early Extinguishment	4,180,000			
2011 RMRB Series B	Early Extinguishment	7,940,000			
1992 Coll Home Mtg Rev Bonds, Series C	Early Extinguishment	900,000			
1999 MF Series A-C (Mayfield Apartments)	Early Extinguishment	8,183,000			
2000 MF Series A (Timber Point Apartments)	Early Extinguishment	200,000			
2000 MF Series A (Creek Point Apartments)	Early Extinguishment	100,000			
2000 MF Series A/B (Greenbridge at Buckingham Apts)	Early Extinguishment	19,068,902			
2000 MF Series A/B (Williams Run Apartments)	Early Extinguishment	11,453,222			
2003 MF Series A/B (Reading Road)	Early Extinguishment	200,000			
2003 MF Series A/B (Peninsula Apartments)	Early Extinguishment	25,000			
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	Early Extinguishment	570,000			
2004 MF Series A (Chisholm Trail Apartments)	Early Extinguishment	300,000			
2004 MF Series A (Montgomery Pines Apartments)	Early Extinguishment	300,000			
2004 MF Series A (Bristol Apartments)	Early Extinguishment	200,000			
2005 MF Series A (Providence at Prairie Oaks)	Early Extinguishment	32,899			
2005 MF Series A (Atascocita Pines Apartments)	Early Extinguishment	100,000			
2005 MF Series A (Prairie Ranch Apartments)	Early Extinguishment	11,015,000			
2005 MF Series A (St Augustine Estate Apartments)	Early Extinguishment	100,000			
2005 MF Series A (Park Manor Senior Community)	Early Extinguishment	10,400,000			
2006 MF Series A (Harris Branch Apartments)	Early Extinguishment	13,490,000			
2006 MF Series A (Pleasant Village)	Early Extinguishment	5,094,956			
2006 MF Series A (Red Hills Villas)	Early Extinguishment	100,000			
2006 MF Series A (Champion Crossing Apartments)	Early Extinguishment	100,000			
2006 MF Series A (Villas at Henderson)	Early Extinguishment	100,000			
2006 MF Series A (Idlewilde)	Early Extinguishment	200,000			
2007 MF Series A (Lancaster)	Early Extinguishment	200,000			
2007 MF Series A (Terrace at Cibolo)	Early Extinguishment	100,000			
2007 MF Series A (Summit Point)	Early Extinguishment	8,960,000			
2007 MF Series A (Windshire)	Early Extinguishment	100,000			
2008 MF Series A (West Oaks Apartments)	Early Extinguishment	140,000			
2008 MF Series A (Costa Ibiza Apartments)	Early Extinguishment	200,000			
2008 MF Series A (Addison Park Apartments)	Early Extinguishment	210,000			
2008 MF Series A (Alta Cullen Apartments Refunding)	Early Extinguishment	200,000			
2009 MF Series A (Costa Mariposa Apartments)	Early Extinguishment	105,000			
2009 MF Series A (Woodmont Apartments)	Early Extinguishment	265,000			
2014 MF Series A (Northcrest Apartments)	Early Extinguishment	2,900,000			
Total Business-Type Activities		<u>\$ 278,112,979</u>	<u>\$ 93,560,000</u>	<u>\$ (9,598,721)</u>	<u>\$ 132,063</u>



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*

Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

- Mr. Paul Oxer, P.E., Chair
- Dr. Juan Sanchez Muñoz, Vice-Chair
- Mr. T. Tolbert Chisum
- Ms. Leslie Bingham Escareño
- Mr. Tom H. Gann
- Mr. J.B. Goodwin

We have audited, in accordance with the 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 governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 20, 2016.

In addition, we have audited the accompanying financial statements of the Revenue Bond Program Enterprise Fund (Program) of the Department, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We also have audited the accompanying Computation of Unencumbered Fund Balances (Computation) of the Department's Housing Finance Division, as of August 31, 2016, and the related notes to the Computation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2016

**TEXAS DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS**

Revenue Bond Program Enterprise Fund

**Basic Financial Statements
for the Year Ended August 31, 2016**

(With Independent Auditor's Report)



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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

Basic Financial Statements
for the Year Ended August 31, 2016

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	14
SUPPLEMENTAL SCHEDULES:	
Supplemental Schedule 1 - Statement of Net Position Information by Individual Activity (Unaudited)	32
Supplemental Schedule 2 - Statement of Revenues, Expenses, and Changes in Fund Net Position Information by Individual Activity (Unaudited)	33
SUPPLEMENTARY BOND SCHEDULES:	
Schedule 3 - Miscellaneous Bond Information	34
Schedule 4 - Changes in Bond Indebtedness	38
Schedule 5 - Debt Service Requirements (Principal & Interest)	40
Schedule 6 - Analysis of Funds Available for Debt Service	50
Schedule 7 - Defeased Bonds Outstanding	53
Schedule 8 - Early Extinguishment and Refunding	54

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Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice Chair

Mr. T. Tolbert Chisum

Ms. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J. B. Goodwin

Report on the Financial Statements

We have audited the accompanying financial statements of the Revenue Bond Program Enterprise Fund (Program) of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program of the Department, as of August 31, 2016, 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.

Emphasis of Matters

Fund Financial Statements

As discussed in Note 1, the financial statements present only the Program, an enterprise fund of the Department and of the State of Texas, and do not purport to, and do not, present fairly the financial position of the Department or the State of Texas as of August 31, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's financial statements. The supplementary bond schedules and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Department'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 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 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 Department's internal control over financial reporting and compliance.



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2016

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Texas Department of Housing and Community Affairs - Revenue Bond Program ("Bond Program") annual financial report presents management's discussion and analysis of the financial performance of the Bond Program of the Texas Department of Housing and Community Affairs ("Department") during the fiscal year that ended on August 31, 2016. Please read it in conjunction with the Department's Bond Program financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Bond Program's net position increased by \$7.3 million. This was primarily because of a positive \$11.5 million difference between interest income and interest expense offset by an increase of \$2.0 million in bond issuance expenses and an increase of \$2.0 million in servicer expenses.
- The Bond Program had an Operating Income of \$11.6 million, a decrease of \$1.6 million from the prior year. The change in operating income was a result of the following factors. Interest and investment income decreased \$5.5 million due to declining loan and investment balances; the net change in fair value of investments increased from a negative change of \$8.7 million in fiscal year 2015 to a negative change of \$3.7 million in fiscal year 2016, an overall change of \$5.0 million; bond interest expense decreased \$5.6 million due to lower bonds outstanding and lower interest rates related to variable rate debt; and other operating expenses increased \$4.8 million primarily due to bond issuance and servicer expenses.
- The Bond Program's debt outstanding of \$1.5 billion as of August 31, 2016, decreased \$55.0 million due to debt retirements of \$293.9 million offset by \$194.6 million in new bond issuances and \$45.7 million in notes payable. Loan originations for the year totaled \$10.7 million in the Bond Program.
- In accordance with Governmental Accounting Standards Board Statement (GASB) No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Department identified its derivative instruments, measured their effectiveness, and reported the derivative instruments at fair value. The Department's interest rate swaps, which were primarily used to hedge changes in interest rates, are considered to be derivative instruments under GASB 53. GASB 53 requires the fair value of a derivative to be reported at the end of the fiscal year in the balance sheet and GASB No. 72, *Fair Value Measurement and Application*, requires the fair value of a derivative to be computed taking into account nonperformance risk. As of August 31, 2016, the Department's four interest rate swaps had a total notional amount of \$128.8 million and a negative \$15.1 million fair value which was recorded in the deferred outflow of resources account and as a derivative swap liability.

FINANCIAL STATEMENTS

The financial statements provide information about the Bond Program's funds. The Bond Program has only one type of fund, the proprietary fund, which is as follows:

- Proprietary Fund** - The Bond Program's activities in its proprietary fund are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuances of taxable and tax-exempt bonds whose proceeds are used primarily to fund various types of loans to finance low- and moderate-income housing. The net position of these funds represents accumulated earnings since their inception and is generally restricted for program purposes or debt service.

FINANCIAL ANALYSIS OF THE REVENUE BOND PROGRAM

Bond Program - Condensed Statement of Net Position				
	2016	2015	Increase (Decrease)	
			Amount	Percentage
ASSETS:				
Current Assets:				
Cash and investments	\$ 185,864,185	\$ 111,929,738	\$ 73,934,447	66.05 %
Loans and Contracts	23,383,276	10,063,694	13,319,582	132.35 %
Interest receivable	8,637,189	11,768,167	(3,130,978)	(26.61)%
Other Current Assets	284,316	1,092,963	(808,647)	(73.99)%
Non-Current Assets:				
Investments	646,470,841	701,151,445	(54,680,604)	(7.80)%
Loans and Contracts	998,197,532	1,023,972,998	(25,775,466)	(2.52)%
Other Non-Current Assets	22,626	31,173	(8,547)	(27.42)%
Total assets	<u>1,862,859,965</u>	<u>1,860,010,178</u>	<u>2,849,787</u>	0.15 %
DEFERRED OUTFLOWS OF RESOURCES	<u>15,095,971</u>	<u>16,909,723</u>	<u>(1,813,752)</u>	(10.73)%
LIABILITIES:				
Current Liabilities				
Notes payable	214,880	-	214,880	-
Bonds payable	27,896,818	18,841,004	9,055,814	48.06 %
Interest payable	13,676,647	17,593,119	(3,916,472)	(22.26)%
Other current liabilities	465,632	350,055	115,577	33.02 %
Non-Current Liabilities				
Notes payable	45,490,181	-	45,490,181	-
Bonds payable	1,406,985,542	1,516,769,854	(109,784,312)	(7.24)%
Derivative Hedging Instrument	15,095,971	16,909,723	(1,813,752)	(10.73)%
Other non-current liabilities	142,348,859	87,929,042	54,419,817	61.89 %
Total liabilities	<u>1,652,174,530</u>	<u>1,658,392,797</u>	<u>(6,218,267)</u>	(0.37)%
DEFERRED INFLOWS OF RESOURCES	<u> </u>	<u> </u>	<u> </u>	
NET POSITION:				
Restricted for Bonds	217,016,529	208,295,086	8,721,443	4.19 %
Unrestricted	8,764,877	10,232,018	(1,467,141)	(14.34)%
Total Net Position	<u>\$ 225,781,406</u>	<u>\$ 218,527,104</u>	<u>\$ 7,254,302</u>	3.32 %

The Net Position of the Bond Program increased \$7.3 million, or 3.3%, to \$225.8 million. The restricted net position of the Bond Program increased \$8.7 million, or 4.2%. The increase can be primarily attributed to a positive difference between interest earnings and interest expense offset by an increase of other operating expenses of the Bond Program. The unrestricted net position decreased \$1.5 million, or 14.3%, to \$8.8 million. The unrestricted net position is composed of \$8.0 million related to the Operating Fund and \$3.1 million related to the Taxable Mortgage Program offset by a negative net position related to Multifamily of \$2.4 million.

Cash and investments (current and non-current) increased \$19.3 million, or 2.4%, to \$832.3 million, primarily due to investment of proceeds from new bond issuance offset by the sale of investments used to retire debt.

The Bond Program's loans and contracts (current and non-current) decreased \$12.5 million, or 1.2%, to \$1.0 billion, due primarily as a result of loans paid off related to the Department's Multi-family Bond Program. Total bonds payable (current and non-current) decreased \$100.7 million, or 6.6%, due to the Department's monthly retirement of existing debt primarily due to consumer refinancing and paying off of original loans and the retirement of the associated debt. In addition, the Department issued \$45.7 million in notes payable to provide funding to developers of two new multifamily properties. The \$54.4 million increase in other non-current liabilities is related to the proceeds of these issued multifamily bonds and notes payable.

In accordance with GASB No. 53 and GASB No. 72, the Department reported its derivative instruments at fair value on the balance sheet. The Department's four interest rate swaps are considered to be derivative instruments per GASB No. 53. The negative \$15.1 million fair value of the swaps increased by \$1.8 million and is reported as deferred outflow of resources and a derivative hedging instrument classified as a liability.

A comparison between 2016 and 2015 for the Statement of Revenues, Expenses, and Changes in Fund Net Position is as follows:

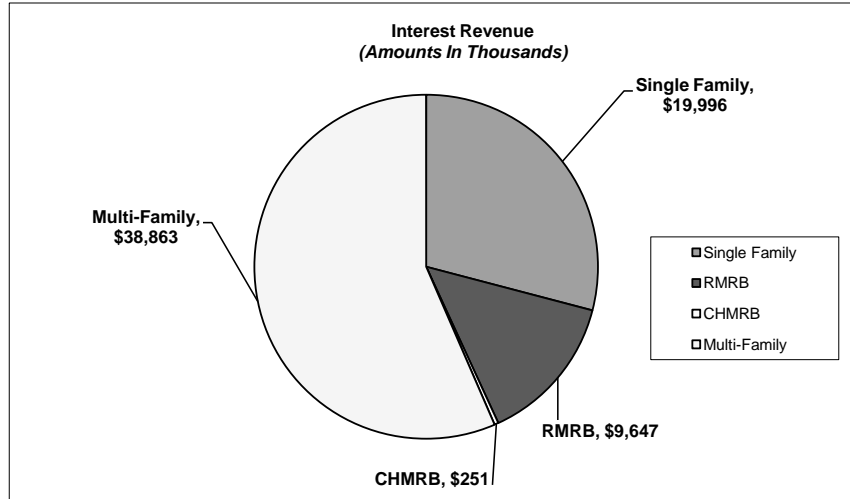
Bond Program - Statement of Revenues, Expenses, and Changes in Fund Net Position				
			Increase (Decrease)	
	2016	2015	Amount	Percentage
OPERATING REVENUES:				
Interest and investment income	\$ 69,009,361	\$ 74,527,772	\$ (5,518,411)	(7.40)%
Net change in fair value of investments	(3,711,414)	(8,734,724)	5,023,310	(57.51)%
Other operating revenues	<u>13,773,771</u>	<u>14,766,816</u>	<u>(993,045)</u>	(6.72)%
Total operating revenues	<u>79,071,718</u>	<u>80,559,864</u>	<u>(1,488,146)</u>	(1.85)%
OPERATING EXPENSES:				
Professional fees and services	1,816,814	1,503,748	313,066	20.82 %
Printing and reproduction	72,176	66,000	6,176	9.36 %
Interest	57,510,277	63,071,760	(5,561,483)	(8.82)%
Bad debt expense	865,227	449,516	415,711	92.48 %
Down payment assistance	293,292	206,186	87,106	42.25 %
Other operating expenses	<u>6,960,570</u>	<u>2,111,299</u>	<u>4,849,271</u>	229.68 %
Total operating expenses	<u>67,518,356</u>	<u>67,408,509</u>	<u>109,847</u>	0.16 %
OPERATING INCOME (LOSS)	11,553,362	13,151,355	(1,597,993)	(12.15)%
TRANSFERS	<u>(4,299,060)</u>	<u>(4,416,910)</u>	<u>117,850</u>	(2.67)%
CHANGE IN NET POSITION	7,254,302	8,734,445	(1,480,143)	(16.95)%
BEGINNING NET POSITION	218,527,104	209,792,659	8,734,445	4.16 %
ENDING NET POSITION	<u>\$ 225,781,406</u>	<u>\$ 218,527,104</u>	<u>\$ 7,254,302</u>	3.32 %

Earnings within the Bond Program's various bond indentures were \$79.1 million, of which \$65.3 million is classified as restricted and \$13.8 million as unrestricted.

Restricted earnings are primarily composed of \$68.8 million in interest and investment income and \$3.7 million net decrease in fair value of investments. Interest and investment income is restricted per bond covenants for debt service and the net decrease in fair value is reflective of unrealized gains and losses.

Unrestricted earnings are composed of \$252.2 thousand in interest and investment income and \$13.6 million in other operating revenue.

The graph below illustrates the composition of interest and investment income for the various bond indentures that make up the Bond Program:



Interest earned on program loans decreased by \$2.1 million, or 5.0%, due primarily to a decrease of \$2.0 million, or 5.0%, within the Bond Program's Multi-Family Program, due to lower loan amounts outstanding throughout the year as a result of loan payoffs.

Investment income decreased \$3.5 million, or 10.4%, and reflected lower investment yields due to declining investment balances. The decrease was primarily due to a decrease of \$1.6 million in the Single Family Revenue Bond Program and a \$1.7 million decrease in the Residential Mortgage Revenue Bond Program related to the retirement of their respective bonds outstanding.

Expenses of the Bond Program consist primarily of interest expense and other operating expenses of the Bond Program. Interest expense was \$57.5 million, which decreased \$5.6 million, or 8.8%, on the Bond Program's debt incurred to fund its various lending programs. Other operating expenses increased \$4.8 million primarily due to \$2.0 million in bond issuance expenses and \$2.0 million in servicer expenses.

The changes in net assets by bond indenture for the Bond Program for fiscal years 2016 and 2015 are as follows:

Changes in Net Position by Bond Program, Year Ended August 31, (Amounts in Thousands)				
Fund	2016	2015	Increase (Decrease)	
			Amount	Percentage
Single Family	\$ 99,670	\$ 98,988	\$ 682	0.7 %
RMRB	110,207	102,118	8,089	7.9 %
CHMRB	1,774	1,744	30	1.7 %
Taxable Mortgage Program	7,730	9,448	(1,718)	(18.2)%
Multifamily	(2,392)	(2,171)	(221)	10.2 %
General funds	8,792	8,401	391	4.7 %
Total	<u>\$ 225,781</u>	<u>\$ 218,528</u>	<u>\$ 7,253</u>	3.3 %

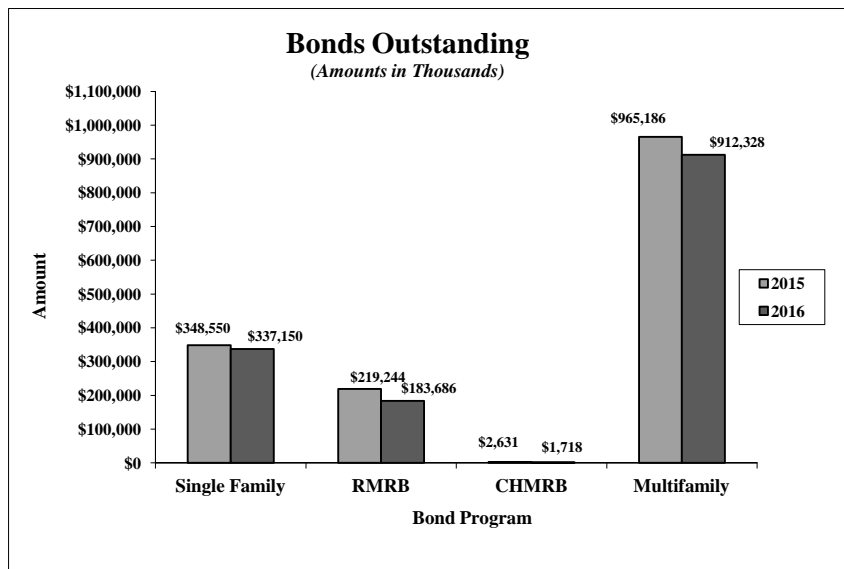
The Net Position of the Residential Mortgage Revenue Bond Program increased by \$8.1 million, or 7.9%, primarily due to a positive difference of \$2.8 million between interest income and bond interest expense, \$6.4 million transferred from the Taxable Mortgage Program to fund down payment assistance loans offset by a negative change in fair value of investments of \$389.0 thousand.

The Net Position of the Taxable Mortgage Program decreased by \$1.7 million, or 18.2%, primarily due to a \$1.7 million decrease in settlement fees collected.

BOND PROGRAM BONDS OUTSTANDING

The Bond Program also had \$293.9 million in bond debt retirements during the year primarily due to consumer refinancing and paying off of original loans. The net result was a decrease in bonds payable of \$100.7 million to \$1.4 billion of which \$27.9 million is due within one year. For additional information, see Note 4, Bonds Payable, and supplementary bond schedules.

The following graph will illustrate a comparison of bonds outstanding between fiscal year 2016 and 2015 per bond program:



REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Texas Department of Housing and Community Affairs’ Bond Program Enterprise Fund operations for all parties interested in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Texas Department of Housing and Community Affairs, Chief Financial Officer, P.O. Box 13941, Austin, Texas, 78711-3941.

**BASIC
FINANCIAL STATEMENTS**

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

STATEMENT OF NET POSITION

As of August 31, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	
Cash in Bank	\$ 5,671
Cash Equivalents	9,115,647
Restricted Assets:	
Cash and Cash Equivalents (Note 2)	
Cash in Bank	17,331,630
Cash Equivalents	159,404,001
Short-term Investments (Note 2)	7,236
Loans and Contracts	23,383,276
Interest Receivable	8,632,490
Receivable:	
Interest Receivable	4,699
Accounts Receivable	215,218
Other Current Assets	69,098
Total Current Assets	<u>218,168,966</u>

Non-Current Assets :

Investments (Note 2)	1,809,256
Restricted Assets:	
Investments (Note 2)	644,661,585
Loans and Contracts	998,197,532
Other Non-current Assets	
Real Estate Owned, net	22,626
Total Non-Current Assets	<u>1,644,690,999</u>

Total Assets \$ 1,862,859,965

DEFERRED OUTFLOWS OF RESOURCES

Accumulated decrease in fair value of hedging derivative (Note 5) 15,095,971

Total Deferred Outflows of Resources \$ 15,095,971

LIABILITIES

Current Liabilities

Payables:	
Accounts Payable	\$ 226,809
Accrued Bond Interest Payable	13,676,647
Notes and Loans Payable (Note 3)	214,880
Revenue Bonds Payable (Notes 3 & 4)	27,896,818
Other Current Liabilities	238,823
Total Current Liabilities	<u>42,253,977</u>

Non-Current Liabilities

Notes and Loans Payable (Note 3)	45,490,181
Revenue Bonds Payable (Note 3 & 4)	1,406,985,542
Derivative Hedging Instrument (Note 5)	15,095,971
Other Non-Current Liabilities (Note 3)	142,348,859
Total Non-Current Liabilities	<u>1,609,920,553</u>

Total Liabilities \$ 1,652,174,530

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources \$ -

NET POSITION

Restricted for Bonds	217,016,529
Unrestricted	8,764,877
Total Net Position	<u>\$ 225,781,406</u>

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

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the fiscal year ended August 31, 2016

OPERATING REVENUES

Interest and Investment Income	\$ 69,009,361
Net (Decrease) in Fair Value	(3,711,414)
Other Operating Revenues	<u>13,773,771</u>
Total Operating Revenues	<u>79,071,718</u>

OPERATING EXPENSES

Professional Fees and Services	1,816,814
Printing and Reproduction	72,176
Interest	57,510,277
Bad Debt Expense	865,227
Down Payment Assistance	293,292
Other Operating Expenses	<u>6,960,570</u>
Total Operating Expenses	<u>67,518,356</u>

Operating Income 11,553,362

OTHER REVENUES, EXPENSES, GAINS,

LOSSES AND TRANSFERS

Transfers Out	<u>(4,299,060)</u>
Total Other Revenues, Expenses, Gains, Losses and Transfers	<u>(4,299,060)</u>

CHANGE IN NET POSITION

7,254,302

Net Position, September 1, 2015

218,527,104

NET POSITION, AUGUST 31, 2016

\$ 225,781,406

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

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

STATEMENT OF CASH FLOWS

For the fiscal year ended August 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Loan Programs	\$ 114,969,232
Proceeds from Other Revenues	32,531,493
Payments to Suppliers for Goods/Services	(59,668,099)
Payments for Loans Provided	<u>(10,724,851)</u>

Net Cash Provided By Operating Activities 77,107,775

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Proceeds from Debt Issuance	194,841,500
Proceeds from Notes Payable	45,740,000
Payments from Transfers to Other Funds	(4,299,060)
Payments of Principal on Debt Issuance	(251,885,342)
Payments of Interest	(59,327,056)
Payments for Other Cost of Debt	<u>(2,222,555)</u>

Net Cash (Used for) Noncapital Financing Activities (77,152,513)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales of Investments	166,145,307
Proceeds from Interest/Invest. Income	31,271,937
Payments to Acquire Investments	<u>(123,435,507)</u>

Net Cash Provided by Investing Activities 73,981,737

Net Increase in Cash and Cash Equivalents 73,936,999

Cash and Cash Equivalents, September 1, 2015 111,919,950

Cash and Cash Equivalents, August 31, 2016 \$ 185,856,949

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

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
REVENUE BOND PROGRAM ENTERPRISE FUND**

STATEMENT OF CASH FLOWS (Continued)

For the fiscal year ended August 31, 2016

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 11,553,362
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Provision for Uncollectibles	865,227
Operating Income and Cash Flow Categories Classification Differences	(2,333,792)
Changes in Assets and Liabilities:	
Decrease in Receivables	49,560
Decrease in Accrued Interest Receivable	3,130,978
Decrease in Loans / Contracts	12,455,884
Decrease in Property Owned	8,547
Decrease in Other Assets	759,087
Increase in Payables	48,096
(Decrease) in Accrued Interest Payable	(3,916,472)
Increase in Other Liabilities	<u>54,487,298</u>
 Total Adjustments	 <u>65,554,413</u>
 Net Cash Provided by Operating Activities	 <u>\$ 77,107,775</u>

NON CASH TRANSACTIONS

Decrease in Fair Value of Investments for 2016 was \$3,711,414

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

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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement — The Texas Department of Housing and Community Affairs (the “Department”), was created effective September 1, 1991, by an act of the 72nd Texas Legislature, pursuant to Senate Bill 546 (codified as Article 4413 (501), Texas Revised Civil Statutes) (the “Department Act”), passed by the Texas Legislature on May 24, 1991, and signed by the Governor of the State of Texas. Effective September 1, 1991, the Department was established to assist local governments in helping residents overcome financial, social, and environmental problems; to address low- to moderate-income housing needs; to contribute to the preservation and redevelopment of neighborhoods and communities; to assist the Governor and the Legislature in coordinating federal and state programs affecting local governments; and to continually inform the State and the public about the needs of local government. The Department was created by merging two former agencies: the Texas Housing Agency and the Texas Department of Community Affairs.

The accompanying financial statements represent the financial status of the Revenue Bond Program Enterprise Fund (the “Bond Program”), which is included in the enterprise fund of the Department, and are not intended to present the financial position of the Department or its results of operations or cash flows. The Department is governed by a Board composed of seven members, all of whom are appointed by the Governor with advice and consent of the Senate. The Board then appoints the Executive Director with the approval of the Governor. The Department is authorized to issue tax-exempt or taxable bonds, notes, or other obligations to finance or refinance multifamily housing developments and single-family residential housing. Bonds and notes of the Department do not constitute a debt of the State or any political subdivision thereof. The Department Act specifically provides for the assumption by the Department of the outstanding indebtedness of the former agencies. The Department is required to continue to carry out all covenants with respect to any bonds outstanding, including the payments of any bonds from the sources provided in the proceedings authorizing such bonds. For financial reporting purposes, the Department is an agency of the State and is included in its reporting entity.

The Bond Program operates several bond programs under separate trust indentures, as follows:

Single-Family Bond Program (“Single-Family”) — These bonds are limited obligations of the Department. Bond proceeds were used to originate below-market rate loans for eligible low- and moderate-income residents who were purchasing a residence. These bonds were issued pursuant to a Single-Family Mortgage Revenue Bond Trust Indenture, dated October 1, 1980, and indentures supplemental thereto, and are secured on an equal and ratable basis by the trust estate established by such trust indentures.

Residential Mortgage Revenue Bond Program (“RMRB”) — Thirty-six series (six of which have been refunded) of these bonds have been issued pursuant to the RMRB master indenture and thirty-two separate Series Supplements, and are secured on an equal and ratable basis by the trust estates established by such trust indentures. Proceeds from the 1987 A Bonds were used to purchase single-family loans, while proceeds from the remaining RMRB bond issues were used to purchase pass-through certificates created through the origination of single-family loans.

Collateralized Home Mortgage Revenue Bond Program (“CHMRB”) — The Department issued eleven series of bonds pursuant to the CHMRB Trust Indenture with six separate supplements for each series. The bonds are secured on an equal and ratable basis. Proceeds from the bonds are being used to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the state.

Taxable Mortgage Program (“TMP”) — The TMP program was created to provide loans to low to moderate income homebuyers as a tool to fund the First Time Homebuyer Program. It facilitates the trading of mortgage backed securities (“MBS”). The program will be paid for from revenues generated by the packaging and sale of the associated mortgage backed securities.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Multifamily Housing Revenue Bond Programs ("Multifamily") — These bonds were issued pursuant to separate trust indentures and are secured by individual trust estates, which are not on an equal and ratable basis with each other. The bonds are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the individual trust indentures. Under these programs, the proceeds were either provided to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing or used to refund other multifamily bonds issued for the same purposes.

Significant Accounting Policies — the significant accounting policies of the Bond Program are as follows:

Fund Accounting — The Bond Program's financial statements have been prepared on the basis of the proprietary fund concept as set forth by the Governmental Accounting Standards Board ("GASB"). The proprietary fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as a proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. The Bond Program has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Investments — The Bond Program follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement No. 31 requires certain types of investments to be reported at fair value on the Statement of Net Position. The Bond Program utilizes established quoted market prices for determining the fair value of its debt securities in reserve funds. The Bond Program's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities or mortgage pass-through certificates. Fair value of the Bond Program's securitized mortgage loans (GNMA/FNMA) has been estimated by each bond issue's trustee using a pricing service. In accordance with GASB No. 72, *Fair Value Measurement and Application*, the Department would be required to disclose the hierarchy within which the fair value measurement is categorized. The Department has concluded that its investments do not meet the definition of investments as prescribed by GASB No. 72 so this disclosure is not necessary in Note 2.

The Bond Program has reported all investment securities at fair value as of August 31, 2016, with the exception of certain money market investments, and nonparticipating interest-earning investment contracts, which are reported at amortized cost (historical cost adjusted for amortization of premiums and accretion of discounts), provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors (see Note 2).

In accordance with GASB Statement No. 31, changes in the fair value of investments and any realized gains/losses on the sale of investments are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position as net increase (decrease) in fair value of investments.

Loans and Contracts — Loans and contracts are carried at the unpaid principal balance outstanding less the allowance for estimated loan losses. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status when the Department becomes aware that the borrower has entered bankruptcy proceedings or when the loans are 90 days past due as to either principal or interest or when payment in full of principal and interest is not expected.

Real Estate Owned — Properties acquired through foreclosure are carried at the unpaid principal balance on the related property plus accrued interest and reimbursable expenses through the date of foreclosure, less any sales proceeds, reimbursements received from mortgage insurers, and an allowance for estimated losses on such properties. After foreclosure, foreclosed assets are carried at lower of cost or fair value minus selling costs. Interest on real estate owned is credited to income as earned based on a calculation of interest recoverable in accordance with the Department's agreements with its mortgage insurers.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Allowance for Estimated Losses on Loans and Foreclosed Properties — The allowance for estimated losses on loans is available for future charge offs on single-family and multifamily loans.

All losses are charged to the allowance when the loss actually occurs or when a determination is made that a loss is likely to occur. Periodically, management estimates the likely level of future losses to determine whether the allowances for estimated losses are adequate to absorb anticipated losses in the existing loan and real estate owned portfolios. Based on these estimates, a provision for estimated losses on loans and real estate owned is made to the allowances in order to adjust the allowances to levels estimated to be adequate to absorb reasonably foreseeable losses.

While management uses available information to recognize losses in the loan and real estate owned portfolios, future adjustments may be necessary based on 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 loan and real estate owned portfolios.

Deferred Outflows of Resources/Derivative Hedging Instrument—The Department identified its derivative instruments and measured their effectiveness in accordance with Governmental Accounting Standards Board Statement (GASB) No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Department contracted a service provider to measure its derivative effectiveness using the regression analysis method. Since the derivative instruments were deemed to be effective, the Department deferred the changes in fair value for these derivatives and reported them as a deferred outflows of resources.

Operating and Nonoperating Revenues and Expenses — The Department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Bond Program. The principal operating revenues of the Bond Program are related to interest derived from investments, interest on mortgage loans and bond related administrative fees. Operating expenses are primarily related to interest expense on bonds and general administrative expenses. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Discounts and Premiums on Debt — Discounts and premiums on debt are recognized using the interest method over the life of the bonds or collateralized mortgage obligations to which they relate. Prepayments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt.

General and Administrative Expenses — Certain General and Administrative expenses are accounted for in the Department's Administrative Program and are not reflected in the Operating Fund section of the Bond Program.

Restricted Net Position — Certain Net Position of the Bond Program are restricted for various purposes of the bond trust indentures. When both restricted and unrestricted resources are available for use, restricted resources are used first, then unrestricted resources are used as they are needed.

Cash Flows — For purposes 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 are readily exchanged for cash at amounts equal to their stated value.

Interfund Transactions — The Bond Program has transactions between and with other funds of the Department. Quasi-external transactions are charges for services rendered by one fund to another, and they are accounted for as revenue or expense. All other interfund transactions are reported as transfers.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

Loss on Early Extinguishment of Debt — Any loss on extinguishment of debt prior to its stated maturity is recorded as a component of interest expense in the period the debt is retired.

Estimates — In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Statement of Net Position and the reported revenues and expenses for the period. Actual results could differ significantly from those estimates. Management judgments and accounting estimates are made in the evaluation of the allowance for estimated losses on loans and real estate owned.

NOTE 2: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS

The Department is authorized by statute to make investments following the "prudent person rule" and based upon provisions within the master bond indentures and its Investment Policy adopted by the Board in accordance with the Public Funds Investment Act. There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

In accordance with bond trust indentures and depository agreements, all cash is to be fully collateralized, with the collateral held by a third party in the name of the Department. At August 31, 2016, the Department's cash and deposits were fully collateralized by securities with a trustee in the Department's name. As of August 31, 2016, the carrying amount of deposits was \$17,337,301.

Current Assets Cash in Bank	
Texas Treasury Safekeeping Trust	\$ 5,671
Current Assets Restricted Cash in Bank	
Texas Treasury Safekeeping Trust	2,627,689
Demand Deposits	14,703,941
Cash in Bank	\$ 17,337,301

Investments

The types of investments in which the Department may invest are restricted by the provisions of the master bond indentures and the Department's Investment Policy adopted by its Board. The indentures allow for investments in direct obligations of or guaranteed by the U.S. Government; obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by agencies or intermediaries of the U.S. Government; obligations issued by public agencies or municipalities; obligations and general obligations of or guaranteed by the state; demand deposits, interest-bearing time deposits or certificates of deposit; repurchase agreements in U.S. Government securities; direct or general obligations of any state within the territorial U.S.; investment agreements with any bank or financial institution; and guaranteed investment contracts. Certain trust indentures restrict the Department from investing in certain of the aforementioned investments.

The Department holds \$74,274,491 in overnight repurchase agreements maturing on the following business day, September 1, 2016, at a rate of .27%.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 2: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS Cont'd

At August 31, 2016, the fair value of investments (including both short-term and long-term) are shown below.

Business Type Activities	Carrying Value	Fair Value
U.S. Government Agency Obligations	\$ 562,257,016	\$ 615,065,540
U.S. Treasury Bills	14,829,103	14,829,103
Repurchase Agreements (TTSTC)	74,274,491	74,274,491
Fixed Income Money Markets	79,416,054	79,416,054
Misc (Investment Agreements/GICs)	31,412,537	31,412,537
Total	\$ 762,189,201	\$ 814,997,725

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Preservation and safety of principal is the foremost objective of the investment program. According to the Department's investment policy, investments should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is mitigated by:

- Limiting investments to the safest types of securities.
- Pre-qualifying the financial institution, broker/dealers, intermediaries, and advisors with which the Department will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

As of August 31, 2016, the Department's credit quality distribution for securities with credit risk exposure was as follows.

Standard & Poor's

Investment Type	Not Rated	AAA	AA+	A
U.S. Government Agency Obligations			\$ 85,030,745	
U.S. Treasury Bills			\$ 14,829,103	
Repurchase Agreements (TTSTC)	\$ 74,274,491			
Misc (Investment Agreements/GICs)	\$ 31,412,537			

Investment Type	Not Rated	AAA-M	AA-M	A-M
Fixed Income Money Market		\$ 79,416,054		

A total of \$530,034,795 was not subject to credit risk disclosure due to their explicit guarantee by the U.S. Government which is composed of U.S. Government Agency obligations issued by the Government National Mortgage Association.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2016, the Department's concentration of credit risk is as follows.

Issuer	Carrying Value	% of Total Portfolio
Greenwich	\$ 74,274,491	9.11%

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 2: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS Cont'd

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of any investment. The longer the maturity of an investment will result in greater sensitivity of its fair value to changes in the market interest rates. The Department's investment policy allows for the mitigation of interest rate risk by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

Information about the sensitivity of the fair values of the Department's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Department's investments by maturity:

Remaining Maturity (in months)

Business Type Activities	Fair Value	12 months or less	13 to 24 months	25 to 60 months	More than 60 months
U.S. Government Agency Obligations	\$ 615,065,540	\$ 7,236	\$ 49,010	\$ 941,443	\$ 614,067,851
Repurchase Agreements (TTSTC)	74,274,491	74,274,491			
U.S. Treasury Bills	14,829,103	14,829,103			
Fixed Income Money Markets	79,416,054	79,416,054			
Misc (Investment Agreements/GICs)	31,412,537				31,412,537
Total	\$ 814,997,725	\$ 168,526,884	\$ 49,010	\$ 941,443	\$ 645,480,388

Highly Sensitive Investments

Mortgage backed securities-These securities are subject to early payment in a period of declining interest rates. These prepayments result in a reduction of expected total cash flows affecting the fair value of these securities and make the fair value of these securities highly sensitive to the changes in interest rates. The Department does not make it a common practice to sell these investments. However, in recent years the Department has sold some of these investments at a premium and used the realized gain to fund Down Payment Assistance loans in connection with the Single Family, First-Time Homebuyer Program. Any fluctuation in fair value generates an unrealized gain or loss. As of August 31, 2016, the Department holds \$615,065,540 in mortgage backed securities.

NOTE 3: SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2016, the following changes occurred in liabilities.

Business-Type Activities	Balance 09/01/2015	Additions	Reductions	Balance 08/31/2016	Amounts Due Within One Year
Revenue Bonds Payable	\$ 1,535,610,858	\$ 194,841,500	\$ 295,569,998	\$ 1,434,882,360	\$ 27,896,818
Notes Payable	-	45,740,000	34,939	45,705,061	214,880
Total Business-Type Activities	\$ 1,535,610,858	\$ 240,581,500	\$ 295,604,937	\$ 1,480,587,421	\$ 28,111,698

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 3: SUMMARY OF LONG TERM LIABILITIES Cont'd

Revenue Bonds Payable

The Department issues bonds to assist in financing the purchase of homes by or the construction of rental housing for families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. (See Note 4 for more information.) The \$295,569,998 in reductions is inclusive of \$1,657,185 in amortization of bond premium/discount and the \$194,841,500 in additions is inclusive of \$231,500 as a result of a multifamily bond issued at a premium.

Notes Payable

The Department issues notes to provide funding to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing. These notes are limited obligations of the Department and are payable solely from the payments received from the assets and guarantors, which secure the notes.

Texas Department of Housing and Community Affairs			
Notes Payable Debt Service Requirements			
Business-Type Activities			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 214,880	\$ 1,473,793	\$ 1,688,673
2018	224,147	1,487,321	1,711,468
2019	233,815	1,477,950	1,711,765
2020	243,899	1,470,410	1,714,309
2021	254,419	1,457,980	1,712,399
2022-2026	1,446,465	7,123,120	8,569,585
2027-2031	1,786,487	6,793,549	8,580,036
2032-2036	12,300,949	4,979,370	17,280,319
2037-2041	29,000,000	473,604	29,473,604
Totals	<u>\$ 45,705,061</u>	<u>\$ 26,737,097</u>	<u>\$ 72,442,158</u>

Other Non-current Liabilities

Other non-current liabilities in the Enterprise Fund totaling \$142,348,859 account for funds due to Developers as a result of Multifamily bond proceeds which have corresponding investment balances adjusted to market value. These proceeds are conduit debt issued on behalf of the Developer for the purpose of Multifamily developments and are held by the trustee. Due to the various variables related to the balance, the current portion cannot be reasonably estimated.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 4: BONDED INDEBTEDNESS

The Department has 106 bond series outstanding at August 31, 2016. All series are revenue bonds backed by the pledged revenue sources and restricted funds specified in the bond resolutions. Each series is designed to be self-supporting with no repayment nor obligation from the State's General Revenue. The Department issues bonds to assist in financing the purchase of homes by or the construction of rental housing for families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. (Detailed supplemental bond information is disclosed in Schedules 3, 4, 5, 6, 7 and 8.) Proceeds from the issuance of bonds under the Single Family indenture prior to 1987 and Residential Mortgage Revenue Bonds (RMRB) Series 1987A Programs were used to acquire loans. Proceeds from Collateralized Home Mortgage Revenue Bond (CHMRB) and the remaining Single Family and RMRB programs were used to acquire pass-through certificates (GNMA, FNMA, FHLMC) backed by mortgage loans. Proceeds from the remaining Multifamily bond issues were used to finance mortgage loans.

Interest on bonds and collateralized mortgage obligations is payable periodically.

The Single Family, RMRB and CHMRB bonds are collateralized by the revenues and assets pledged under the trust indentures, primarily Single Family mortgage loans, mortgage-backed securities and investments. The Multifamily bonds are collateralized by varying methods, including, but not limited to, the mortgage loans on the applicable housing developments, certificates of deposit, letters of credit, guarantees provided by third parties and collateralized mortgage obligations issued by federally chartered, privately owned corporations.

The trust indentures contain positive and negative covenants. Events of default include the following: failure to make timely payment of both principal and interest on any outstanding bond; failure to make timely payment of any other monies required to be paid to the Trustee; and non-performance or non-observance of any other covenants, agreements or conditions contained in the indentures. Management believes they are in compliance with the covenants of the indentures.

Bond contractual maturities (principal only) at August 31, 2016, are as follows (in thousands):

Description	2017	2018	2019	2020	2021	2022 to 2026	2027 to 2031
Single-family	\$ 385	\$ 3,660	\$ 430	\$ 430	\$ 445	\$ 22,745	\$ 29,900
RMRB	4,655	4,990	4,820	5,190	5,330	29,290	32,960
CHMRB						1,700	
Multifamily	<u>22,772</u>	<u>35,421</u>	<u>9,441</u>	<u>10,014</u>	<u>10,665</u>	<u>88,572</u>	<u>107,305</u>
Total	<u>\$ 27,812</u>	<u>\$ 44,071</u>	<u>\$ 14,691</u>	<u>\$ 15,634</u>	<u>\$ 16,440</u>	<u>\$ 142,307</u>	<u>\$ 170,165</u>
Description	2032 to 2036	2037 to 2041	2042 to 2046	2047 to 2051	2052 to 2056	2057 to 2061	Total
Single-family	\$ 108,875	\$ 120,390	\$ 49,890	\$	\$	\$	\$ 337,150
RMRB	40,910	54,465					182,610
CHMRB							1,700
Multifamily	<u>165,003</u>	<u>319,448</u>	<u>115,643</u>	<u>21,988</u>	<u>5,993</u>		<u>912,265</u>
Total	<u>\$ 314,788</u>	<u>\$ 494,303</u>	<u>\$ 165,533</u>	<u>\$ 21,988</u>	<u>\$ 5,993</u>	<u>\$</u>	<u>\$ 1,433,725</u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 4: BONDED INDEBTEDNESS Cont'd

Actual maturities will differ from contractual maturities since the Department has the right to call or prepay obligations with or without call or prepayment penalties as the related loans and mortgage backed securities mature or prepay.

The interest payment requirements at August 31, 2016, are as follows (in thousands):

Description	2017	2018	2019	2020	2021	2022 to 2026	2027 to 2031
Single-family	\$ 7,597	\$ 7,677	\$ 7,643	\$ 7,623	\$ 7,598	\$ 37,341	\$ 35,889
RMRB	6,676	6,526	6,353	6,170	5,960	26,109	19,008
CHMRB	112	124	112	112	124	336	
Multifamily	<u>37,432</u>	<u>36,873</u>	<u>36,148</u>	<u>35,579</u>	<u>34,966</u>	<u>163,696</u>	<u>133,009</u>
Total	<u>\$ 51,817</u>	<u>\$ 51,200</u>	<u>\$ 50,256</u>	<u>\$ 49,484</u>	<u>\$ 48,648</u>	<u>\$ 227,482</u>	<u>\$ 187,906</u>
Description	2032 to 2036	2037 to 2041	2042 to 2046	2047 to 2051	2052 to 2056	2057 to 2061	Total
Single-family	\$ 32,702	\$ 18,105	\$ 7,602	\$	\$	\$	\$ 169,777
RMRB	12,120	4,540					93,462
CHMRB							920
Multifamily	<u>101,319</u>	<u>54,112</u>	<u>17,220</u>	<u>3,011</u>	<u>639</u>		<u>654,004</u>
Total	<u>\$ 146,141</u>	<u>\$ 76,757</u>	<u>\$ 24,822</u>	<u>\$ 3,011</u>	<u>\$ 639</u>	<u>\$</u>	<u>\$ 918,163</u>

Interest requirements on variable rate debt are calculated using the interest rate in effect at August 31, 2016. Interest rates on variable rate debt reset on a weekly basis by the remarketing agent.

Changes in Bonds Payable

Description	Bonds Outstanding 09/01/15	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/16	Amounts Due Within One Year
Single Family	\$ 347,390,000	\$ 144,940,000	\$ 3,055,000	\$ 152,125,000	\$ 337,150,000	\$ 385,000
RMRB	217,685,000		4,700,000	30,375,000	182,610,000	4,730,509
CHMRB	2,600,000			900,000	1,700,000	2,276
Multifamily	<u>965,352,798</u>	<u>49,670,000</u>	<u>8,044,834</u>	<u>94,712,979</u>	<u>912,264,985</u>	<u>22,779,033</u>
Total Principal	<u>\$ 1,533,027,798</u>	<u>\$ 194,610,000</u>	<u>\$ 15,799,834</u>	<u>\$ 278,112,979</u>	<u>\$ 1,433,724,985</u>	<u>\$ 27,896,818</u>
Unamortized Premium	2,749,681				1,157,375	
Unamortized (Discount)	(166,621)					
Total	<u>\$ 1,535,610,858</u>				<u>\$ 1,434,882,360</u>	

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 4: BONDED INDEBTEDNESS Cont'd

Demand Bonds

The Department currently holds six single family bond series in the amount \$141,560,000 in variable rate demand bonds. The proceeds of these bonds were used to refund outstanding bonds or provide funds for the primary purpose of purchasing mortgaged-backed securities which are pools of first time homebuyer loans. These bond series have the following terms.

Demand Bonds - Standby Purchase Agreements					
Single Family Bond Series	Remarketing Agent	Liquidity Provider	Commitment Fee Rate	Outstanding Variable Rate Demand Bonds as of 8/31/16	Liquidity Facility Expiration Date
2004A Jr. Lien	JP Morgan	Comptroller of Public Accounts	0.12%	\$ 3,855,000	8/31/2017
2004B	JP Morgan	Comptroller of Public Accounts	0.12%	39,380,000	8/31/2017
2004D	Piper Jaffray	Comptroller of Public Accounts	0.12%	25,700,000	8/31/2017
2005A	JP Morgan	Comptroller of Public Accounts	0.12%	31,130,000	8/31/2017
2005C	JP Morgan	Comptroller of Public Accounts	0.12%	3,090,000	8/31/2017
2007A	JP Morgan	Comptroller of Public Accounts	0.12%	38,405,000	8/31/2017
Total Demand Bonds				<u>\$ 141,560,000</u>	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to remarket any bonds, the liquidity facility will purchase the bonds (bank bonds). The liquidity agreement is subject to renewal yearly on an ongoing basis. The Department shall use its best effort to cause the bonds to be purchased from the liquidity facility as soon as possible. The purchased bonds are not subject to term out provisions. For fiscal year 2016, the Trustee did not draw from the liquidity provider, Comptroller of Public Accounts, related to the Department's demand bonds.

Federal Arbitrage Regulations

In accordance with Federal law, the Agency is required to rebate to the Internal Revenue Service ("IRS") the excess of the amount derived from investing the bond proceeds over the amount that would have been earned if those investments had a rate equal to the yield on the bond issue. As of August 31, 2016, the Bond Program has no liabilities to report to the IRS.

Pledged and Other Sources

GASB Statement No. 48 requires the following disclosures for "specific revenues that have been formally committed to directly collateralize or secure debt of the Department." The following table summarizes by indenture, pledged and other sources and related expenditures for the Department's revenue bonds. A detail schedule of each bond issue is included in Schedule 6.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 4: BONDED INDEBTEDNESS Cont'd

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016						Terms of Commitment Year Ending August 31,	Percentage of Revenue Pledged
	Net Available for Debt Service		Debt Service			Pledged Revenue for Future Debt Service		
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest				
Total Single Family Bonds	\$ 169,658,121	\$ 2,716,623	\$ 3,055,000	\$ 12,232,010	\$ 506,925,648	2046	100%	
Total Residential Mtg Revenue Bonds	38,379,888	252,155	4,700,000	7,289,920	276,071,307	2041	100%	
Total 1992 CHMRB	1,151,133	701		155,857	2,621,324	2024	100%	
Total Multifamily Bonds	133,327,054		8,044,834	38,615,467	1,566,269,555	2054	100%	
Total	\$ 342,516,196	\$ 2,969,479	\$ 15,799,834	\$ 58,293,254	\$ 2,351,887,834			

Current Refunding

On October 29, 2015, the Department issued Series 2015 A & B Single Family Revenue Bonds. Series 2015 A for \$33,825,000 was issued for the primary purpose of refunding and redeeming the Single Family Mortgage Revenue Bonds Series 2006H. Refunding the 2006H Bonds will allow the Department to reduce its outstanding variable rate debt, terminate the related liquidity facility, and terminate the 2006H Swap. This refunding transaction resulted in a deferred amount of \$405,254 which represented the termination fee and fair value of the interest rate swap hedging the variable rate debt. During the current period, \$405,254 of the deferral amount has been recognized as period bond interest expense. This transaction also gave rise to a \$16,046,131 economic loss and a cash flow loss of \$24,735,357.

On February 24, 2016, the Department issued Series 2016 A & B Single Family Revenue Bonds. Series 2016 B for \$59,735,000 was issued for the primary purpose of refunding and redeeming the Single Family Mortgage Revenue Bonds Series 2006ABCDE. This transaction also gave rise to a \$16,175,194 economic gain and a cash flow gain of \$15,136,636.

NOTE 5: DERIVATIVE INSTRUMENTS

VARIABLE TO FIXED INTEREST RATE SWAP

Objective

In order to hedge against increases in interest rates on variable rate demand bond issues, the Department has entered into four interest rate swap agreements with the objective of reducing the interest rate risk of certain variable rate demand bonds. The variable rate demand bonds were issued at a lower total interest cost than attainable through traditional fixed rate bond structures. The Department has entered into interest rate swap agreements with various rated counterparties. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments that are expected to be comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 5: DERIVATIVE INSTRUMENTS Cont'd

Summary

The fair value balances and notional amounts of derivative instruments outstanding as of August 31, 2016, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the 2016 financial statements are as follows.

Business Type Activities		Changes in Fair Value		Fair Value at August 31, 2016		
Cash Flow Hedges	Bond Issue	Classification	Amount	Classification	Amount	Notional
Pay-fixed, receive-variable interest rate swap	2004B	Deferred outflow of resources	\$ 383,594	Debt	\$ (2,874,866)	\$ 33,530,000
Pay-fixed, receive-variable interest rate swap	2004D	Deferred outflow of resources	89,725	Debt	(1,645,410)	25,700,000
Pay-fixed, receive-variable interest rate swap	2005A	Deferred outflow of resources	(39,722)	Debt	(5,276,164)	31,130,000
Pay-fixed, receive-variable interest rate swap	2006H	Deferred outflow of resources	582,595	Debt	-	-
Pay-fixed, receive-variable interest rate swap	2007A	Deferred outflow of resources	797,560	Debt	(5,299,531)	38,405,000
			<u>\$ 1,813,752</u>		<u>\$ (15,095,971)</u>	<u>\$ 128,765,000</u>

Terms and Fair Value

The terms, including the fair value of the outstanding swaps as of August 31, 2016 are as follows. The notional amounts of the swaps match the principal amount of the associated debt.

Counterparty	Notional Amount	Fair Value	Effective Date	Fixed Rate	Variable Rate	Swap Termination Date
Bank of New York Mellon	\$ 33,530,000	\$ (2,874,866)	3/1/2014	3.67%	65.5% of LIBOR + .20%	9/1/34 (a)
Goldman Sachs Bank USA	25,700,000	(1,645,410)	1/1/2005	3.08%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	3/1/35 (b)
JP Morgan Chase Bank	31,130,000	(5,276,164)	8/1/2005	4.01%	Less of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	9/1/36 (c)
JP Morgan Chase Bank	38,405,000	(5,299,531)	6/5/2007	4.01%	Less of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR	9/1/38 (c)
Total	\$ 128,765,000	\$ (15,095,971)				

- Swap Agreement has an optional early par termination date of September 1, 2015 and every March and September thereafter. The Swap Agreement has 100% optional par termination rights on or after September 1, 2021.
- Swap Agreement has an optional early par termination date of March 1, 2015 and every March and September thereafter. The Swap Agreement has 100% optional par termination rights on or after September 1, 2021.
- Swap Agreement is subject to mandatory early termination date each March 1 and September 1 from mortgage loan repayments.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 5: DERIVATIVE INSTRUMENTS Cont'd

During the year ended August 31, 2016, the Department adopted GASB Statement No. 72 – Fair Value Measurement and Application, which addresses accounting and financial reporting issues related to fair value measurements. In accordance to GASB 72, the fair value of these derivative instruments was measured using the Income Approach. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of non-performance risk. The fair value hierarchy disclosure is as follows:

Derivative Instruments	Total	Input Level 1	Input Level 2	Input Level 3
Pay-fixed, receive-variable interest rate swap	\$ (15,095,971)		\$ (15,095,971)	
Total	\$ (15,095,971)		\$ (15,095,971)	

- Level 1- Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in the pricing asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Credit Risk

As of August 31, 2016, the Department is not exposed to credit risk on any of its outstanding swaps because the swaps currently have a negative fair value indicating an obligation for the Department to pay the counterparty as opposed to receive payments should the Department exercise it’s optional right to terminate. If interest rates change and the fair value of the swaps become positive, the department would be exposed to credit risk on those swaps. The swap agreements contain varying collateral agreements. The 2004B swap contains swap termination insurance policies with Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) to mitigate a portion of any termination payment due by the Department. The credit ratings for the counterparties are as follows.

Counterparty	Standard & Poor's	Moody's
Bank of New York Mellon	AA-/Stable	Aa2/Stable
Goldman Sachs Bank USA*	A/Review Upgrade	A1/Stable
JP Morgan Chase Bank	A+/Stable	Aa3/Stable

*Guaranteed by Goldman Sachs Group, Inc.

Basis Risk

The Department’s variable-rate bond coupon payments are related to the Securities Industry and Financial Markets Association (SIFMA) rate. The swap agreements designate a function of London Interbank Offered Rate (“LIBOR”) as the rate for payments received on these swaps. The Department will be exposed to basis risk should LIBOR and SIFMA rates converge. The swap agreements provide an option to terminate as stated in the Terms and Fair Value table on previous page.

Rollover Risk

Rollover risk is the risk that arises when a derivative associated with a government’s variable-rate debt does not extend all the way to the maturity date of the associated debt, thereby creating a gap in the protection otherwise afforded by the derivative. The Department is not exposed to rollover risk on swap agreements because the variable rate debt has been structured to decline with the swap notional balances. The counterparties in the swap agreements have limited rights to terminate the swap.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 5: DERIVATIVE INSTRUMENTS Cont'd

They can terminate only if the Department were to be downgraded below investment grade or default on any swap payments. The swap providers cannot unilaterally terminate any of the swaps subjecting the Department to rollover risk.

The Department has retained par optional termination rights which are listed below. The par optional termination rights are intended to keep the notional amount in line with bonds outstanding to the extent the Department receives prepayments.

Associated Debt Issuance	Debt Maturity Date	Swap Termination Date
2004B Single Family	September 2034	Optional early par termination rights beginning September 2015, with 100% par termination rights in September 2021
2004D Single Family	March 2035	Optional early par termination rights beginning March 2015, with 100% par termination rights in September 2021
2005A Single Family	September 2036	Mandatory par termination each March 1 and September 1 from mortgage loan repayments
2007A Single Family	September 2038	Mandatory par termination each March 1 and September 1 from mortgage loan repayments

Swap Payments and Associated Debt

Using rates as of August 31, 2016, debt service requirements of the Department's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate debt bond interest payments and new swap payments will vary. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds outstanding.

Fiscal Year Ending August 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Net	
2017	\$ -	\$ 719,353	\$ 3,957,094	\$ 4,676,447
2018		874,718	3,957,094	4,831,812
2019		874,718	3,957,094	4,831,812
2020		876,721	3,957,094	4,833,815
2021		872,714	3,957,094	4,829,808
2022-2026	20,125,000	4,089,238	19,133,884	43,348,122
2027-2031	26,780,000	3,369,564	16,277,490	46,427,054
2032-2036	72,305,000	1,764,286	8,466,143	82,535,429
2037-2041	15,405,000	108,250	690,107	16,203,357
	\$ 134,615,000	\$ 13,549,562	\$ 64,353,094	\$ 212,517,656

Netting Arrangements—The Department's swap agreements allow for netting arrangements. On each payment date, September 1 and March 1, the party with the lesser obligation will be automatically satisfied and discharged and, the obligation of the party with the greater obligation will become the excess of the larger aggregate amount over the smaller aggregate amount. As of August 31, 2016, the Department has an aggregate liability related to the interest rate swaps in the amount of \$2,102,880 payable September 1, 2016.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 6: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2025 unless continued in existence as provided by the Act. If abolished, the Department may continue until September 1, 2026 to close out its operations.

NOTE 7: CONTINGENCIES AND COMMITMENTS

The Department is a defendant in one legal action; *Rick Sims vs. Texas Department of Housing and Community Affairs, et al.* (“Sims”).

In *Sims*, the Plaintiff alleges violations of the Fair Housing Act, Rehabilitation Act of 1973, and the Americans with Disabilities Act, and seeks declaratory and injunctive relief. We are in the early phase of this lawsuit. Plaintiff has amended its complaint and TDHCA has filed a motion to dismiss. The court has stayed any discovery until after he rules on the motion to dismiss.

Derivative Instruments

All of the Department’s derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody’s Investor Service and Standard & Poor’s. If the Department fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. The table below lists the triggering event and the collateral exposure for each instrument.

Series	Collateral Posting Exposure at Current Credit Rating	Credit Rating Downgrade Threshold	MTM Threshold for TDHCA or Counterparty
2004B ⁽¹⁾	None	A3/A- or below for AGM and TDHCA	After downgrade of AGM and TDHCA or counterparty, collateral exposure with no threshold
2004D	Yes, if MTM exceeds (\$7.5M)	A3/A- or below	After downgrade, collateral exposure with no threshold
2005A	None	A2/A	After downgrade to A2/A, collateral exposure if MTM exceeds (\$7.5M); after downgrade to A3/A or below, collateral exposure with no threshold
2007A	None	A2/A	After downgrade to A2/A, collateral exposure if MTM exceeds (\$7.5M); after downgrade to A3/A or below, collateral exposure with no threshold

(1) *AGM Swap Insurance in effect. Collateral posting only required if AGM is downgraded to A3/A- or below AND TDHCA is downgraded to A3/A- or below.*

As of August 31, 2016 the Department’s credit rating related to the Single Family Indenture was AA+ issued by Standard & Poor’s and Aa1 by Moody’s, therefore no collateral was posted. The Department’s aggregate fair value of all hedging derivative instruments with these collateral provisions is \$15,095,971. If the collateral posting requirements had been triggered at August 31, 2016, the Department would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments.

Taxable Mortgage Program

On July 26, 2012, the Department approved the Taxable Mortgage Program (“TMP”). The TMP market facilitates the forward trading of Mortgage Backed Securities (“MBSs”) issued by Ginnie Mae and Fannie Mae. In a TMP trade, the seller and buyer agree to the type of security, coupon, face value, price and settlement date at the time of trade but do not specify the actual pools to be traded.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 7: CONTINGENCIES AND COMMITMENTS Cont'd

The securities are “to be announced” two business days prior to the trade settlement date. The TMP program was created to provide loans to low to moderate income homebuyers. The program is paid for from revenues generated by the packaging and sale of the TMP MBSs. Escrow agreements were negotiated and established to limit the recourse to the servicer and the to-be-announced provider who delivers the MBSs to the purchaser. The total amount of the escrow is \$4 million, which is funded from the Department’s general funds. The TMP program commenced on October 1, 2012.

NOTE 8: SUBSEQUENT EVENTS

Debt Issuance	Series	Amount	Date of Issuance	Purpose
Revenue Bonds	Multifamily Revenue Bonds MF Series 2016 Sky line Place Apartments	\$ 18,750,000	9/15/2016	The multifamily bonds are issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily rental housing developments. The Sky line Place Apartments will be located in
Notes Payable	Multifamily Governmental Note Mercantile Apartments	\$ 29,500,000	9/30/2016	The multifamily governmental notes are issued for the primary purpose to finance the acquisition, construction, and equipping of multifamily rental housing developments. The Mercantile Apartments will be located in Fort Worth, Texas.

NOTE 9: RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. It is the Department’s policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Department assumes substantially all risks associated with the performance of its duties. The Department carries Public Official Liabilities Insurance coverage in the amount of \$10,000,000 that includes Network Security and Cyber Liability in the amount of \$1,000,000; Automobile Liability Insurance in the amount of \$1,000,000; Errors and Omissions Insurance in the amount of \$500,000 related to loan servicing for others; Crime Insurance in the amount of \$350,000; and Commercial Property, Equipment Breakdown & Terrorism Insurance for the Alpine Retirement Center, the Insurance Annex Building and the Twin Towers Office Center in the amount of \$4,245,671.

The Department’s liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. The Department did not incur any claims in fiscal year 2016.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUND

The Segment information below is for the Department’s direct debt associated with the issuance of Single Family bonds only and does not include the Multifamily bonds where the Department is only a conduit issuer. Therefore, this note represents less than what is reported in the Enterprise Fund as a whole. Each grouping consists of separate indentures that have one or more bonds outstanding with the revenue stream and assets exclusively pledged in support of that debt. Bonds are issued for the primary purpose of providing funds for the purchase of mortgage-backed securities which represent securitized loans financing single family housing. Each indenture imposes the requirement of separate accounting of the revenues, expenses, gains, losses, assets, and liabilities.

CONDENSED STATEMENT OF NET POSITION			
	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Restricted Assets:			
Current Assets	\$ 42,171,616	\$ 25,923,923	\$ 79,984
Non-Current Assets	<u>400,778,342</u>	<u>269,164,308</u>	<u>3,414,130</u>
Total Assets	<u>442,949,958</u>	<u>295,088,231</u>	<u>3,494,114</u>
Deferred Outflows of Resources:	<u>15,095,971</u>		
Liabilities:			
Current Liabilities	6,514,724	5,925,398	4,607
Non-Current Liabilities	<u>351,860,971</u>	<u>178,955,546</u>	<u>1,715,559</u>
Total Liabilities	<u>358,375,695</u>	<u>184,880,944</u>	<u>1,720,166</u>
Deferred Inflows of Resources:			
Net Position:			
Restricted Net Position	<u>\$ 99,670,234</u>	<u>\$ 110,207,287</u>	<u>\$ 1,773,948</u>
Net Position:	<u>\$ 99,670,234</u>	<u>\$ 110,207,287</u>	<u>\$ 1,773,948</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, & CHANGES IN FUND NET POSITION			
	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Operating Revenues:			
Interest and Investment Income	\$ 19,995,870	\$ 9,647,405	\$ 251,133
Net (Decrease) in Fair Value	(3,266,756)	(389,009)	(77,557)
Other Operating Revenues	212,634		
Operating Expenses	<u>(15,864,584)</u>	<u>(7,545,452)</u>	<u>(143,649)</u>
Operating Income (Loss)	1,077,164	1,712,944	29,927
Nonoperating Revenues (Expenses):			
Transfers In (Out)	<u>(394,555)</u>	<u>6,376,424</u>	
Changes in Net Position	<u>682,609</u>	<u>8,089,368</u>	<u>29,927</u>
Net Position, September 1, 2015	98,987,625	102,117,919	1,744,021
Net Position, August 31, 2016	<u>\$ 99,670,234</u>	<u>\$ 110,207,287</u>	<u>\$ 1,773,948</u>

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended August 31, 2016

NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUND Cont'd

CONDENSED STATEMENT OF CASH FLOWS			
	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Net Cash Provided (Used) By:			
Operating Activities	\$ (3,077,392)	\$ (5,405,701)	\$ (621)
Noncapital Financing Activities	(25,845,820)	(36,196,523)	(1,066,386)
Investing Activities	<u>35,260,629</u>	<u>46,067,985</u>	<u>1,058,448</u>
Net Increase (Decrease)	6,337,417	4,465,761	(8,559)
Beginning Cash and Cash Equivalents	<u>34,039,525</u>	<u>20,541,913</u>	<u>71,013</u>
Ending Cash and Cash Equivalents	<u>\$ 40,376,942</u>	<u>\$ 25,007,674</u>	<u>\$ 62,454</u>

**SUPPLEMENTAL
SCHEDULES**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 1

SUPPLEMENTAL SCHEDULE — STATEMENT OF NET POSITION INFORMATION
BY INDIVIDUAL ACTIVITY (UNAUDITED)
AS OF AUGUST 31, 2016

	Single-Family Program	RMRB Program	CHMRB Program	Taxable Mortgage Program	Multifamily Program	Operating Fund	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents:							
Cash in bank	\$	\$	\$	\$	\$	\$ 5,671	\$ 5,671
Cash equivalents				1,313,818		7,801,829	9,115,647
Restricted assets:							
Cash and cash equivalents:							
Cash in bank	2,627,689				14,703,941		17,331,630
Cash equivalents	37,749,253	25,007,674	62,454	1,935,881	94,245,157	403,582	159,404,001
Short-term investments				7,236			7,236
Loans and contracts	433,678	177,246			22,772,352		23,383,276
Interest receivable	1,336,129	734,813	17,530	8,814	6,533,490	1,714	8,632,490
Receivable:							
Interest receivable				4,640		59	4,699
Accounts receivable						215,218	215,218
Other current assets	24,867	4,190		26,498		13,543	69,098
Total current assets	42,171,616	25,923,923	79,984	3,296,887	138,254,940	8,441,616	218,168,966
NONCURRENT ASSETS:							
Investments				1,809,256			1,809,256
Restricted assets:							
Investments	381,122,416	215,092,084	3,414,130	2,632,327	42,025,121	375,507	644,661,585
Loans, contracts, and notes receivable	19,634,098	54,072,224			924,491,179	31	998,197,532
Other noncurrent assets:							
Real estate owned — net	21,828					798	22,626
Total noncurrent assets	400,778,342	269,164,308	3,414,130	4,441,583	966,516,300	376,336	1,644,690,999
TOTAL ASSETS	\$ 442,949,958	\$ 295,088,231	\$ 3,494,114	\$ 7,738,470	\$ 1,104,771,240	\$ 8,817,952	\$ 1,862,859,965
DEFERRED OUTFLOWS OF RESOURCES							
Accumulated decrease in fair value							
hedging derivatives	15,095,971						15,095,971
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 15,095,971	\$	\$	\$	\$	\$	\$ 15,095,971
LIABILITIES							
CURRENT LIABILITIES:							
Payables:							
Accounts payable	\$ 115,641	\$ 76,471	\$ 82	\$ 8,443	\$	\$ 26,172	\$ 226,809
Accrued bond interest payable	5,775,439	1,118,418	2,249		6,780,541		13,676,647
Notes and Loans Payable					214,880		214,880
Revenue bonds payable	385,000	4,730,509	2,276		22,779,033		27,896,818
Other current liabilities	238,644					179	238,823
Total current liabilities	6,514,724	5,925,398	4,607	8,443	29,774,454	26,351	42,253,977
NONCURRENT LIABILITIES:							
Notes and Loans Payable					45,490,181		45,490,181
Revenue bonds payable	336,765,000	178,955,546	1,715,559		889,549,437		1,406,985,542
Derivative Hedging Instrument	15,095,971						15,095,971
Other noncurrent liabilities					142,348,859		142,348,859
Total noncurrent liabilities	351,860,971	178,955,546	1,715,559		1,077,388,477		1,609,920,553
TOTAL LIABILITIES	\$ 358,375,695	\$ 184,880,944	\$ 1,720,166	\$ 8,443	\$ 1,107,162,931	\$ 26,351	\$ 1,652,174,530
DEFERRED INFLOWS OF RESOURCES							
TOTAL DEFERRED INFLOWS OF RESOURCES	\$	\$	\$	\$	\$	\$	\$
NET POSITION							
RESTRICTED FOR BONDS	99,670,234	110,207,287	1,773,948	4,584,257		780,803	217,016,529
UNRESTRICTED				3,145,770	(2,391,691)	8,010,798	8,764,877
TOTAL NET POSITION	\$ 99,670,234	\$ 110,207,287	\$ 1,773,948	\$ 7,730,027	\$ (2,391,691)	\$ 8,791,601	\$ 225,781,406

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 2

SUPPLEMENTAL SCHEDULE — STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION INFORMATION BY INDIVIDUAL ACTIVITY (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2016

	Single-Family Program	RMRB Program	CHMRB Program	Taxable Mortgage Program	Multifamily Program	Operating Fund	Total
OPERATING REVENUES:							
Interest and investment income	\$ 19,995,870	\$ 9,647,405	\$ 251,133	\$ 211,559	\$ 38,862,729	\$ 40,665	\$ 69,009,361
Net increase (decrease) in fair value	(3,266,756)	(389,009)	(77,557)	29,617		(7,709)	(3,711,414)
Other operating revenues	212,634			10,480,333		3,080,804	13,773,771
Total operating revenues	16,941,748	9,258,396	173,576	10,721,509	38,862,729	3,113,760	79,071,718
OPERATING EXPENSES:							
Professional fees and services	1,110,739	207,880	1,000			497,195	1,816,814
Printing and reproduction	24,189					47,987	72,176
Interest	11,477,727	6,806,575	142,948		39,083,027		57,510,277
Bad debt expense	667,606	190,505				7,116	865,227
Down Payment Assistance	5,893	287,399					293,292
Other operating expenses	2,578,430	53,093	(299)	4,275,637		53,709	6,960,570
Total operating expenses	15,864,584	7,545,452	143,649	4,275,637	39,083,027	606,007	67,518,356
Operating Income (Loss)	1,077,164	1,712,944	29,927	6,445,872	(220,298)	2,507,753	11,553,362
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS							
Extraordinary items							
Transfers in (out)	(394,555)	6,376,424		(8,163,789)		(2,117,140)	(4,299,060)
CHANGE IN NET POSITION	682,609	8,089,368	29,927	(1,717,917)	(220,298)	390,613	7,254,302
NET POSITION —							
September 1, 2015	98,987,625	102,117,919	1,744,021	9,447,944	(2,171,393)	8,400,988	218,527,104
NET POSITION —							
August 31, 2016	\$ 99,670,234	\$ 110,207,287	\$ 1,773,948	\$ 7,730,027	\$ (2,391,691)	\$ 8,791,601	\$ 225,781,406

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SUPPLEMENTARY BOND
SCHEDULES

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

SCHEDULE 3

**Supplementary Bond Schedules
MISCELLANEOUS BOND INFORMATION**

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		
				First Year	Final Maturity Date	First Call Date
2004 Single Family Series B	\$ 53,000,000	VAR - Weekly	2015	09/01/2034	03/01/2015	(e)
2004 Single Family Series A (Jr. Lien)	4,140,000	VAR - Weekly	2036	09/01/2036	09/01/2036	(e)
2004 Single Family Series D	35,000,000	VAR - Weekly	2035	03/01/2035	(f)	
2005 Single Family Series A	100,000,000	VAR - Weekly	2007	09/01/2036	03/01/2006	
2005 Single Family Series B	25,495,000	4.38% 4.38%	2006	09/01/2026	03/01/2006	
2005 Single Family Series C	8,970,000	VAR - Weekly	2017	09/01/2017	03/01/2006	
2005 Single Family Series D	3,730,000	5.00% 5.00%	2025	09/01/2035	03/01/2006	
2006 Single Family Series A	59,555,000	5.00% 5.00%	2008	09/01/2037	09/01/2006	
2006 Single Family Series B	70,485,000	5.00% 5.00%	2008	09/01/2034	09/02/2006	
2006 Single Family Series C	105,410,000	5.13% 5.13%	2008	09/01/2037	09/03/2006	
2006 Single Family Series D	29,685,000	4.50% 4.50%	2018	09/01/2028	09/04/2006	
2006 Single Family Series E	17,295,000	4.06% 4.06%	2007	09/01/2017	09/05/2006	
2006 Single Family Series H	36,000,000	VAR - Weekly	2016	09/01/2037	03/01/2016	
2007 Single Family Series A	143,005,000	VAR - Weekly	2008	09/01/2038	03/01/2008	(e)
2007 Single Family Series B	157,060,000	3.90% 5.63%	2008	09/01/2039	03/01/2008	
2013 Single Family Series A	42,500,000	2.80% 2.80%	2013	03/01/2036	09/01/2020	
2015 Single Family Series A	33,825,000	3.20% 3.20%	2039	9/1/2039	09/01/2024	
2015 Single Family Series B	19,870,000	3.13% 3.13%	2046	3/1/2046	09/01/2024	
2016 Single Family Series A	31,510,000	3.00% 3.00%	2046	3/1/2046	03/01/2025	
2016 Single Family Series B	59,735,000	3.18% 3.18%	2039	3/1/2039	03/01/2025	
2009 RMRB Series A	80,000,000	5.13% 5.13%	2011	07/01/2039	01/01/2019	
2009 RMRB Series B	22,605,000	4.72% 4.72%	2010	07/01/2022	01/01/2019	
2009 RMRB Series C-1	89,030,000	0.70% 3.57%	2029	07/01/2041	04/01/2011	
2009 RMRB Series C-2	60,080,000	0.60% 2.48%	2034	07/01/2041	11/01/2011	
2011 RMRB Series A	60,000,000	0.70% 5.05%	2012	07/01/2029	01/01/2021	
2011 RMRB Series B	87,955,000	0.30% 4.45%	2012	01/01/2034	01/01/2021	
1992 Coll Home Mtg Rev Bonds, Series C	72,700,000	3.48% 10.27%	2024	07/01/2024	05/04/1995	
TOTAL SINGLE FAMILY & RMRB BONDS	\$ 1,508,640,000					
1996 MF Series A/B (Brighton's Mark Development)	\$ 10,174,000	6.13% 6.13%	2026	04/01/2026	01/01/2003	
1998 MF Series A-C (Residence at the Oaks Projects)	8,200,000	5.98% 7.18%	2001	11/01/2030	05/01/2001	
1999 MF Series A-C (Mayfield Apartments)	11,445,000	5.70% 7.25%	2001	05/01/2031	05/01/2002	
2000 MF Series A (Timber Point Apartments)	8,100,000	VAR - Weekly	2003	09/01/2032	07/01/2000	(a)
2000 MF Series A/B (Oaks at Hampton Apartments)	10,060,000	7.20% 9.00%	2002	03/01/2040	03/01/2017	(a)
2000 MF Series A (Deerwood Apartments)	6,435,000	5.25% 6.40%	2003	12/01/2032	06/01/2010	
2000 MF Series A (Creek Point Apartments)	7,200,000	VAR - Weekly	2004	10/01/2032	07/01/2000	(a)
2000 MF Series A/B (Parks at Westmoreland Apartments)	9,990,000	7.20% 9.00%	2002	07/01/2040	07/01/2017	(a)
2000 MF Series A-C (Highland Meadow Village Apartments)	13,500,000	6.75% 8.00%	2004	11/01/2033	05/01/2019	
2000 MF Series A/B (Greenbridge at Buckingham Apartments)	20,085,000	7.40% 10.00%	2003	10/01/2040	03/01/2014	
2000 MF Series A-C (Collingham Park Apartments)	13,500,000	6.72% 7.72%	2004	11/01/2033	05/01/2019	
2000 MF Series A/B (Williams Run Apartments)	12,850,000	7.65% 9.25%	2002	11/01/2040	01/01/2011	
2001 MF Series A (Bluffview Apartments)	10,700,000	7.65% 7.65%	2003	05/01/2041	05/01/2018	
2001 MF Series A (Knollwood Apartments)	13,750,000	7.65% 7.65%	2003	05/01/2041	05/01/2018	
2001 MF Series A (Skyway Villas Apartments)	13,250,000	6.00% 6.50%	2005	12/01/2034	12/01/2011	
2001 MF Series A/B (Meridian Apartments)	14,310,000	5.45% 6.85%	2004	12/01/2034	12/01/2011	
2001 MF Series A/B (Wildwood Apartments)	14,365,000	5.45% 6.75%	2004	12/01/2034	12/01/2011	
2001 MF Series A (Oak Hollow Apartments)	8,625,000	7.00% 7.90%	2003	12/01/2041	11/01/2018	
2001 MF Series A/B (Hillside Apartments)	12,900,000	7.00% 9.25%	2003	12/01/2041	11/01/2018	
2002 MF Series A (Park Meadows Apartments)	4,600,000	6.53% 6.53%	2004	06/01/2034	05/01/2012	
2002 MF Series A (Clarkridge Villas Apartments)	14,600,000	7.00% 7.00%	2004	09/01/2042	08/01/2019	
2002 MF Series A (Hickory Trace Apartments)	11,920,000	7.00% 7.00%	2004	11/01/2042	12/01/2019	
2002 MF Series A (Green Crest Apartments)	12,500,000	7.00% 7.00%	2004	11/01/2042	11/01/2019	
2002 MF Series A/B (Ironwood Crossing)	16,970,000	5.50% 8.75%	2005	11/01/2042	10/01/2027	
2003 MF Series A/B (Reading Road)	12,200,000	VAR-Weekly	2007	07/01/2036	01/01/2004	(a)
2003 MF Series A/B (North Vista Apartments)	14,000,000	4.10% 5.41%	2006	06/01/2036	06/01/2013	
2003 MF Series A/B (West Virginia Apartments)	9,450,000	4.15% 5.41%	2006	06/01/2036	06/01/2013	
2003 MF Series A/B (Primrose Houston School)	16,900,000	5.50% 8.00%	2006	07/01/2036	07/01/2003	(a)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

**Supplementary Bond Schedules
MISCELLANEOUS BOND INFORMATION (Continued)**

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		
				First Year	Final Maturity Date	First Call Date
2003 MF Series A/B (Timber Oaks Apartments)	\$ 13,200,000	6.75%	8.75%	2005	11/01/2038	06/01/2020
2003 MF Series A/B (Ash Creek Apartments)	16,375,000	5.60%	15.00%	2006	04/01/2036	10/01/2003 (a)
2003 MF Series A/B (Peninsula Apartments)	12,400,000	4.25%	5.30%	2007	10/01/2024	10/01/2013
2003 MF Series A/B (Arlington Villas)	17,100,000	6.75%	8.00%	2007	12/01/2036	01/01/2007 (a)
2003 MF Series A/B (Parkview Townhomes)	16,600,000	6.60%	8.50%	2006	04/01/2041	12/01/2020
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	31,500,000	VAR - Weekly		2007	07/01/2033	07/01/2007 (a)
2004 MF Series A/B (Timber Ridge II Apartments)	7,500,000	5.75%	8.00%	2007	08/01/2036	03/01/2007 (a)
2004 MF Series A/B (Century Park Townhomes)	13,000,000	5.75%	5.75%	2007	06/01/2037	05/01/2007 (a)
2004 MF Series A/B (Providence at Veterans Memorial)	16,300,000	6.60%	8.50%	2006	01/01/2041	03/01/2006 (a)
2004 MF Series A (Providence at Rush Creek II)	10,000,000	5.38%	6.70%	2006	01/01/2044	03/01/2021
2004 MF Series A (Humble Parkway Townhomes)	11,700,000	6.60%	6.60%	2007	01/01/2041	07/01/2021
2004 MF Series A (Chisholm Trail Apartments)	12,000,000	VAR - Weekly (b)		2006	04/15/2037	10/15/2006 (a)
2004 MF Series A (Evergreen at Plano Parkway)	14,750,000	5.25%	6.55%	2007	05/01/2044	06/01/2021
2004 MF Series A (Montgomery Pines Apartments)	12,300,000	VAR - Weekly		2006	06/15/2037	12/15/2006 (a)
2004 MF Series A (Bristol Apartments)	12,625,000	VAR - Weekly		2007	06/15/2037	06/15/2007 (a)
2004 MF Series A (Pinnacle Apartments)	14,500,000	VAR - Weekly (c)		2007	06/15/2037	09/01/2007 (a)
2004 MF Series A (Churchill at Pinnacle Park)	10,750,000	5.25%	6.55%	2007	07/01/2044	09/01/2021 (d)
2004 MF Series A (Providence at Village Fair)	14,100,000	5.00%	6.50%	2007	12/01/2044	12/01/2021
2005 MF Series A (Homes at Pecan Grove)	14,030,000	5.00%	6.50%	2007	01/01/2045	01/01/2022
2005 MF Series A (Providence at Prairie Oaks)	11,050,000	4.75%	6.50%	2007	01/01/2045	01/01/2022
2005 MF Series A (Port Royal Homes)	12,200,000	5.00%	6.50%	2007	02/01/2045	02/01/2022
2005 MF Series A (Mission Del Rio Homes)	11,490,000	5.00%	6.50%	2007	02/01/2045	02/01/2022
2005 MF Series A (Atascocita Pines Apartments)	11,900,000	VAR - Weekly (c)		2007	04/15/2038	(e)
2005 MF Series A (Tower Ridge Apartments)	15,000,000	VAR - Weekly (b)		2009	04/01/2038	(e)
2005 MF Series A (Prairie Ranch Apartments)	12,200,000	4.85%	4.85%	2007	06/20/2045	12/20/2015
2005 MF Series A (St Augustine Estate Apartments)	7,650,000	VAR - Weekly		2009	09/15/2038	n/a
2005 MF Series A (Park Manor Senior Community)	10,400,000	5.00%	6.40%	2008	07/01/2045	09/01/2022
2005 MF Series A (Providence at Mockingbird Apartments)	14,360,000	6.40%	6.40%	2007	08/01/2040	08/01/2022
2005 MF Series A (Plaza at Chase Oaks Apartments)	14,250,000	5.05%	5.05%	2007	08/01/2035	(g)
2005 MF Series A (Coral Hills Apartments)	5,320,000	5.05%	5.05%	2009	08/01/2026	08/01/2015
2006 MF Series A (Harris Branch Apartments)	15,000,000	VAR - Weekly		2009	03/15/2039	(i)
2006 MF Series A (Bella Vista Apartments)	6,800,000	6.15%	6.15%	2008	04/01/2046	04/01/2016
2006 MF Series A (Village Park Apartments)	13,660,000	4.75%	5.13%	2009	12/1/2026	06/01/2021
2006 MF Series A (Oakmoor Apartments)	14,635,000	5.50%	6.00%	2008	03/01/2046	03/01/2023
2006 MF Series A (The Residences at Sunset Pointe)	15,000,000	VAR - Weekly		2039	07/15/2039	(h)
2006 MF Series A (Hillcrest Apartments)	12,435,000	5.25%	5.25%	2009	04/01/2027	04/01/2021
2006 MF Series A (Pleasant Village)	6,000,000	6.00%	6.00%	2008	03/01/2023	(j)
2006 MF Series A (Red Hills Villas)	5,015,000	VAR - Weekly		2036	09/15/2036	(i)
2006 MF Series A (Champion Crossing Apartments)	5,125,000	VAR - Weekly		2036	09/15/2036	(i)
2006 MF Series A (Meadowlands Apartments)	13,500,000	6.00%	6.00%	2009	09/01/2046	09/01/2023
2006 MF Series A (East Tex Pines)	13,500,000	4.95%	4.95%	2010	10/01/2046	(k)
2006 MF Series A (Villas at Henderson)	7,200,000	VAR - Weekly		2010	11/01/2023	(l)
2006 MF Series A (Aspen Park)	9,800,000	5.00%	5.00%	2010	07/01/2027	07/01/2021
2006 MF Series A (Idlewilde)	14,250,000	VAR - Weekly		2010	06/15/2040	(i)
2007 MF Series A (Lancaster)	14,250,000	VAR - Weekly		2010	07/15/2040	(i)
2007 MF Series A (Park Place at Loyola)	15,000,000	5.80%	5.80%	2010	02/01/2047	03/01/2024
2007 MF Series A (Terrace at Cibolo)	8,000,000	VAR - Weekly		2010	05/01/2040	(l)
2007 MF Series A (Santora Villas)	13,072,000	5.80%	5.80%	2010	05/01/2047	06/01/2024
2007 MF Series A (Villas at Mesquite Creek)	16,860,000	5.00%	5.81%	2010	01/20/2047	01/20/2017
2007 MF Series A (Summit Point)	11,700,000	4.80%	5.25%	2009	06/20/2047	06/20/2017
2007 MF Series A (Costa Rialto)	12,385,000	5.35%	5.35%	2010	07/01/2047	08/01/2025
2007 MF Series A (Windshire)	14,000,000	VAR - Weekly		2010	01/15/2041	(i)
2007 MF Series A (Residences at Onion Creek)	15,000,000	VAR - Weekly		2011	12/15/2040	(i)
2008 MF Series A (West Oaks Apartments)	13,125,000	VAR - Weekly		2011	07/01/2041	(m)
2008 MF Series A (Costa Ibiza Apartments)	13,900,000	VAR - Weekly		2011	08/01/2041	(e)
2008 MF Series A (Addison Park Apartments)	14,000,000	VAR - Weekly		2008	01/01/2044	(m)
2008 MF Series A (Alta Cullen Apartments Refunding)	14,000,000	VAR - Weekly		2011	03/01/2045	(m)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

**Supplementary Bond Schedules
MISCELLANEOUS BOND INFORMATION (Continued)**

For the fiscal year ended August 31, 2016

Description of Issue	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat.		First Call Date
				First Year	Final Maturity Date	
2009 MF Series A (Costa Mariposa Apartments)	\$ 13,690,000	VAR - Weekly		2012	05/01/2042	(m)
2009 MF Series A (Woodmont Apartments)	15,000,000	VAR - Weekly		2012	06/01/2042	(m)
2013 MF Series A (Waters at Willow Run Apartments)	14,500,000	0.35%	0.35%	2014	10/01/2016	10/01/2014
2014 MF Series A (Decatur-Angle Apartments)	23,000,000	5.75%	5.75%	2016	01/01/2054	09/01/2016
2014 MF Series A (Northcrest Apartments)	2,900,000	0.35%	0.35%	2014	06/01/2017	01/01/2015
2015 MF Series A (Good Samaritan Towers)	5,620,000	0.95%	0.95%	2017	09/01/2017	03/01/2017
2015 MF Series A (Williamsburg Apts)	23,150,000	3.45%	3.45%	2016	01/01/2032	01/26/2016 (n)
2016 MF Series A (Chisolm Trace/Cheyenne Village)	13,500,000	0.80%	0.80%	2017	06/01/2018	06/01/2017
2016 MF Series A (Fifty Oaks & Edinburg Village)	7,400,000	0.65%	0.65%	2017	08/01/2018	08/01/2017
TOTAL MULTIFAMILY BONDS	\$ 1,175,101,000					
TOTAL BONDS ISSUED	\$ 2,683,741,000					

FOOTNOTES:

- (a) The taxable bonds shall be subject to redemption prior to maturity in whole or any part on any interest payment date after the completion date from the proceeds of an optional prepayment of the loan by the borrower.
- (b) Variable rate not to exceed the maximum rate permitted by applicable law.
- (c) Variable rate could change to fixed rate provided the conversion option is exercised.
- (d) The bonds are subject to redemption, in whole, at the option of the Issuer acting at the direction of the Holders of a majority of the outstanding principal amount of the Bonds.
- (e) The Bonds shall be subject to redemption prior to maturity, after giving the required notice, as follows: During the variable interest rate period the bonds shall be subject to optional redemption by the Department, in whole or in part on any business day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.
- (f) The Series bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows:
During a daily interest rate period or weekly interest rate period for the Series bonds, the bonds shall be subject to optional redemption by the Department, in whole or in part on any business day, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest, if any, to the redemption date.
- (g) The bonds are subject to redemption at the option of the Issuer, at the direction of the Borrower, in whole or in part on the first day of any month, in the event and to the extent the trustee receives funds from the Borrower representing an optional prepayment of the principal of the note, at a redemption price equal to the principal thereof, plus accrued interest to the redemption date plus any premium remitted therewith as required by the note.
- (h) Bonds are subject to redemption if and to the extent the Borrower is entitled to make, or is required to make, a prepayment pursuant to the loan agreement.
- (i) The Bonds are subject to optional redemption in whole or in part upon optional prepayment of the Loan by the Borrower.
- (j) The Bonds are subject to optional redemption at the direction of the Borrower on any interest payment date, in whole or in part, at the redemption price (as calculated by the sole bondholder) calculated in accordance with the Exhibit H in the bond documents plus accrued and unpaid interest, redemption if any, to the date. Optional redemptions may be made only in denominations of \$100,000 plus integral multiples of \$5,000 or for the entire amount of the bonds outstanding.
- (k) The Bonds shall be subject to redemption prior to maturity in whole but not in part on any Bond Payment Date on or after fifteen years from Conversion Date, from the proceeds of an optional prepayment of the Loan by the Borrower at a redemption price equal to the principal amount plus accrued and unpaid interest to the date fixed for redemption.
- (l) The Bonds may be redeemed by the Trustee at the option of the Issuer, but only upon the written request of the Borrower pursuant of the Loan Agreement, and with the prior written consent of the Bank, in whole or in part, at a redemption price equal to the principal amount, without premium, plus accrued interest to the date of redemptions.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

Supplementary Bond Schedules

MISCELLANEOUS BOND INFORMATION (Continued)

For the fiscal year ended August 31, 2016

- (m) With the prior Written consent of the Credit Facility Provider, the Bonds are subject to optional redemption, in whole or in part, upon optional prepayments on the Bond Mortgage Loan in accordance with the prepayment restrictions set forth in the Bond Mortgage Note and Financing Agreement.
- (n) The bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indenture, as follows: that the Pass-Through Certificate will be prepaid, the Trustee, in accordance with the provisions of this Indenture, shall use its best efforts to give not less than 20 nor more than 30 days' notice, in the name of the Issuer, of the redemption of the Bonds, which notice shall specify the following: (i) the maturity and principal amounts of the Bonds to be redeemed; (ii) the CUSIP number, if any, of the Bonds to be redeemed; (iii) the date of such notice; (iv) the issuance date for such Bonds; (v) the interest rate on the Bonds to be redeemed; (vi) the redemption date; (vii) any conditions to the occurrence of the redemption; (viii) the place or places where amounts due upon such redemption will be payable; (ix) the Redemption Price; (x) the Trustee's name and address with a contact person and a phone number; and (xi) that on the redemption date, the Redemption Price shall be paid. Neither the giving of such notice by the Trustee nor the receipt of such notice by the Bondholders shall be a condition precedent to the effectiveness of any such redemption.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 4

Supplementary Bond Schedules
CHANGES IN BOND INDEBTEDNESS
For the fiscal year ended August 31, 2016

Description of Issue	Bonds Outstanding 09/01/15	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/16	Amounts Due Within One Year
2004 Single Family Series B	\$ 44,260,000	\$	\$	\$ 4,880,000	\$ 39,380,000	\$
2004 Single Family Series A (Jr. Lien)	3,855,000				3,855,000	
2004 Single Family Series D	29,585,000			3,885,000	25,700,000	
2005 Single Family Series A	37,115,000			5,985,000	31,130,000	
2005 Single Family Series B	1,635,000		120,000	720,000	795,000	80,000
2005 Single Family Series C	3,090,000				3,090,000	
2005 Single Family Series D	825,000			395,000	430,000	
2006 Single Family Series A	15,430,000		130,000	15,300,000	-	
2006 Single Family Series B	16,195,000		280,000	15,915,000	-	
2006 Single Family Series C	25,840,000		315,000	25,525,000	-	
2006 Single Family Series D	5,395,000			5,395,000	-	
2006 Single Family Series E	5,155,000		1,645,000	3,510,000	-	
2006 Single Family Series H	36,000,000			36,000,000	-	
2007 Single Family Series A	48,190,000			9,785,000	38,405,000	
2007 Single Family Series B	46,495,000		565,000	10,450,000	35,480,000	305,000
2013 Single Family Series A	28,325,000			4,940,000	23,385,000	
2015 Single Family Series A		33,825,000		4,145,000	29,680,000	
2015 Single Family Series B		19,870,000		950,000	18,920,000	
2016 Single Family Series A		31,510,000		540,000	30,970,000	
2016 Single Family Series B		59,735,000		3,805,000	55,930,000	
2009 RMRB Series A	29,265,000		315,000	3,725,000	25,225,000	312,875
2009 RMRB Series B	8,310,000		815,000	895,000	6,600,000	815,000
2009 RMRB Series C-1	53,120,000			7,535,000	45,585,000	
2009 RMRB Series C-2	42,210,000			6,100,000	36,110,000	
2011 RMRB Series A	29,925,000		1,505,000	4,180,000	24,240,000	1,537,669
2011 RMRB Series B	54,855,000		2,065,000	7,940,000	44,850,000	2,064,965
1992 Coll Home Mtg Rev Bonds, Series C	2,600,000			900,000	1,700,000	2,276
Total Single Family Bonds	\$ 567,675,000	\$ 144,940,000	\$ 7,755,000	\$ 183,400,000	\$ 521,460,000	\$ 5,117,785
1996 MF Series A/B (Brighton's Mark Development)	\$ 8,075,000	\$	\$	\$	\$ 8,075,000	\$
1998 MF Series A-C (Residence at the Oaks Projects)	5,775,000		304,000		5,471,000	312,000
1999 MF Series A-C (Mayfield Apartments)	8,345,000		162,000	8,183,000		
2000 MF Series A (Timber Point Apartments)	6,470,000			200,000	6,270,000	
2000 MF Series A/B (Oaks at Hampton Apartments)	8,949,126		137,994		8,811,132	148,265
2000 MF Series A (Deerwood Apartments)	5,140,000		155,000		4,985,000	170,000
2000 MF Series A (Creek Point Apartments)	5,460,000			100,000	5,360,000	
2000 MF Series A/B (Parks at Westmoreland Apartments)	8,921,102		134,021		8,787,081	143,995
2000 MF Series A-C (Highland Meadow Village Apts)	7,321,000		207,000		7,114,000	221,000
2000 MF Series A/B (Greenbridge at Buckingham Apts)	19,201,598		132,697	19,068,901		
2000 MF Series A-C (Collingham Park Apartments)	10,947,000		327,000		10,620,000	348,000
2000 MF Series A/B (Williams Run Apartments)	11,471,869		18,647	11,453,222		
2001 MF Series A (Bluffview Apartments)	9,860,743		108,788		9,751,955	117,350
2001 MF Series A (Knollwood Apartments)	12,671,516		139,798		12,531,718	150,801
2001 MF Series A (Skyway Villas Apartments)	6,430,000		180,000		6,250,000	195,000
2001 MF Series A/B (Meridian Apartments)	7,980,000		105,000		7,875,000	108,000
2001 MF Series A/B (Wildwood Apartments)	6,160,000		84,000		6,076,000	89,000
2001 MF Series A (Oak Hollow Apartments)	5,967,842		69,771		5,898,071	74,815
2001 MF Series A/B (Hillside Apartments)	12,136,477		78,573		12,057,904	84,253
2002 MF Series A (Park Meadows Apartments)	3,710,000		105,000		3,605,000	105,000
2002 MF Series A (Clarkridge Villas Apartments)	12,952,368		141,579		12,810,789	151,814
2002 MF Series A (Hickory Trace Apartments)	10,712,555		116,315		10,596,240	124,723
2002 MF Series A (Green Crest Apartments)	10,693,610		86,957		10,606,653	91,863
2002 MF Series A/B (Ironwood Crossing)	16,040,594		149,198		15,891,396	160,780
2003 MF Series A/B (Reading Road)	10,450,000		40,000	200,000	10,210,000	40,000
2003 MF Series A/B (North Vista Apartments)	11,035,000		290,000		10,745,000	310,000
2003 MF Series A/B (West Virginia Apartments)	7,970,000		205,000		7,765,000	215,000
2003 MF Series A/B (Primrose Houston School)	15,699,796		150,631		15,549,165	163,327
2003 MF Series A/B (Timber Oaks Apartments)	12,474,139		104,630		12,369,509	109,710
2003 MF Series A/B (Ash Creek Apartments)	15,418,897		151,881		15,267,016	164,649
2003 MF Series A/B (Peninsula Apartments)	10,545,000		240,000	25,000	10,280,000	260,000
2003 MF Series A/B (Arlington Villas)	16,253,361		141,142		16,112,219	152,933
2003 MF Series A/B (Parkview Townhomes)	13,182,338		115,973		13,066,365	121,603
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	17,710,000			570,000	17,140,000	(9,343)
2004 MF Series A/B (Timber Ridge II Apartments)	6,314,809		59,619		6,255,190	63,909
2004 MF Series A/B (Century Park Townhomes)	11,025,000		255,000		10,770,000	275,000
2004 MF Series A/B (Providence at Veterans Memorial)	6,696,684		59,801		6,636,883	62,704
2004 MF Series A (Providence at Rush Creek II)	8,320,029		83,432		8,236,597	89,196
2004 MF Series A (Humble Parkway Townhomes)	10,605,000		165,000		10,440,000	180,000
2004 MF Series A (Chisholm Trail Apartments)	10,600,000			300,000	10,300,000	
2004 MF Series A (Evergreen at Plano Parkway)	13,927,403		134,309		13,793,094	143,376

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

**Supplementary Bond Schedules
CHANGES IN BOND INDEBTEDNESS (Continued)**
For the fiscal year ended August 31, 2016

Description of Issue	Bonds Outstanding 09/01/15	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/16	Amounts Due Within One Year
2004 MF Series A (Montgomery Pines Apartments)	\$ 11,100,000	\$	\$	\$ 300,000	\$ 10,800,000	\$ -
2004 MF Series A (Bristol Apartments)	11,500,000			200,000	11,300,000	
2004 MF Series A (Pinnacle Apartments)	13,265,000				13,265,000	
2004 MF Series A (Churchill at Pinnacle Park)	9,412,003		113,209		9,298,794	120,851
2004 MF Series A (Providence at Village Fair)	13,240,694		133,890		13,106,804	142,857
2005 MF Series A (Homes at Pecan Grove)	13,038,978		83,223		12,955,755	88,796
2005 MF Series A (Providence at Prairie Oaks)	10,385,016		104,309	32,899	10,247,808	110,996
2005 MF Series A (Port Royal Homes)	11,475,076		114,603		11,360,473	122,279
2005 MF Series A (Mission Del Rio Homes)	8,879,635		56,675		8,822,960	60,471
2005 MF Series A (Atascocita Pines Apartments)	10,890,000			100,000	10,790,000	
2005 MF Series A (Tower Ridge Apartments)	15,000,000				15,000,000	
2005 MF Series A (Prairie Ranch Apartments)	11,100,000		85,000	11,015,000		
2005 MF Series A (St Augustine Estate Apartments)	5,980,000			100,000	5,880,000	
2005 MF Series A (Park Manor Senior Community)	10,400,000			10,400,000		
2005 MF Series A (Providence at Mockingbird Apts)	10,753,459		92,903		10,660,556	98,045
2005 MF Series A (Plaza at Chase Oaks Apartments)	12,268,637		310,759		11,957,878	326,820
2005 MF Series A (Coral Hills Apartments)	4,485,000		100,000		4,385,000	100,000
2006 MF Series A (Harris Branch Apartments)	13,490,000			13,490,000		
2006 MF Series A (Bella Vista Apartments)	6,430,000		65,000		6,365,000	70,000
2006 MF Series A (Village Park Apartments)	9,580,000		195,000		9,385,000	205,000
2006 MF Series A (Oakmoor Apartments)	13,759,468		135,150		13,624,318	143,486
2006 MF Series A (The Residences at Sunset Pointe)	15,000,000				15,000,000	
2006 MF Series A (Hillcrest Apartments)	10,175,000		195,000		9,980,000	210,000
2006 MF Series A (Pleasant Village)	5,343,923		248,966	5,094,957	0	
2006 MF Series A (Red Hills Villas)	4,615,000			100,000	4,515,000	
2006 MF Series A (Champion Crossing Apartments)	4,475,000			100,000	4,375,000	100,000
2006 MF Series A (Meadowlands Apartments)	11,862,618		110,631		11,751,987	117,454
2006 MF Series A (East Tex Pines)	13,000,000		125,000		12,875,000	125,000
2006 MF Series A (Villas at Henderson)	6,615,000			100,000	6,515,000	
2006 MF Series A (Aspen Park)	9,115,000		125,000		8,990,000	135,000
2006 MF Series A (Idlewilde)	13,390,000			200,000	13,190,000	
2007 MF Series A (Lancaster)	13,380,000			200,000	13,180,000	
2007 MF Series A (Park Place at Loyola)	13,864,741		109,423		13,755,318	115,941
2007 MF Series A (Terrace at Cibolo)	4,900,000			100,000	4,800,000	
2007 MF Series A (Santora Villas)	11,766,999		97,025		11,669,974	102,804
2007 MF Series A (Villas at Mesquite Creek)	15,775,000		210,000		15,565,000	220,000
2007 MF Series A (Summit Point)	8,960,000			8,960,000		
2007 MF Series A (Costa Rialto)	10,296,693		94,312		10,202,381	99,483
2007 MF Series A (Windshire)	13,300,000			100,000	13,200,000	
2007 MF Series A (Residences at Onion Creek)	15,000,000				15,000,000	
2008 MF Series A (West Oaks Apartments)	12,215,000			140,000	12,075,000	
2008 MF Series A (Costa Ibiza Apartments)	13,120,000			200,000	12,920,000	
2008 MF Series A (Addison Park Apartments)	12,805,000			210,000	12,595,000	
2008 MF Series A (Alta Cullen Apartments Refunding)	12,100,000			200,000	11,900,000	
2009 MF Series A (Costa Mariposa Apartments)	13,270,000			105,000	13,165,000	
2009 MF Series A (Woodmont Apartments)	14,555,000			265,000	14,290,000	
2013 MF Series A (Waters @ Willow Run)	14,500,000				14,500,000	14,500,000
2014 MF Series A (Decatur Angle Apartments)	23,000,000				23,000,000	152,311
2014 MF Series A (Northcrest Apartments)	2,900,000			2,900,000		
2015 MF Series (Good Samaritan Towers)		5,620,000			5,620,000	
2015 MF Series (Williamsburg Apts)		23,150,000			23,150,000	172,716
2016 MF Series (Chisholm Trace/Cheyenne Village)		13,500,000			13,500,000	
2016 MF Series (Fifty Oaks & Edinburg Village)		7,400,000			7,400,000	
Total Multifamily Bonds	\$ 965,352,798	\$ 49,670,000	\$ 8,044,834	\$ 94,712,979	\$ 912,264,985	\$ 22,779,033
	\$ 1,533,027,798	\$ 194,610,000	\$ 15,799,834	\$ 278,112,979	\$ 1,433,724,985	\$ 27,896,818

FOOTNOTES:

- (a) Bonds Outstanding balance at 8/31/16 does not include unamortized premium or discounts.
- | | |
|---------------------------------|-------------------------|
| Bonds Outstanding per schedule | \$ 1,433,724,985 |
| Unamortized (Discount)/Premium: | |
| RMRB | 1,076,055 |
| CHMRB | 17,835 |
| Multi-Family | 63,485 |
| Bonds Outstanding | <u>\$ 1,434,882,360</u> |

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 5

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2004 Single Family, Series A (Junior Lien)	Principal	-	-	-	-	-
2004 Single Family, Series A (Junior Lien)	Interest	22,745	25,828	25,828	25,888	25,769
2004 Single Family, Series B	Principal	-	-	-	-	-
2004 Single Family, Series B	Interest	214,750	267,784	267,784	268,397	267,171
2004 Single Family, Series D	Principal	-	-	-	-	-
2004 Single Family, Series D	Interest	132,546	161,910	161,910	162,281	161,539
2005 Single Family, Series A	Principal	-	-	-	-	-
2005 Single Family, Series A	Interest	166,565	199,232	199,232	199,688	198,776
2005 Single Family, Series B	Principal	80,000	75,000	70,000	70,000	85,000
2005 Single Family, Series B	Interest	37,665	33,825	30,345	26,985	23,625
2005 Single Family, Series C	Principal	-	3,090,000	-	-	-
2005 Single Family, Series C	Interest	16,986	9,346	-	-	-
2005 Single Family, Series D	Principal	-	-	-	-	-
2005 Single Family, Series D	Interest	21,500	21,500	21,500	21,500	21,500
2007 Single Family, Series A	Principal	-	-	-	-	-
2007 Single Family, Series A	Interest	205,491	245,792	245,792	246,355	245,229
2007 Single Family, Series B	Principal	305,000	495,000	360,000	360,000	360,000
2007 Single Family, Series B	Interest	1,822,258	1,807,840	1,786,803	1,768,623	1,750,443
2013 Single Family, Series A	Principal	-	-	-	-	-
2013 Single Family, Series A	Interest	654,780	654,780	654,780	654,780	654,780
2015 Single Family, Series A	Principal	-	-	-	-	-
2015 Single Family, Series A	Interest	949,760	949,760	949,760	949,760	949,760
2015 Single Family, Series B	Principal	-	-	-	-	-
2015 Single Family, Series B	Interest	591,250	591,250	591,250	591,250	591,250
2016 Single Family, Series A	Principal	-	-	-	-	-
2016 Single Family, Series A	Interest	947,166	929,100	929,100	929,100	929,100
2016 Single Family, Series B	Principal	-	-	-	-	-
2016 Single Family, Series B	Interest	1,813,157	1,778,574	1,778,574	1,778,574	1,778,574
TOTAL SINGLE FAMILY BONDS		7,981,619	11,336,521	8,072,658	8,053,181	8,042,516
2009 Residential Mtg Revenue Bonds, Series A	Principal	305,000	300,000	295,000	-	-
2009 Residential Mtg Revenue Bonds, Series A	Interest	1,317,810	1,306,240	1,294,465	1,285,665	1,285,665
2009 Residential Mtg Revenue Bonds, Series B	Principal	815,000	1,100,000	790,000	1,300,000	1,300,000
2009 Residential Mtg Revenue Bonds, Series B	Interest	324,337	281,993	232,928	187,425	119,175
2009 Residential Mtg Revenue Bonds, Series C-1	Principal	-	-	-	-	-
2009 Residential Mtg Revenue Bonds, Series C-1	Interest	1,310,569	1,310,569	1,310,569	1,310,569	1,310,569
2009 Residential Mtg Revenue Bonds, Series C-2	Principal	-	-	-	-	-
2009 Residential Mtg Revenue Bonds, Series C-2	Interest	895,528	895,528	895,528	895,528	895,528
2011 Residential Mtg Revenue Bonds, Series A	Principal	1,515,000	1,570,000	1,640,000	1,720,000	1,785,000
2011 Residential Mtg Revenue Bonds, Series A	Interest	1,101,387	1,051,725	993,659	927,750	855,081
2011 Residential Mtg Revenue Bonds, Series B	Principal	2,020,000	2,020,000	2,095,000	2,170,000	2,245,000
2011 Residential Mtg Revenue Bonds, Series B	Interest	1,725,878	1,679,482	1,625,529	1,563,300	1,494,455
TOTAL RESIDENTIAL MTG REVENUE BONDS		11,330,509	11,515,537	11,172,678	11,360,237	11,290,473
1992 Coll Home Mtg Rev Bonds, Series C	Principal	-	-	-	-	-
1992 Coll Home Mtg Rev Bonds, Series C	Interest	112,474	123,722	112,474	112,474	123,722
TOTAL COLL HOME MTG REV BONDS		112,474	123,722	112,474	112,474	123,722

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
-	-	-	3,855,000	-	-	-	3,855,000
129,141	129,141	129,201	12,989	-	-	-	526,530
11,850,000	15,080,000	12,450,000	-	-	-	-	39,380,000
1,173,370	713,764	172,854	-	-	-	-	3,345,874
8,275,000	8,600,000	8,825,000	-	-	-	-	25,700,000
690,749	433,347	129,235	-	-	-	-	2,033,517
-	3,100,000	25,225,000	2,805,000	-	-	-	31,130,000
996,160	993,494	547,210	9,025	-	-	-	3,509,382
415,000	-	-	-	-	-	-	795,000
49,981	-	-	-	-	-	-	202,426
-	-	-	-	-	-	-	3,090,000
-	-	-	-	-	-	-	26,332
45,000	250,000	135,000	-	-	-	-	430,000
107,000	59,250	16,875	-	-	-	-	290,625
-	-	25,805,000	12,600,000	-	-	-	38,405,000
1,228,960	1,228,960	914,986	99,224	-	-	-	4,660,789
2,160,000	2,870,000	13,050,000	15,520,000	-	-	-	35,480,000
8,448,361	7,813,857	6,274,525	1,722,152	-	-	-	33,194,862
-	-	23,385,000	-	-	-	-	23,385,000
3,273,900	3,273,900	3,273,900	-	-	-	-	13,095,600
-	-	-	29,680,000	-	-	-	29,680,000
4,748,800	4,748,800	4,748,800	3,324,161	-	-	-	22,319,361
-	-	-	-	18,920,000	-	-	18,920,000
2,956,250	2,956,250	2,956,250	2,956,251	2,956,248	-	-	17,737,499
-	-	-	-	30,970,000	-	-	30,970,000
4,645,500	4,645,500	4,645,500	4,645,501	4,645,499	-	-	27,891,066
-	-	-	55,930,000	-	-	-	55,930,000
8,892,870	8,892,870	8,892,870	5,335,722	-	-	-	40,941,785
60,086,042	65,789,133	141,577,206	138,495,025	57,491,747	-	-	506,925,648
4,465,000	6,335,000	5,995,000	7,530,000	-	-	-	25,225,000
6,056,917	4,566,064	2,964,572	956,696	-	-	-	21,034,094
1,295,000	-	-	-	-	-	-	6,600,000
50,925	-	-	-	-	-	-	1,196,783
-	6,735,000	17,685,000	21,165,000	-	-	-	45,585,000
6,552,845	6,382,141	4,490,535	1,653,193	-	-	-	25,631,559
-	-	10,340,000	25,770,000	-	-	-	36,110,000
4,477,640	4,477,640	4,221,208	1,930,188	-	-	-	19,584,316
10,600,000	5,410,000	-	-	-	-	-	24,240,000
2,862,093	451,126	-	-	-	-	-	8,242,821
12,930,000	14,480,000	6,890,000	-	-	-	-	44,850,000
6,108,646	3,130,640	443,804	-	-	-	-	17,771,734
55,399,066	51,967,611	53,030,119	59,005,077	-	-	-	276,071,307
1,700,000	-	-	-	-	-	-	1,700,000
336,458	-	-	-	-	-	-	921,324
2,036,458	-	-	-	-	-	-	2,621,324

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

SCHEDULE 5

**Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2016**

DESCRIPTION		2017	2018	2019	2020	2021
1996 MF Series A/B (Brighton's Mark)	Principal	-	-	-	-	-
1996 MF Series A/B (Brighton's Mark)	Interest	494,998	494,998	494,998	494,998	494,998
1998 MF Series A-C (Residence Oaks)	Principal	312,000	321,000	329,000	339,000	347,000
1998 MF Series A-C (Residence Oaks)	Interest	148,850	140,166	131,262	122,111	112,699
2000 MF Series A (Creek Point Apts)	Principal	-	-	-	-	-
2000 MF Series A (Creek Point Apts)	Interest	35,759	36,448	36,448	36,490	36,406
2000 MF Series A (Deerwood Apts)	Principal	170,000	180,000	190,000	205,000	220,000
2000 MF Series A (Deerwood Apts)	Interest	315,618	304,750	293,253	280,968	267,840
2000 MF Series A/B (Oaks at Hampton)	Principal	148,265	159,298	171,152	183,892	197,578
2000 MF Series A/B (Oaks at Hampton)	Interest	629,570	618,536	606,681	593,943	580,257
2000 MF Series A (Timber Point Apts)	Principal	-	-	-	-	-
2000 MF Series A (Timber Point Apts)	Interest	41,830	42,636	42,636	42,685	42,587
2000 MF Series A/B (Parks @ Westmoreland)	Principal	143,995	154,715	166,227	178,599	191,891
2000 MF Series A/B (Parks @ Westmoreland)	Interest	627,979	617,262	605,748	593,377	580,084
2000 MF Series A-C (Collingham Park)	Principal	348,000	370,000	392,000	417,000	444,000
2000 MF Series A-C (Collingham Park)	Interest	707,918	684,163	658,930	632,184	603,691
2000 MF Series A-C (Highland Meadow Apts)	Principal	221,000	237,000	253,000	271,000	290,000
2000 MF Series A-C (Highland Meadow Apts)	Interest	476,517	461,330	445,062	427,681	409,085
2001 MF Series A (Bluffview Senior Apts)	Principal	117,350	126,586	136,549	147,296	158,889
2001 MF Series A (Bluffview Senior Apts)	Interest	737,117	727,882	717,919	707,172	695,579
2001 MF Series A (Knollwood Villas Apts)	Principal	150,801	162,669	175,472	189,282	204,180
2001 MF Series A (Knollwood Villas Apts)	Interest	947,229	935,361	922,558	908,747	893,850
2001 MF Series A (Oak Hollow Apts.)	Principal	74,815	80,224	86,023	92,242	98,910
2001 MF Series A (Oak Hollow Apts.)	Interest	410,495	405,086	399,287	393,068	386,400
2001 MF Series A (Skyway Villas)	Principal	195,000	205,000	215,000	225,000	245,000
2001 MF Series A (Skyway Villas)	Interest	348,257	337,290	325,777	313,719	300,942
2001 MF Series A/B (Hillside Apts.)	Principal	84,253	90,344	96,875	103,878	111,387
2001 MF Series A/B (Hillside Apts.)	Interest	841,385	835,294	828,763	821,760	814,251
2001 MF Series A/B (Meridian Apts.)	Principal	108,000	119,000	123,000	132,000	147,000
2001 MF Series A/B (Meridian Apts.)	Interest	469,530	462,775	455,565	447,870	439,695
2001 MF Series A/B (Wildwood Apts.)	Principal	89,000	96,000	100,000	108,000	114,000
2001 MF Series A/B (Wildwood Apts.)	Interest	362,200	356,580	350,790	344,490	337,935
2002 MF Series A (Clarkridge Villas Apts)	Principal	151,814	162,788	174,556	187,175	200,706
2002 MF Series A (Clarkridge Villas Apts)	Interest	891,946	880,972	869,204	856,585	843,054
2002 MF Series A (Green Crest Apts)	Principal	91,863	97,044	102,518	108,301	114,410
2002 MF Series A (Green Crest Apts)	Interest	581,073	575,891	570,417	564,634	558,525
2002 MF Series A (Hickory Trace Apts)	Principal	124,723	133,740	143,408	153,775	164,891
2002 MF Series A (Hickory Trace Apts)	Interest	737,784	728,768	719,100	708,733	697,617
2002 MF Series A (Park Meadows Apts)	Principal	105,000	120,000	125,000	135,000	140,000
2002 MF Series A (Park Meadows Apts)	Interest	233,611	226,591	218,592	210,429	201,614
2002 MF Series A/B (Ironwood Crossing)	Principal	160,780	173,262	186,713	201,208	225,179
2002 MF Series A/B (Ironwood Crossing)	Interest	706,402	693,921	680,470	665,975	650,345
2003 MF Series A/B (Ash Creek Apts)	Principal	164,649	178,399	191,406	204,713	218,945
2003 MF Series A/B (Ash Creek Apts)	Interest	1,005,412	991,916	979,262	966,231	952,295
2003 MF Series A/B (North Vista Apts)	Principal	310,000	325,000	340,000	360,000	380,000
2003 MF Series A/B (North Vista Apts)	Interest	542,108	526,227	509,440	491,903	473,356
2003 MF Series A/B (Peninsula Apts)	Principal	260,000	275,000	295,000	315,000	335,000
2003 MF Series A/B (Peninsula Apts)	Interest	541,395	527,483	512,643	496,743	479,783

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
8,075,000	-	-	-	-	-	-	8,075,000
2,474,985	-	-	-	-	-	-	4,949,975
1,886,000	1,937,000	-	-	-	-	-	5,471,000
413,268	136,304	-	-	-	-	-	1,204,660
-	-	5,360,000	-	-	-	-	5,360,000
182,240	182,240	42,564	-	-	-	-	588,595
1,360,000	1,935,000	725,000	-	-	-	-	4,985,000
1,102,080	589,920	46,878	-	-	-	-	3,201,307
1,231,607	1,763,397	2,524,810	2,431,133	-	-	-	8,811,132
2,657,572	2,125,781	1,364,369	331,347	-	-	-	9,508,056
-	-	6,270,000	-	-	-	-	6,270,000
213,180	213,180	46,296	-	-	-	-	685,030
1,196,152	1,712,639	2,451,137	2,591,726	-	-	-	8,787,081
2,663,722	2,147,235	1,407,812	383,975	-	-	-	9,627,194
2,679,000	3,669,000	2,301,000	-	-	-	-	10,620,000
2,524,032	1,483,071	235,805	-	-	-	-	7,529,794
1,778,000	2,479,000	1,585,000	-	-	-	-	7,114,000
1,717,844	1,017,834	164,093	-	-	-	-	5,119,446
1,002,904	1,464,777	2,139,354	4,458,250	-	-	-	9,751,955
3,269,434	2,807,563	2,132,981	1,120,038	-	-	-	12,915,685
1,288,780	1,882,305	2,749,170	5,729,059	-	-	-	12,531,718
4,201,369	3,607,844	2,740,981	1,439,302	-	-	-	16,597,241
612,716	868,601	1,231,354	1,745,598	1,007,588	-	-	5,898,071
1,813,834	1,557,949	1,195,200	680,954	22,299	-	-	7,264,572
1,450,000	1,955,000	1,760,000	-	-	-	-	6,250,000
1,281,046	812,328	204,103	-	-	-	-	3,923,462
690,012	978,179	1,386,690	1,965,807	6,550,479	-	-	12,057,904
3,938,179	3,650,011	3,241,497	2,662,381	151,479	-	-	17,785,000
900,000	6,336,000	10,000	-	-	-	-	7,875,000
2,047,455	1,364,640	1,975	-	-	-	-	5,689,505
683,000	4,881,000	5,000	-	-	-	-	6,076,000
1,575,220	792,250	1,000	-	-	-	-	4,120,465
1,243,313	1,762,551	2,498,638	3,542,133	2,887,115	-	-	12,810,789
3,975,486	3,456,245	2,720,159	1,676,666	186,332	-	-	16,356,649
676,452	890,010	1,170,989	7,355,066	-	-	-	10,606,653
2,688,226	2,474,668	2,193,689	100,823	-	-	-	10,307,946
1,021,924	1,448,035	2,052,770	2,910,059	2,442,915	-	-	10,596,240
3,290,970	2,864,343	2,259,607	1,402,319	177,553	-	-	13,586,794
865,000	1,195,000	920,000	-	-	-	-	3,605,000
853,308	525,339	107,908	-	-	-	-	2,577,392
1,250,259	1,549,551	1,920,494	10,223,950	-	-	-	15,891,396
3,085,653	2,786,362	2,415,420	942,987	-	-	-	12,627,535
1,345,341	1,882,694	11,080,869	-	-	-	-	15,267,016
4,516,062	3,989,870	3,064,870	-	-	-	-	16,465,918
2,240,000	2,935,000	3,855,000	-	-	-	-	10,745,000
2,050,694	1,406,257	561,393	-	-	-	-	6,561,378
8,800,000	-	-	-	-	-	-	10,280,000
1,534,614	-	-	-	-	-	-	4,092,661

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 5

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2003 MF Series A/B (Primrose Houston School)	Principal	163,327	177,095	192,023	207,856	222,182
2003 MF Series A/B (Primrose Houston School)	Interest	1,013,032	999,469	984,762	969,992	956,036
2003 MF Series A/B (Reading Road)	Principal	40,000	40,000	50,000	50,000	50,000
2003 MF Series A/B (Reading Road)	Interest	168,249	166,816	163,947	160,639	157,131
2003 MF Series A/B (Timber Oaks Apts)	Principal	109,710	115,036	120,621	126,477	132,617
2003 MF Series A/B (Timber Oaks Apts)	Interest	859,970	850,158	839,870	829,083	817,773
2003 MF Series A/B (West Virginia Apts)	Principal	215,000	235,000	245,000	255,000	275,000
2003 MF Series A/B (West Virginia Apts)	Interest	391,835	380,661	368,581	356,001	342,921
2004 MF Series A (Bristol)	Principal	-	-	-	-	-
2004 MF Series A (Bristol)	Interest	76,099	76,840	76,840	76,920	76,760
2004 MF Series A (Chisholm Trail)	Principal	-	-	-	-	-
2004 MF Series A (Chisholm Trail)	Interest	69,365	70,040	70,040	70,113	69,967
2004 MF Series A (Churchill @ Pinnacle)	Principal	120,851	129,009	137,717	147,014	156,938
2004 MF Series A (Churchill @ Pinnacle)	Interest	605,485	597,327	588,619	579,323	569,399
2004 MF Series A (Evergreen @ Plano)	Principal	143,376	153,054	163,385	174,414	186,188
2004 MF Series A (Evergreen @ Plano)	Interest	899,195	889,516	879,185	868,156	856,383
2004 MF Series A (Humble Park)	Principal	180,000	190,000	205,000	215,000	235,000
2004 MF Series A (Humble Park)	Interest	686,070	674,025	661,320	647,625	633,105
2004 MF Series A (Montgomery Pines)	Principal	-	-	-	-	-
2004 MF Series A (Montgomery Pines)	Interest	72,732	73,440	73,440	73,516	73,364
2004 MF Series A (Pinnacle)	Principal	-	-	-	-	-
2004 MF Series A (Pinnacle)	Interest	89,333	90,202	90,202	90,296	90,108
2004 MF Series A (Rush Creek)	Principal	89,196	95,360	101,949	108,993	116,524
2004 MF Series A (Rush Creek)	Interest	549,146	542,983	536,394	529,350	521,819
2004 MF Series A/B (Century Park)	Principal	275,000	290,000	305,000	325,000	345,000
2004 MF Series A/B (Century Park)	Interest	576,885	561,775	546,003	529,292	511,487
2004 MF Series A/B (Timber Ridge)	Principal	63,909	68,509	73,439	78,722	84,391
2004 MF Series A/B (Timber Ridge)	Interest	420,275	415,821	411,045	405,927	400,440
2004 MF Series A/B (Veterans Memorial)	Principal	62,704	65,748	68,940	72,287	75,796
2004 MF Series A/B (Veterans Memorial)	Interest	436,154	431,924	427,489	422,839	417,963
2003 MF Series A/B (Parkview Twnhms)	Principal	121,603	127,507	133,697	140,188	146,994
2003 MF Series A/B (Parkview Twnhms)	Interest	858,733	850,530	841,929	832,910	823,453
2003 MF Series A/B (Arlington Villas)	Principal	152,933	165,710	179,553	194,552	210,803
2003 MF Series A/B (Arlington Villas)	Interest	1,095,952	1,083,255	1,069,498	1,054,592	1,038,441
2003 MF Series A (NHP-Asmara) Refunding	Principal	-	-	-	-	-
2003 MF Series A (NHP-Asmara) Refunding	Interest	107,416	109,696	109,696	109,822	109,570
2004 MF Series A (Village Fair)	Principal	142,857	152,424	162,632	173,524	185,145
2004 MF Series A (Village Fair)	Interest	847,737	838,169	827,961	817,069	805,448
2005 MF Series A (Pecan Grove)	Principal	88,796	94,743	101,088	107,858	115,082
2005 MF Series A (Pecan Grove)	Interest	839,510	833,563	827,218	820,448	813,224
2005 MF Series A (Prairie Oaks)	Principal	110,996	118,430	126,361	134,824	143,853
2005 MF Series A (Prairie Oaks)	Interest	662,840	655,406	647,475	639,012	629,983
2005 MF Series A (Port Royal)	Principal	122,279	130,468	139,206	148,527	158,475
2005 MF Series A (Port Royal)	Interest	734,831	726,642	717,904	708,581	698,634

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
1,360,979	1,895,133	11,330,570	-	-	-	-	15,549,165
4,535,378	4,012,486	3,237,009	-	-	-	-	16,708,164
330,000	460,000	9,190,000	-	-	-	-	10,210,000
726,078	596,646	410,551	-	-	-	-	2,550,057
766,142	98,906	-	10,900,000	-	-	-	12,369,509
3,899,021	3,681,582	3,678,750	1,655,439	-	-	-	17,111,646
1,620,000	2,130,000	2,790,000	-	-	-	-	7,765,000
1,485,487	1,018,994	406,215	-	-	-	-	4,750,695
-	-	-	11,300,000	-	-	-	11,300,000
384,200	384,200	384,280	63,919	-	-	-	1,600,058
-	-	-	10,300,000	-	-	-	10,300,000
350,200	350,200	350,273	46,558	-	-	-	1,446,756
958,638	1,328,924	1,842,234	2,553,814	1,923,654	-	-	9,298,793
2,673,042	2,302,761	1,789,450	1,077,871	194,827	-	-	10,978,104
1,137,312	1,576,608	2,185,591	3,029,795	5,043,370	-	-	13,793,093
4,075,542	3,636,242	3,027,262	2,183,056	727,327	-	-	18,041,864
1,425,000	1,955,000	2,710,000	3,325,000	-	-	-	10,440,000
2,908,950	2,362,800	1,612,545	573,870	-	-	-	10,760,310
-	-	-	10,800,000	-	-	-	10,800,000
367,200	367,200	367,276	61,091	-	-	-	1,529,259
-	-	-	13,265,000	-	-	-	13,265,000
451,010	451,010	451,104	75,032	-	-	-	1,878,297
715,109	998,748	1,394,889	1,948,156	2,667,673	-	-	8,236,597
2,476,604	2,192,963	1,796,821	1,243,557	340,590	-	-	10,730,227
2,035,000	2,720,000	3,620,000	855,000	-	-	-	10,770,000
2,254,279	1,625,901	789,667	34,756	-	-	-	7,430,045
522,283	739,302	4,624,635	-	-	-	-	6,255,190
1,905,034	1,694,865	1,397,367	-	-	-	-	7,050,774
437,884	555,011	703,464	4,595,049	-	-	-	6,636,883
2,007,970	1,845,229	1,638,953	1,197,442	-	-	-	8,825,963
849,199	1,076,342	1,364,243	9,106,592	-	-	-	13,066,365
3,958,548	3,642,937	3,242,908	2,506,327	-	-	-	17,558,275
1,323,334	1,868,604	2,635,853	9,380,877	-	-	-	16,112,219
4,927,643	4,394,269	3,643,704	209,307	-	-	-	18,516,661
-	-	17,140,000	-	-	-	-	17,140,000
548,480	548,480	210,076	-	-	-	-	1,853,236
1,129,185	1,561,456	2,159,210	2,985,792	4,454,579	-	-	13,106,804
3,823,785	3,391,513	2,793,758	1,967,174	700,515	-	-	16,813,129
701,873	970,563	1,342,111	9,433,642	-	-	-	12,955,756
3,939,654	3,670,966	3,299,419	848,804	-	-	-	15,892,806
877,350	1,213,213	1,677,652	2,319,889	3,525,240	-	-	10,247,808
2,991,832	2,655,967	2,191,527	1,549,294	566,326	-	-	13,189,662
966,524	1,336,528	1,848,176	2,555,690	3,954,600	-	-	11,360,473
3,319,020	2,949,015	2,437,368	1,729,855	648,693	-	-	14,670,543

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

SCHEDULE 5

**Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2016**

DESCRIPTION		2017	2018	2019	2020	2021
2005 MF Series A (Del Rio)	Principal	60,471	64,521	68,842	73,452	78,372
2005 MF Series A (Del Rio)	Interest	571,712	567,662	563,341	558,730	553,811
2005 MF Series A (Atascocita Pines)	Principal	-	-	-	-	-
2005 MF Series A (Atascocita Pines)	Interest	72,665	73,372	73,372	73,448	73,296
2005 MF Series A (Tower Ridge)	Principal	-	-	-	-	-
2005 MF Series A (Tower Ridge)	Interest	104,567	105,000	105,000	105,109	104,891
2005 MF Series A (St Augustine)	Principal	-	-	-	-	-
2005 MF Series A (St Augustine)	Interest	39,599	39,984	39,984	40,026	39,942
2005 MF Series A (Mockingbird)	Principal	98,045	103,473	109,201	115,246	121,625
2005 MF Series A (Mockingbird)	Interest	573,268	567,841	562,113	556,068	549,688
2005 MF Series A (Chase Oaks)	Principal	326,820	343,712	361,477	380,160	399,809
2005 MF Series A (Chase Oaks)	Interest	596,377	579,485	561,720	543,037	523,388
2005 MF Series A (Coral Hills)	Principal	100,000	100,000	110,000	115,000	125,000
2005 MF Series A (Coral Hills)	Interest	220,180	215,130	209,954	204,399	198,465
2006 MF Series A (Bella Vista)	Principal	70,000	70,000	80,000	80,000	85,000
2006 MF Series A (Bella Vista)	Interest	391,447	387,142	382,837	377,917	372,997
2006 MF Series A (Village Park)	Principal	205,000	220,000	235,000	245,000	265,000
2006 MF Series A (Village Park)	Interest	474,219	464,244	453,675	442,394	430,638
2006 MF Series A (Oakmoor)	Principal	143,486	152,336	161,731	171,707	182,297
2006 MF Series A (Oakmoor)	Interest	813,556	804,706	795,310	785,335	774,745
2006 MF Series A (Sunset Pointe)	Principal	-	-	-	-	-
2006 MF Series A (Sunset Pointe)	Interest	104,567	105,000	105,000	105,109	104,891
2006 MF Series A (Hillcrest)	Principal	210,000	225,000	230,000	245,000	265,000
2006 MF Series A (Hillcrest)	Interest	521,194	510,038	498,094	485,888	472,631
2006 MF Series A (Red Hills Villas)	Principal	-	-	-	-	-
2006 MF Series A (Red Hills Villas)	Interest	29,660	29,799	29,799	29,830	29,768
2006 MF Series A (Champion Crossing)	Principal	100,000	100,000	100,000	100,000	100,000
2006 MF Series A (Champion Crossing)	Interest	28,137	27,612	26,952	26,319	25,605
2006 MF Series A (Meadowlands)	Principal	117,454	124,698	132,389	140,555	149,224
2006 MF Series A (Meadowlands)	Interest	701,925	694,681	686,990	678,824	670,155
2006 MF Series A (East Tex Pines)	Principal	125,000	135,000	145,000	155,000	160,000
2006 MF Series A (East Tex Pines)	Interest	743,125	735,585	727,465	718,765	709,630
2006 MF Series A (Villas at Henderson)	Principal	-	-	-	-	-
2006 MF Series A (Villas at Henderson)	Interest	43,148	43,651	43,651	43,696	43,605
2006 MF Series A (Aspen Park Apts)	Principal	135,000	140,000	150,000	160,000	165,000
2006 MF Series A (Aspen Park Apts)	Interest	447,875	441,000	433,875	426,250	418,250
2006 MF Series A (Idlewilde Apts)	Principal	-	-	-	-	-
2006 MF Series A (Idlewilde Apts)	Interest	88,827	89,692	89,692	89,785	89,599
2007 MF Series A (Lancaster Apts)	Principal	-	-	-	-	-
2007 MF Series A (Lancaster Apts)	Interest	88,760	89,624	89,624	89,717	89,531
2007 MF Series A (Park Place)	Principal	115,941	122,847	130,165	137,918	146,133
2007 MF Series A (Park Place)	Interest	794,760	787,853	780,536	772,782	764,567
2007 MF Series A (Terrace at Cibolo)	Principal	-	-	-	-	-
2007 MF Series A (Terrace at Cibolo)	Interest	31,419	32,160	32,160	32,197	32,123
2007 MF Series A (Santora Villas)	Principal	102,804	108,928	115,416	122,291	129,576
2007 MF Series A (Santora Villas)	Interest	674,155	668,031	661,543	654,668	647,384

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
477,980	660,960	913,988	6,424,374	-	-	-	8,822,960
2,682,932	2,499,952	2,246,926	611,120	-	-	-	10,856,186
-	-	-	10,790,000	-	-	-	10,790,000
366,860	366,860	366,936	122,145	-	-	-	1,588,954
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	170,768	-	-	-	2,270,444
-	-	-	5,880,000	-	-	-	5,880,000
199,920	199,920	199,962	83,321	-	-	-	882,658
716,890	938,530	1,228,698	7,228,848	-	-	-	10,660,556
2,639,678	2,418,034	2,127,866	1,433,954	-	-	-	11,428,510
2,331,214	2,999,243	4,815,444	-	-	-	-	11,957,879
2,284,771	1,616,746	685,506	-	-	-	-	7,391,030
3,835,000	-	-	-	-	-	-	4,385,000
887,158	-	-	-	-	-	-	1,935,286
530,000	710,000	970,000	1,320,000	2,450,000	-	-	6,365,000
1,777,349	1,594,079	1,344,696	1,006,446	546,125	-	-	8,181,035
1,560,000	6,655,000	-	-	-	-	-	9,385,000
1,935,714	170,532	-	-	-	-	-	4,371,416
1,094,667	1,476,542	1,991,635	2,686,418	5,563,499	-	-	13,624,318
3,690,540	3,308,663	2,793,570	2,098,788	1,107,944	-	-	16,973,157
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	305,973	-	-	-	2,405,649
1,615,000	7,190,000	-	-	-	-	-	9,980,000
2,131,369	372,487	-	-	-	-	-	4,991,701
200,000	1,000,000	1,300,000	2,015,000	-	-	-	4,515,000
147,128	123,156	86,379	1,128	-	-	-	506,647
500,000	1,000,000	1,300,000	1,075,000	-	-	-	4,375,000
118,256	92,136	55,352	601	-	-	-	400,970
896,068	1,208,663	1,630,305	2,199,037	2,966,171	2,187,424	-	11,751,988
3,200,824	2,888,231	2,466,590	1,897,857	1,130,722	10,937	-	15,027,736
955,000	1,265,000	1,675,000	2,225,000	2,950,000	3,085,000	-	12,875,000
3,392,855	3,073,275	2,649,005	2,086,985	1,341,830	89,465	-	16,267,985
6,515,000	-	-	-	-	-	-	6,515,000
96,628	-	-	-	-	-	-	314,379
1,005,000	7,235,000	-	-	-	-	-	8,990,000
1,952,250	358,748	-	-	-	-	-	4,478,248
-	-	-	13,190,000	-	-	-	13,190,000
448,460	448,460	448,553	343,820	-	-	-	2,136,888
-	-	-	13,180,000	-	-	-	13,180,000
448,120	448,120	448,213	350,904	-	-	-	2,142,613
872,082	1,164,660	1,555,399	2,077,226	2,774,121	4,658,827	-	13,755,319
3,681,419	3,388,839	2,998,100	2,476,270	1,779,374	131,209	-	18,355,709
-	-	-	4,800,000	-	-	-	4,800,000
160,800	160,800	160,837	120,556	-	-	-	763,052
773,273	1,032,701	1,379,167	1,841,867	2,459,805	3,604,147	-	11,669,975
3,111,526	2,852,096	2,505,629	2,042,924	1,424,988	148,452	-	15,391,396

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 5

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2016

DESCRIPTION		2017	2018	2019	2020	2021
2007 MF Series A (Villas @ Mesquite Creek)	Principal	220,000	235,000	245,000	260,000	275,000
2007 MF Series A (Villas @ Mesquite Creek)	Interest	779,631	766,704	752,946	740,000	726,875
2007 MF Series A (Costa Rialto)	Principal	99,483	104,938	110,691	116,761	123,163
2007 MF Series A (Costa Rialto)	Interest	543,414	537,959	532,205	526,135	519,733
2007 MF Series A (Windshire)	Principal	-	-	-	-	-
2007 MF Series A (Windshire)	Interest	88,895	89,760	89,760	89,853	89,667
2007 MF Series A (Residences @ Onion Creek)	Principal	-	-	-	-	-
2007 MF Series A (Residences @ Onion Creek)	Interest	104,567	105,000	105,000	105,109	104,891
2008 MF Series A (Addison Park)	Principal	-	-	-	-	-
2008 MF Series A (Addison Park)	Interest	87,242	88,165	88,165	88,266	88,064
2008 MF Series A (Costa Ibiza)	Principal	-	-	-	-	-
2008 MF Series A (Costa Ibiza)	Interest	76,443	77,520	77,520	77,609	77,431
2008 MF Series A (West Oaks)	Principal	-	-	-	-	-
2008 MF Series A (West Oaks)	Interest	80,320	82,110	82,110	82,204	82,016
2009 MF Series A (Costa Mariposa Apartments)	Principal	-	-	-	-	-
2009 MF Series A (Costa Mariposa Apartments)	Interest	77,892	78,990	78,990	79,080	78,900
2009 MF Series A (Woodmont Apartments)	Principal	-	-	-	-	-
2009 MF Series A (Woodmont Apartments)	Interest	84,549	85,740	85,740	85,838	85,642
2008 MF Series A (Alta Cullen Apartments)	Principal	-	-	-	-	-
2008 MF Series A (Alta Cullen Apartments)	Interest	77,540	78,540	78,540	78,630	78,450
2013 MF Series A (Waters @ Willow Run)	Principal	14,500,000	-	-	-	-
2013 MF Series A (Waters @ Willow Run)	Interest	47,125	-	-	-	-
2014 MF Series A (Decatur Angle Apartments)	Principal	152,311	161,464	171,167	181,453	192,357
2014 MF Series A (Decatur Angle Apartments)	Interest	1,318,528	1,309,532	1,299,995	1,289,884	1,279,166
2015 MF Series (Good Samaritan Towers)	Principal	-	5,620,000	-	-	-
2015 MF Series (Good Samaritan Towers)	Interest	53,390	26,695	-	-	-
2015 MF Series (Williamsburg Apts)	Principal	156,691	273,696	286,332	296,738	313,252
2015 MF Series (Williamsburg Apts)	Interest	808,368	799,950	790,175	782,126	769,352
2016 MF Series (Chisolm Trace/Cheyenne Village)	Principal	-	13,500,000	-	-	-
2016 MF Series (Chisolm Trace/Cheyenne Village)	Interest	108,000	108,000	-	-	-
2016 MF Series (Fifty Oaks-Edinburg)	Principal	-	7,400,000	-	-	-
2016 MF Series (Fifty Oaks-Edinburg)	Interest	44,893	48,100	-	-	-
TOTAL MULTI-FAMILY BONDS		60,204,117	72,293,416	45,588,977	45,592,907	45,630,846
Total		79,628,719	95,269,196	64,946,787	65,118,799	65,087,557
Less Interest		51,816,368	51,198,421	50,255,866	49,484,921	48,647,795
Total Principal		27,812,351	44,070,775	14,690,921	15,633,878	16,439,762

Supplementary Bond Schedules
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST) Continued
August 31, 2016

2022-26	2027-31	2032-36	2037-41	2042-46	2047-51	2052-56	TOTAL REQUIRED
1,595,000	2,025,000	2,610,000	3,340,000	4,270,000	490,000	-	15,565,000
3,411,875	2,966,250	2,396,750	1,665,875	731,750	12,250	-	14,950,906
724,831	946,568	1,236,140	1,614,296	2,108,136	3,017,375	-	10,202,382
2,489,647	2,267,908	1,978,336	1,600,177	1,106,336	138,004	-	12,239,854
-	-	-	13,200,000	-	-	-	13,200,000
448,800	448,800	448,893	396,571	-	-	-	2,190,999
-	-	-	15,000,000	-	-	-	15,000,000
525,000	525,000	525,109	455,000	-	-	-	2,554,676
-	-	-	-	12,595,000	-	-	12,595,000
440,825	440,825	440,926	440,724	213,287	-	-	2,416,489
-	-	-	12,920,000	-	-	-	12,920,000
387,600	387,600	387,689	387,511	-	-	-	1,936,923
-	-	-	12,075,000	-	-	-	12,075,000
410,550	410,550	410,644	403,483	-	-	-	2,043,987
-	-	-	-	13,165,000	-	-	13,165,000
394,950	394,950	395,040	394,860	59,081	-	-	2,032,733
-	-	-	-	14,290,000	-	-	14,290,000
428,700	428,700	428,798	428,602	71,411	-	-	2,213,720
-	-	-	-	11,900,000	-	-	11,900,000
392,700	392,700	392,790	392,610	281,237	-	-	2,243,737
-	-	-	-	-	-	-	14,500,000
-	-	-	-	-	-	-	47,125
1,149,715	1,539,261	2,060,796	2,759,036	3,693,854	4,945,411	5,993,175	23,000,000
6,211,115	5,828,226	5,315,610	4,629,304	3,710,464	2,480,304	638,744	35,310,872
-	-	-	-	-	-	-	5,620,000
-	-	-	-	-	-	-	80,085
1,794,120	2,248,421	17,780,750	-	-	-	-	23,150,000
3,670,499	3,319,077	259,484	-	-	-	-	11,199,031
-	-	-	-	-	-	-	13,500,000
-	-	-	-	-	-	-	216,000
-	-	-	-	-	-	-	7,400,000
-	-	-	-	-	-	-	92,993
252,268,358	240,313,806	266,322,515	373,560,600	132,863,289	24,998,805	6,631,919	1,566,269,555
369,789,924	358,070,550	460,929,840	571,060,702	190,355,036	24,998,805	6,631,919	2,351,887,834
227,482,814	187,905,924	146,141,615	76,757,523	24,822,237	3,010,621	638,744	918,162,849
142,307,110	170,164,626	314,788,225	494,303,179	165,532,799	21,988,184	5,993,175	1,433,724,985

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 6

Supplementary Bond Schedules
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
2004 Single Family Series A (Jr. Lien)	\$ 211	\$ 792	\$	\$ 14,308
2004 Single Family Series B	6,847,289	87,052		1,168,425
2004 Single Family Series D	5,084,724	61,166		764,604
2005 Single Family Series A	7,490,814	77,227		1,259,545
2005 Single Family Series B	779,725	2,386	120,000	56,518
2005 Single Family Series C	232,138	9,274		11,558
2005 Single Family Series D	427,304	1,291		30,854
2006 Single Family Series A	15,739,986	4,485	130,000	356,688
2006 Single Family Series B	16,374,116	4,680	280,000	371,021
2006 Single Family Series C	26,251,934	7,410	315,000	609,960
2006 Single Family Series D	5,567,169	1,755		129,193
2006 Single Family Series E	3,624,779	1,170	1,645,000	74,493
2006 Single Family Series H	36,463,942	286,917		197,345
2007 Single Family Series A	11,929,259	96,131		1,583,977
2007 Single Family Series B	12,785,576	11,919	565,000	2,078,431
2013 Single Family Series A	6,133,994	10,740		709,427
2015 Single Family Series A	5,443,774	527,795		856,480
2015 Single Family Series B	1,777,925	336,452		513,124
2016 Single Family Series A	1,380,524	423,381		488,606
2016 Single Family Series B	5,322,938	764,600		957,453
Total Single Family Bonds	\$ 169,658,121	\$ 2,716,623	\$ 3,055,000	\$ 12,232,010
2009 RMRB Series A	\$ 5,236,059	\$ 166,267	\$ 315,000	\$ 1,426,361
2009 RMRB Series B	1,290,361	43,503	815,000	373,024
2009 RMRB Series C-1	9,565,617	12,506		1,416,081
2011 RMRB Series A	5,259,788	6,650	1,505,000	1,232,450
2009 RMRB Series C-2	7,432,744	10,361		956,494
2011 RMRB Series B	9,595,319	12,868	2,065,000	1,885,510
Total Residential Mtg Revenue Bonds	\$ 38,379,888	\$ 252,155	\$ 4,700,000	\$ 7,289,920
1992 CHMRB Series C	\$ 1,151,133	\$ 701	\$	\$ 155,857
Total 1992 CHMRB	\$ 1,151,133	\$ 701	\$	\$ 155,857
1996 MF Series A/B (Brighton's Mark Development)	\$ 503,247	\$	\$	\$ 503,247
1998 MF Series A-C (Residence at the Oaks Projects)	154,502		304,000	154,502
1999 MF Series A-C (Mayfield Apartments)	8,492,904		162,000	309,902
2000 MF Series A (Creek Point Apartments)	112,492			12,492
2000 MF Series A (Deerwood Apartments)	323,099		155,000	323,099
2000 MF Series A (Timber Point Apartments)	214,712			14,712
2000 MF Series A/B (Greenbridge at Buckingham Apartments)	20,231,623		132,697	1,162,722
2000 MF Series A/B (Oaks at Hampton Apartments)	639,014		137,994	639,014
2000 MF Series A/B (Parks at Westmoreland Apartments)	637,150		134,021	637,150
2000 MF Series A/B (Williams Run Apartments)	11,642,308		18,647	189,086
2000 MF Series A-C (Collingham Park Apartments)	722,904		327,000	722,904
2000 MF Series A-C (Highland Meadow Village Apartments)	486,067		207,000	486,067
2001 MF Series A (Bluffview Apartments)	744,990		108,788	744,990
2001 MF Series A (Knollwood Apartments)	957,347		139,798	957,347
2001 MF Series A (Oak Hollow Apartments)	415,132		69,771	415,132
2001 MF Series A (Skyway Villas Apartments)	355,729		180,000	355,729
2001 MF Series A/B (Hillside Apartments)	846,606		78,573	846,606
2001 MF Series A/B (Meridian Apartments)	475,455		105,000	475,455
2001 MF Series A/B (Wildwood Apartments)	366,870		84,000	366,870
2002 MF Series A (Clarkridge Villas Apartments)	901,355		141,579	901,355
2002 MF Series A (Park Meadows Apartments)	238,916		105,000	238,916
2002 MF Series A (Green Crest Apartments)	585,580		86,957	585,580

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

Supplementary Bond Schedules

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE (Continued)

For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	and Other	Expenses/Expenditures and	Principal	Interest
2002 MF Series A (Hickory Trace Apartments)	\$ 745,516	\$	\$ 116,315	\$ 745,516
2002 MF Series A/B (Ironwood Crossing)	717,053		149,198	717,053
2003 MF Series A (NHP Foundation-Asmara Project) Refunding	613,803			34,459
2003 MF Series A/B (Reading Road)	332,269		40,000	132,268
2003 MF Series A/B (Arlington Villas)	1,106,728		141,142	1,106,728
2003 MF Series A/B (Ash Creek Apartments)	1,017,011		151,881	1,017,011
2003 MF Series A/B (North Vista Apartments)	553,147		290,000	553,147
2003 MF Series A/B (Parkview Townhomes)	865,918		115,973	865,918
2003 MF Series A/B (Peninsula Apartments)	574,412		240,000	549,412
2003 MF Series A/B (Primrose Houston School)	1,024,537		150,631	1,024,537
2003 MF Series A/B (Timber Oaks Apartments)	868,564		104,630	868,564
2003 MF Series A/B (West Virginia Apartments)	399,590		205,000	399,590
2004 MF Series A (Bristol Apartments)	224,658			24,658
2004 MF Series A (Chisholm Trail Apartments)	322,537			22,537
2004 MF Series A (Churchill at Pinnacle Park)	612,509		113,209	612,509
2004 MF Series A (Evergreen at Plano Parkway)	907,527		134,309	907,527
2004 MF Series A (Humble Parkway Townhomes)	695,475		165,000	695,475
2004 MF Series A (Montgomery Pines Apartments)	323,620			23,620
2004 MF Series A (Pinnacle Apartments)	28,804			28,804
2004 MF Series A (Providence at Rush Creek II)	554,445		83,432	554,445
2004 MF Series A (Providence at Village Fair)	855,978		133,890	855,978
2004 MF Series A/B (Century Park Townhomes)	587,227		255,000	587,227
2004 MF Series A/B (Timber Ridge II Apartments)	424,093		59,619	424,093
2004 MF Series A/B (Providence at Veterans Memorial)	395,433		59,801	395,433
2005 MF Series A (Atascocita Pines Apartments)	123,447			23,447
2005 MF Series A (Mission Del Rio Homes)	575,201		56,675	575,201
2005 MF Series A (Park Manor Senior Community)	10,400,000			-
2005 MF Series A (Homes at Pecan Grove)	844,632		83,223	844,632
2005 MF Series A (Plaza at Chase Oaks Apartments)	611,131		310,759	611,131
2005 MF Series A (Port Royal Homes)	741,885		114,603	741,885
2005 MF Series A (Providence at Prairie Oaks)	703,931		104,309	671,032
2005 MF Series A (Prairie Ranch Apartments)	11,416,919		85,000	401,919
2005 MF Series A (Providence at Mockingbird Apartments)	577,992		92,903	577,992
2005 MF Series A (St Augustine Estate Apartments)	112,776			12,776
2005 MF Series A (Tower Ridge Apartments)	42,822			42,822
2006 MF Series A (Aspen Park)	453,208		125,000	453,208
2006 MF Series A (Bella Vista Apartments)	393,779		65,000	393,779
2006 MF Series A (Champion Crossing Apartments)	110,176			10,176
2005 MF Series A (Coral Hills Apartments)	224,809		100,000	224,809
2006 MF Series A (East Tex Pines)	747,354		125,000	747,354
2006 MF Series A (Harris Branch Apartments)	13,490,331			333
2006 MF Series A (Hillcrest Apartments)	527,428		195,000	527,428
2006 MF Series A (Idlewilde)	228,693			28,693
2006 MF Series A (Meadowlands Apartments)	708,194		110,631	708,194
2006 MF Series A (Oakmoor Apartments)	821,216		135,150	821,216
2006 MF Series A (Pleasant Village)	5,260,618		248,967	165,662
2006 MF Series A (Red Hills Villas)	110,655			10,655
2006 MF Series A (The Residences at Sunset Pointe)	42,822			42,822
2006 MF Series A (Village Park Apartments)	481,341		195,000	481,341
2006 MF Series A (Villas at Henderson)	114,096			14,096
2007 MF Series A (Villas at Mesquite Creek)	790,588		210,000	790,588
2007 MF Series A (Costa Rialto)	548,162		94,312	548,162
2007 MF Series A (Lancaster)	228,705			28,705
2007 MF Series A (Park Place at Loyola)	800,748		109,423	800,748
2007 MF Series A (Santora Villas)	679,465		97,024	679,465
2007 MF Series A (Summit Point)	9,061,745			101,745
2007 MF Series A (Terrace at Cibolo)	110,393			10,393

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

Supplementary Bond Schedules

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE (Continued)

For the Fiscal Year Ended August 31, 2016

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	and Other	Expenses/Expenditures and	Principal	Interest
2007 MF Series A (Windshire)	\$ 128,710	\$	\$	\$ 28,710
2007 MF Series A (Residences at Onion Creek)	42,822			42,822
2008 MF Series A (West Oaks Apartments)	166,242			26,242
2008 MF Series A (Costa Ibiza Apartments)	226,329			26,329
2008 MF Series A (Addison Park Apartments)	246,186			36,186
2008 MF Series A (Alta Cullen Apartments Refunding)	227,620			27,619
2009 MF Series A (Costa Mariposa Apartments)	131,737			26,737
2009 MF Series A (Woodmont Apartments)	294,191			29,191
2013 MF Series A (Waters at Willow Run)	69,479			69,479
2014 MF Series A (Decatur Angle Apartments)	1,322,500			1,322,500
2014 MF Series A (Northcrest Apartments)	2,903,263			3,263
2015 MF Series A (Good Samaritan Towers)	53,093			53,093
2015 MF Series A (Williamsburg Apartments)	599,362			610,099
2015 MF Series A (Chisolm Trace/Cheyenne Village)	30,600			30,600
2015 MF Series A (Fifty Oak & Edinburg Village)	802			802
Total Multifamily Bonds	\$ 133,327,054	\$	\$ 8,044,834	\$ 38,615,467
Total	\$ 342,516,196	\$ 2,969,479	\$ 15,799,834	\$ 58,293,254

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND**

SCHEDULE 7

Supplementary Bond Schedules

DEFEASED BONDS OUTSTANDING

For the fiscal year ended August 31, 2016

<u>Description of Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Business-Type Activities		
2007 MF Series A (Summit Point)	2016	<u>\$ 8,850,000</u>
Total Business-Type Activities		<u><u>\$ 8,850,000</u></u>

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
REVENUE BOND PROGRAM ENTERPRISE FUND

SCHEDULE 8

Supplementary Bond Schedules
EARLY EXTINGUISHMENT AND REFUNDING
For the fiscal year ended August 31, 2016

Description of Issue	Category	Amount Extinguished or Refunded	For Refunding Only		
			Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Business-Type Activities					
2004 Single Family Series B	Early Extinguishment	\$ 4,880,000			
2004 Single Family Series D	Early Extinguishment	3,885,000			
2005 Single Family Series A	Early Extinguishment	5,985,000			
2005 Single Family Series B	Early Extinguishment	720,000			
2005 Single Family Series D	Early Extinguishment	395,000			
2006 Single Family Series A	Early Extinguishment	1,380,000			
2006 Single Family Series A	Current Refunding	13,920,000	13,811,330	3,499,742	3,740,561
2006 Single Family Series B	Early Extinguishment	1,435,000			
2006 Single Family Series B	Current Refunding	14,480,000	14,366,960	3,640,536	3,891,043
2006 Single Family Series C	Early Extinguishment	2,300,000			
2006 Single Family Series C	Current Refunding	23,225,000	23,043,690	5,839,189	6,240,986
2006 Single Family Series D	Early Extinguishment	200,000			
2006 Single Family Series D	Current Refunding	5,195,000	5,154,445	1,306,118	1,395,992
2006 Single Family Series E	Early Extinguishment	125,000			
2006 Single Family Series E	Current Refunding	3,385,000	3,358,575	851,051	909,612
2006 Single Family Series H	Early Extinguishment	1,260,000			
2006 Single Family Series H	Current Refunding	34,740,000	33,825,000	(24,735,357)	(16,046,131)
2007 Single Family Series A	Early Extinguishment	9,785,000			
2007 Single Family Series B	Early Extinguishment	10,450,000			
2013 Single Family Series A	Early Extinguishment	4,940,000			
2015 Single Family Series A	Early Extinguishment	4,145,000			
2015 Single Family Series B	Early Extinguishment	950,000			
2016 Single Family Series A	Early Extinguishment	540,000			
2016 Single Family Series B	Early Extinguishment	3,805,000			
2009 RMRB Series A	Early Extinguishment	3,725,000			
2009 RMRB Series B	Early Extinguishment	895,000			
2009 RMRB Series C-1	Early Extinguishment	7,535,000			
2009 RMRB Series C-2	Early Extinguishment	6,100,000			
2011 RMRB Series A	Early Extinguishment	4,180,000			
2011 RMRB Series B	Early Extinguishment	7,940,000			
1992 Coll Home Mtg Rev Bonds, Series C	Early Extinguishment	900,000			
1999 MF Series A-C (Mayfield Apartments)	Early Extinguishment	8,183,000			
2000 MF Series A (Timber Point Apartments)	Early Extinguishment	200,000			
2000 MF Series A (Creek Point Apartments)	Early Extinguishment	100,000			
2000 MF Series A/B (Greenbridge at Buckingham Apts)	Early Extinguishment	19,068,902			
2000 MF Series A/B (Williams Run Apartments)	Early Extinguishment	11,453,222			
2003 MF Series A/B (Reading Road)	Early Extinguishment	200,000			
2003 MF Series A/B (Peninsula Apartments)	Early Extinguishment	25,000			
2003 MF Series A (NHP Foundation-Asmara Proj Refunding)	Early Extinguishment	570,000			
2004 MF Series A (Chisholm Trail Apartments)	Early Extinguishment	300,000			
2004 MF Series A (Montgomery Pines Apartments)	Early Extinguishment	300,000			
2004 MF Series A (Bristol Apartments)	Early Extinguishment	200,000			
2005 MF Series A (Providence at Prairie Oaks)	Early Extinguishment	32,899			
2005 MF Series A (Atascocita Pines Apartments)	Early Extinguishment	100,000			
2005 MF Series A (Prairie Ranch Apartments)	Early Extinguishment	11,015,000			
2005 MF Series A (St Augustine Estate Apartments)	Early Extinguishment	100,000			
2005 MF Series A (Park Manor Senior Community)	Early Extinguishment	10,400,000			
2006 MF Series A (Harris Branch Apartments)	Early Extinguishment	13,490,000			
2006 MF Series A (Pleasant Village)	Early Extinguishment	5,094,956			
2006 MF Series A (Red Hills Villas)	Early Extinguishment	100,000			
2006 MF Series A (Champion Crossing Apartments)	Early Extinguishment	100,000			
2006 MF Series A (Villas at Henderson)	Early Extinguishment	100,000			
2006 MF Series A (Idlewilde)	Early Extinguishment	200,000			
2007 MF Series A (Lancaster)	Early Extinguishment	200,000			
2007 MF Series A (Terrace at Cibolo)	Early Extinguishment	100,000			
2007 MF Series A (Summit Point)	Early Extinguishment	8,960,000			
2007 MF Series A (Windshire)	Early Extinguishment	100,000			
2008 MF Series A (West Oaks Apartments)	Early Extinguishment	140,000			
2008 MF Series A (Costa Ibiza Apartments)	Early Extinguishment	200,000			
2008 MF Series A (Addison Park Apartments)	Early Extinguishment	210,000			
2008 MF Series A (Alta Cullen Apartments Refunding)	Early Extinguishment	200,000			
2009 MF Series A (Costa Mariposa Apartments)	Early Extinguishment	105,000			
2009 MF Series A (Woodmont Apartments)	Early Extinguishment	265,000			
2014 MF Series A (Northcrest Apartments)	Early Extinguishment	2,900,000			
Total Business-Type Activities		<u>\$ 278,112,979</u>	<u>\$ 93,560,000</u>	<u>\$ (9,598,721)</u>	<u>\$ 132,063</u>

Texas Department of Housing and Community Affairs - Housing Finance Division

Computation of Unencumbered
Fund Balances as of August 31, 2016, and
Independent Auditor's Report

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Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice Chair

Mr. T. Tolbert Chisum

Ms. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J. B. Goodwin

Report on the Financial Statements

We have audited the accompanying Computation of Unencumbered Fund Balances (Computation) of the Department of Housing and Community Affairs' (Department) Housing Finance Division, as of August 31, 2016, and the related notes to the Computation.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Computation in accordance with the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Computation that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Computation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Computation is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Computation. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Computation, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Computation in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Computation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Computation, referred to above, presents fairly, in all material respects, the unencumbered fund balances of the Department's Housing Finance Division, as of August 31, 2016, in accordance with the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205, as described in Note 1 of the Computation.

Basis of Accounting

We draw attention to Note 1 of the Computation, which described the basis of accounting. As described in Note 1 of the Computation, the Computation is prepared by the Department on the basis of the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Texas Government Code, Sections 2306.204 and 2306.205. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than this specified party.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Department'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 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 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 Department's internal control over financial reporting and compliance.



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2016

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS —
HOUSING FINANCE DIVISION**

**COMPUTATION OF UNENCUMBERED FUND BALANCES
AS OF AUGUST 31, 2016**

(Amounts in thousands)

	S/F	RMRB	CHMRB	Taxable	M/F	Operating	Housing	Housing	Government
	Program	Program	Program	Mortgage	Program	Fund	Trust Fund	Initiatives	Fund
Qualifying Assets:									
Cash and Cash Equivalents	\$ 40,377	\$ 25,008	\$ 62	\$ 3,250	\$ 108,949	\$ 9,606	\$ 5,834	\$ 18,776	\$ 25,151
Investments @ fair value	381,122	215,092	3,414	4,449	42,025	376			
Fair Value Adjustment	(29,999)	(19,501)	(264)	(277)	(2,756)	(12)			
Loans and Contracts	20,068	54,249			947,264		52,384	113	467,308
Real Estate owned, @ net	22					1	21		
Accrued Interest receivable	1,336	735	18	13	6,533	2		34	21
Federal Receivable									7,689
Legislative Appropriations									5,155
Subtotal	<u>\$ 412,926</u>	<u>\$ 275,583</u>	<u>\$ 3,230</u>	<u>\$ 7,435</u>	<u>\$ 1,102,015</u>	<u>\$ 9,973</u>	<u>\$ 58,239</u>	<u>\$ 18,923</u>	<u>\$ 505,324</u>
Less restrictions:									
Trust Indenture	\$ (412,926)	\$ (275,583)	\$ (3,230)	\$ (2,860)	\$ (1,102,015)	\$	\$	\$	\$
Operating Reserve						(1,217)		(6,783)	
Appropriated State Treasury Funds						(1,395)			(5,155)
General Appropriations Act ("GAA")							(52,405)		
Funds Reserved, Committed or under Contract							(5,834)		
Add'l restrictions per Department				(4,575)		(6,387)		(351)	
Restricted Use of Fees						(971)		(11,641)	
Federal Funds									(500,169)
Subtotal	<u>\$ (412,926)</u>	<u>\$ (275,583)</u>	<u>\$ (3,230)</u>	<u>\$ (7,435)</u>	<u>\$ (1,102,015)</u>	<u>\$ (9,970)</u>	<u>\$ (58,239)</u>	<u>\$ (18,775)</u>	<u>\$ (505,324)</u>
Unencumbered Fund Balance:	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3</u>	<u>\$</u>	<u>\$ 148</u>	<u>\$</u>

See accompanying independent auditor's report and accompanying notes to the computation

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — HOUSING FINANCE DIVISION

NOTES TO THE COMPUTATION OF UNENCUMBERED FUND BALANCES AS OF AUGUST 31, 2016 (Amounts in thousands)

1. BACKGROUND OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

General Statement — The Texas Department of Housing and Community Affairs (“Department”) was created effective September 1, 1991, by an act of the 72nd Texas Legislature, pursuant to Senate Bill 546 (subsequently codified as Chapter 2306, Texas Government Code) (“Department Act”), passed by the Texas Legislature on May 24, 1991, and signed by the Governor of the State of Texas. Effective September 1, 1991, the Department was established to assist local governments in helping residents overcome financial, social, and environmental problems; to address low-to moderate-income housing needs; to contribute to the preservation and redevelopment of neighborhoods and communities; to assist the Governor and the Legislature in coordinating federal and state programs affecting local governments; and to continually inform the State and the public about the needs of local government. The Department was created by merging two former agencies: the Texas Housing Agency and the Texas Department of Community Affairs.

The Department is governed by a Governing Board composed of seven members appointed by the Governor with advice and consent of the Senate. The Department is administered by an Executive Director to be employed by the Board with the approval of the Governor. The Department is authorized to issue tax-exempt or taxable bonds, notes, or other obligations to finance or refinance multifamily housing developments and single-family residential housing. Bonds and notes of the Department do not constitute a debt of the State or any political subdivision thereof. The Department Act specifically provides for the assumption by the Department of the outstanding indebtedness of the former agencies. The Housing Finance Division (“Division”) of the Department is required to continue to carry out all covenants with respect to any bonds outstanding, including the payments of any bonds from the sources provided in the proceedings authorizing such bonds. The Department Act requires a portion of the unencumbered fund balances, as defined; of the Division of the Department to be transferred to the Housing Trust Fund from the bond programs should certain conditions be met.

The Division operates several bond programs under separate trust indentures, as follows:

General — Single-Family — Since 1979, the year of creation of the Texas Housing Agency (“Agency”), a predecessor to the Department, through August 31, 2016, the Agency or the Department has issued 56 series of Single-Family Mortgage Revenue Bonds, 4 series of Junior Lien Single-Family Mortgage Revenue Refunding Bonds, 36 series of Residential Mortgage Revenue Bonds, 10 series of GNMA/FNMA Collateralized Home Mortgage Revenue Bonds, 11 series of Collateralized Home Mortgage Revenue Bonds, and 2 series of Government National Mortgage Association (“GNMA”) Collateralized Home Mortgage Revenue Bonds. As of August 31, 2016, the outstanding principal amount of bonded indebtedness of the Department for single-family housing purposes was \$521,460.

Single-Family Mortgage Revenue Bonds (“SFMRBs”) — The Department has issued 56 series of SFMRBs under a SFMRB Trust Indenture, dated as of October 1, 1980, and 62 indentures supplemental thereto, which are secured on an equal and ratable basis by the trust estate established by the SFMRB

Indenture. As of August 31, 2016, 13 series were outstanding, with an aggregate outstanding principal amount totaling \$333,295.

Junior Lien Bonds — The Department has issued four series of its Junior Lien SFMRBS (“Junior Lien Bonds”) pursuant to a Junior Lien Trust Indenture, as supplemented by the First Supplemental Junior Lien Trust Indenture and the Second Supplemental Junior Lien Trust Indenture, each dated as of May 1, 1994, the Third Supplemental Junior Lien Trust Indenture dated as of March 27, 2002; and the Fourth Supplemental Junior Lien Trust Indenture dated as of April 1, 2004, by and between the Department and J.P. Morgan Trust Company, Texas, NA, as trustee. The Junior Lien Bonds are secured on an equal and ratable basis with each other and on a subordinated basis to the SFMRBs by the trust estate held under the SFMRB Indenture. As of August 31, 2016, 1 series was outstanding, with an aggregate outstanding principal of \$3,855.

Residential Mortgage Revenue Bonds (“RMRBs”) — As of August 31, 2016, the Department has issued 36 series of RMRBs pursuant to the RMRB Trust Indenture and 32 separate series supplements, which are secured on an equal and ratable basis by the trust estate established by the RMRB Indenture. As of August 31, 2016, 6 series were outstanding, with an aggregate outstanding principal amount of \$182,610.

Collateralized Home Mortgage Revenue Bonds (“CHMRBs”) — The Department has issued 11 series of CHMRBs pursuant to the CHMRB Master Indenture and six separate series supplements, which are secured on an equal and ratable basis by the trust estate established by such trust indentures. As of August 31, 2016, 1 series of CHMRBs was outstanding, with an aggregate outstanding principal amount of \$1,700.

Taxable Mortgage Program (“TMP”) - On July 26, 2012, the Department approved the TMP. The TMP market facilitates the forward trading of Mortgage Backed Securities (MBSs) issued by Ginnie Mae. The program is paid from revenues generated by the packaging and sale of the TMP MBSs. Escrow agreements were established to limit the recourse to the servicer and the to be announced provider. The total amount of the escrow is \$4 million, funded from the Department’s general funds.

General — Multifamily (“M/F”) — The Department and the Agency have issued 221 multifamily housing revenue bonds, which have been issued pursuant to separate trust indentures and are secured by individual trust estates, which are separate and distinct from each other. As of August 31, 2016, 99 series were outstanding, with an aggregate outstanding principal amount of \$912,265.

The Division operates other programs under the authority of the General Appropriations Act, Texas Government Code, and Federal Grants, as follows:

Operating Fund — The Department's enabling legislation, Texas Government Code (“TGC”) Chapter 2306, has several provisions regarding the deposit of funds related to the Operating Fund: §§2306.118, 2306.120, and 2306.172.

Funds held in this fund account are for the principal operating activities conducted by the Department which are held in the Special Housing Programs. Funds held in the Administration Fund are generated from revenue from Single Family/Multifamily Administration fees for the purpose of general administration expenses associated with bond funds. In addition, the balance includes funds designated for a specific purpose by Board action such as Supplemental Bond Contingency Reserve, Single Family and Multifamily Asset Workout and Bond/ Mortgage Credit Certificates (“MCC”) funds reserved for future Cost of Issuance.

Housing Trust Fund — The Department Act provided for a transfer of a portion of the unencumbered fund balance from the bond programs for use in the Housing Trust Fund. In addition, the Housing Trust Fund receives yearly appropriated General Revenue. The fund will be used to provide assistance for

low-and very-low-income persons and families in financing, acquiring, rehabilitating, and developing affordable, decent, and safe housing. The fund will be made available to local units of government, public housing authorities, the Department, community housing development organizations, and nonprofit organizations, as well as eligible low- and very-low-income individuals and families.

Housing Initiatives — The Department's enabling legislation, Texas Government Code, Chapter 2306, has several provisions regarding the deposit of funds related to Housing Initiatives: §§ 2306.118, 2306.120, and 2306.172. There are numerous provisions for fees to be collected for the purpose of supporting the housing finance programs such as single family bonds, multifamily bonds, housing tax credits, asset management, and compliance monitoring: §§2306.144, 2305.147, 2306.176, 2306.228, 2306.266 and 2306.6716

Multifamily developers are assessed an annual fee based on the number of low income units available for rent. Other fees collected are application fees, commitment fees, and inspection fees. The authority for the collection of these fees is outlined in the Department's Qualified Allocation Plan (“QAP”), which is published annually. These fees are generated for the purpose of offsetting expenses incurred by the Department related to the monitoring and administration of these properties and the Housing Tax Credit Program.

Governmental Fund— Funds within the governmental funds are comprised of programs funded with state appropriated general revenue and federal funds. They are restricted for use to each specific program.

The Emergency Solutions Grants Program (“ESG”) is a program intended to address the immediate needs of homeless individuals and families. Nonprofit organizations and local governments are awarded funds to provide shelter and related services for homeless persons, as well as intervention services to persons threatened with homelessness.

The Homeless Housing and Services Program (“HHSP”) assists the state’s eight largest urban areas in providing services to homeless individuals and families, including case management and housing placement and retention. Eligible cities include Arlington, Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Houston, and San Antonio.

The Section 8 Housing Assistance Program provides rental subsidy vouchers to very low income families, including the elderly and persons with disabilities. The statewide program is specifically designed for families in small cities and rural communities not served by a local or regional program.

Through the HOME Investment Partnerships (“HOME”) Program, TDHCA provides funds for Single Room Occupancy (“SRO”) developments, Rental Housing Developments, Home Rehabilitation Assistance (“HRA”), Home Buyer Assistance (“HBA”), and Tenant Based Rental Association (“TBRA”).

The Neighborhood Stabilization (“NSP”) Program provides funds to units of local government or eligible nonprofits for the acquisition, clearance, rehabilitation, and redevelopment of foreclosed or abandoned homes for affordable housing. Funding may also be used to create finance mechanisms for homebuyer assistance for extremely low and very low income Texans, as well as eligible land bank activities.

The Community Services Block Grant (“CSBG”) Program makes funds available to community action agencies throughout the state to serve persons at or below federal poverty guidelines. This funding assists these agencies in providing essential services such as: access to childcare and health and human services for children, families, and the elderly. It also helps with nutrition, transportation, housing, substance abuse prevention, migrant assistance, job training, and employment services.

The Tax Credit Assistance Program (“TCAP”) provides gap financing for Housing Tax Credit (“HTC”) developments adversely affected by market downturns. The Tax Credit Assistance Program income will be applied to future affordable housing activities.

Comprehensive Energy Assistance Program (“CEAP”) provides case management, consumer education, and financial assistance to help extremely low and very low income consumers reduce their utility bills to an affordable level.

The Weatherization Assistance Program (“WAP”) helps extremely low and very low income consumers control their energy costs through the installation of weatherization measures, the repair or replacement of inefficient appliances, and energy conservation education.

BASIS OF PRESENTATION

Management of the Department has determined the following criteria and definitions should be used in the computation of unencumbered fund balances specified by the Department Act, Texas Government Code, §§2306.204 and 2306.205. Management’s interpretation of unencumbered funds includes all funds associated with the Department inclusive of federal funds and state appropriated funds under the Governmental Fund. In addition, the scope of restrictions includes but not necessarily limited to state or federal laws or other applicable legal requirements. These criteria and definitions were determined based on the requirements of the bond trust indentures; the Board’s designated purposes, financial advisors’ recommendations for credit rating purposes, the General Appropriations Act and Federal requirements:

Definition of Unencumbered Fund Balance — Housing Finance Division unencumbered funds are the funds associated with any and all of the department’s housing finance activity which are not subject to any restrictions precluding their immediate transfer to the Housing Trust Fund. Such restrictions include, but are not necessarily limited to, being subject to a state or federal or other applicable legal requirement, including but not limited to, the General Appropriations Act then in effect or constraint that would not allow such transfer, being held in trust subject to the terms of a bond indenture, including an open indenture, having been designated by the Department’s Governing Board for a specific use or contingency, including but not limited to, the Department’s operating budget or established reserves.

In addition, the Department’s financial advisor has recommended that additional restrictions be maintained in the determination of unencumbered fund balance for ensuring the maintenance of parity over the immediate future. Generally, the unencumbered fund balances cannot be distributed or utilized except when certain conditions have been met within the bond trust indentures, including filing of a statement of projected revenues that projects that anticipated cash flows will be sufficient to pay Department expenses of the Division and aggregate debt service through the maturity of the bonds and to maintain all other reserve fund requirements of the respective bond trust indentures. Any distribution of fund balances would result in a rating downgrade by rating agencies if it was determined that such distribution would negatively impact the indenture.

Qualifying Assets — Qualifying assets exclude unearned revenue, other assets and the interfund receivables (payables). The following is a summary of amounts considered to be qualifying assets in determination of unencumbered fund balance by the respective bond trust indentures and the bond rating agencies:

- Cash, cash equivalents, and investments are included at fair value.
- Fair value adjustment represents the adjustment to eliminate the unrealized gain or loss in investments marked to fair value, since these funds are not currently available. Unamortized premium/discount represents adjustment to value investments at par.

- Loans and Contracts are fully amortizing loans and are included at their current contractual balances outstanding, net of the estimated allowance for estimated loan losses. Loans and contracts found in the Single Family Program, Residential Mortgage Revenue Bonds (“RMRB”), and Multifamily are restricted to the trust indentures. Loan and contracts under the Operating Fund, Housing Trust Funds, and Housing Initiatives are designated for program purposes. Loans within the Governmental Fund were funded with Federal Funds for the purposes of Single Family loans and multifamily development loans from HOME, TCAP, and NSP grants.
- Real estate owned is included at the carrying amount, net of the allowance for estimated losses.
- Accrued interest receivable is included at the contractual balances of accrued interest on investments, mortgage-backed securities, and loans.
- Federal Receivable—The Department considers receivables collected within sixty days after year-end to be available and recognizes them as revenue of the current year.
- Legislative Appropriations— The Departments receives state appropriated funds for specific purposes related to programmatic and administrative purposes.

Restrictions — The restrictions represent amounts to be deducted from qualifying assets for amounts required by the respective bond trust indentures, other Governing Board-designated purposes, recommendations by the Department’s financial advisors, federal and state guidelines in the determination of unencumbered fund balance.

- Trust Indentures restrict all funds within the Single Family Program, RMRB Program, CHMRB Program and Multifamily Program and certain balances within the General Fund and TMP accounts. Per bond covenants, bonds are payable from and secured by the Trust Estate inclusive of all funds and investments.
- The Taxable Mortgage Program has funds which are restricted per required escrow agreements, required funding of down payment assistance, and operating expenses.
- Operating reserve fund represents a restriction of approximately \$8M for operating expenses of the related bond programs and the Department.
- State Treasury funds are being held in the state treasury and are appropriated by the GAA and are restricted for its prescribed authority.
- The GAA provides the Departments with the authority and funding to establish the Housing Trust Fund. The Department's enabling legislation, TGC Chapter 2306, has several provisions regarding the Housing Trust Fund. The loans and contracts are restricted for the use of Housing Trust Fund.
- Funds Reserved, Committed, or under Contract are restricted based on current reservations or contracts for the purpose to provide loans and grants to entities and individuals to finance, acquire, rehabilitate, and develop affordable housing.
- Additional Restrictions per Department are designated by the Governing Board and are not available for any other purpose as of August 31, 2016.

- Restricted uses of fees for administrative expenses are set forth by the Department’s enabling legislation, TGC Chapter 2306. There are numerous provisions for fees to be collected for the purpose of supporting the housing finance programs such as single family bonds, multifamily bonds, housing tax credits, asset management and compliance monitoring: §§2306.144, 2305.147, 2306.176, 2306.228, 2306.266, and 2306.6716 and are restricted for the administrative expenses of the Department.
- The Federal government awards grants to the Department for the purpose of housing, poverty related services, homelessness initiatives, and energy assistance. Any funds or assets related to federal funds are restricted for its specified purposes.

As of August 31, 2016, the following additional restrictions existed:

Taxable Mortgage Program	
	Additional Restrictions By Department
Escrow Agreement	\$ 4,575
	<u>\$ 4,575</u>

Escrow Agreement — An escrow agreement is in place between the Department and Hilltop Securities, the Purchaser, and the Department and US Bank, the Servicer.

Operating Fund	
	Additional Restrictions By Department
Supplemental Bond Contingency Reserve	\$ 1,657
Warehousing Agreement - Escrow Fund	<u>767</u>
	<u>2,424</u>
Single Family & Multifamily Asset Preservation & Workout:	
Below Market Interest Rate Program/Asset Management	<u>22</u>
	22
Bond/MCC Program:	
Bond Programs/COI	2,113
Bond Programs/MCC Fees	1,553
Bond Programs/Marketing	241
Bond Programs/Maintenance	<u>34</u>
	<u>3,941</u>
	<u>\$ 6,387</u>

Supplemental Bond Contingency Reserve — This reserve will be used to supplement the Single Family Surplus and Swap Termination Value Holdback requirement, pursuant to Section 2.16 (c) of the 37th Supplement and/or for other bond requirements such as collateral, pledges or issuer contributions.

Warehousing Agreement – Escrow Fund — This reserve is a required Escrow account established by the Warehousing Agreement between the Department and the warehouse facility.

Single Family & Multifamily Asset Preservation & Workout — These funds are reserved for single family and multifamily asset preservation and workout.

Bond/MCC Program — These funds are reserved for the MCC bond program and future bond programs.

Housing Initiatives	
	<u>Additional Restrictions By Department</u>
Capital Budget	\$ 351

Housing Initiatives — These reserves are designated for certain purposes such as Capital Budget.

* * * * *



Report on Compliance with the Public Funds Investment Act

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair
Dr. Juan Sanchez Muñoz, Vice-Chair
Mr. T. Tolbert Chisum
Ms. Leslie Bingham Escareño
Mr. Tom H. Gann
Mr. J. B. Goodwin

Mr. Timothy Irvine, Executive Director, Department of Housing and Community Affairs
Mr. David Cervantes, Chief Financial Officer, Department of Housing and Community Affairs
Ms. Monica Galuski, Director of Bond Finance, Department of Housing and Community Affairs

We have performed tests designed to verify whether the Department of Housing and Community Affairs (Department) complied with the requirements of the Public Funds Investment Act for the year ended August 31, 2016. 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 issues of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

This report is intended solely for the information and use of the Department's Board of Directors, the Department's management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

December 20, 2016

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SAO Report No. 17-310

3

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

January 26, 2017

Presentation, Discussion, and Possible Action on the 2017 Internal Audit Charter

RECOMMENDED ACTION

WHEREAS, the Internal Audit Division is required by audit standards to develop a charter, and to periodically update the charter,

NOW, therefore it is hereby

RESOLVED, that the 2017 Internal Audit Charter is hereby approved as presented.

BACKGROUND

Internal Audit Standards (the *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing*) require periodic approval of the Internal Audit Charter. Standard 1000's interpretation is "The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board."



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

BOARD MEMBERS
J. Paul Oxer, *Chair*
Juan S. Muñoz, PhD, *Vice Chair*
Leslie Bingham-Escareño
Tom H. Gann
J.B. Goodwin

TDHCA Internal Audit Charter (Effective October 17, 2001, Amended January 26, 2017 as approved by the Department's Governing Board)

Mission:

The Office of Internal Audit (OIA) has been established at the Texas Department of Housing and Community Affairs (TDHCA) to provide independent, objective assurances and consulting services to TDHCA Board and management. The OIA helps TDHCA accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, controls, and governance. The OIA helps the TDHCA to identify and manage financial and other risks, identify economies and efficiencies, safeguard assets, ensure compliance with legislative and regulatory requirements, and report accurate and reliable information to TDHCA's customers. It also provides a proactive and systematic approach for the identification of business improvements. The OIA conducts TDHCA's program of internal auditing under the authority of and in accordance with the Texas Internal Auditing Act, located in the Texas Government Code, Title 10, Chapter 2102.

The OIA is managed by the Chief Audit Executive (CAE). The CAE reports functionally to the TDHCA Governing Board, and administratively to the Chief Executive Officer at TDHCA. The CAE must be certified as a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA), to achieve compliance with the Internal Auditing Act. The operation title of the CAE is the Director of Internal Audit.

Standards of Audit Practice

The program of internal auditing follows the Texas Internal Auditing Act, Standards for the Professional Practice of Internal Auditing, Code of Ethics, and applicable auditing standards.

The CAE has the duty and authority to ensure that TDHCA is in compliance with the Internal Auditing Act, and the requirements of external audits including the statutes relating to the State Auditor's Office

Annual Audit Plan

The OIA is responsible for developing an annual audit plan using risk assessment techniques which identify individual audits to be conducted during each year. The Plan must be presented to the Governing Board for their review and approval during open meetings. Deviations from the audit plan should be documented; and major deviations should be approved by the Governing Board.

The risk assessment process includes the following steps:

- **Identification of Auditable Units and Risks**
This includes identification of activities for all divisions/programs, risks associated with each activity, and requesting input from executive management team as well as Board



members. Requests or suggestions for special audits are also included in the potential audit population.

➤ Risk Measurement and Prioritization

This process includes evaluating the likelihood that an adverse event or outcome could occur, and the potential ramifications if it did in fact occur.

Code of Ethics

Internal Auditors at TDHCA are expected to uphold and adhere to the following principles:

- Integrity
- Objectivity
- Confidentiality
- Competency

Integrity and Professional Conduct

Audits and reviews are to be conducted in a professional manner, with the goal of providing value to TDHCA's Governing Board, management, and staff. Internal auditors are expected to perform their work with honesty, diligence, and responsibility. Arrangements for conducting audits should cause the least possible disruption to the operations or activities under audit. Efforts will be made to minimize inconvenience to operating staff in the examination of records.

Independence and Objectivity

In accordance with the Internal Audit Act, the CAE shall report directly to the Governing Board and shall be independent of operational duties that could impair the independence of the auditing program. The CAE will work with members of TDHCA management, as designated by the Boards and the Executive Director, to ensure the performance of the internal audit plan and compliance with the requirements of external audit functions related to the agency's operations. The CAE will keep the full Governing Board apprised of the progress of both internal and external audits.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited, and must exhibit the highest level of professional objectivity in accessing and evaluating the activity under review.

Internal auditors are to remain free from interference by any element in the organization, and to report to the CAE any situation in which an actual or potential impairment to independence or objectivity may reasonably be inferred.

Confidentiality

OIA treats its working papers as confidential. Internal auditing working papers may sometimes be requested by members of the public pursuant to the Public Information Act, by means of an open-records request. The Office of Attorney General has in the past ruled that internal audit work papers can be exempted from open-records request. In the event of court proceedings, client privilege cannot be invoked with respect to working papers. Working papers and files are to be protected at all times against access by unauthorized persons.

Completed audit reports are public documents, and are provided in accordance with the statute to the Governing Board, TDHCA management, the State Auditor's Office, the Legislative Budget Board, the Office of the Governor, and the Sunset Commission.

Competency

The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. Internal Audit promotes and encourages the advancement of audit staff through dissemination of related information and the active participation in professional groups and organizations.

Scope of Work and Responsibility of Internal Audit

Internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the Department's system of internal control and the quality of performance in carrying out its assigned responsibilities. The scope of audit activities includes, but not limited to:

- Identifying risk associated with TDHCA operations, including administrative systems, accounting systems, and information-technology systems.
- Evaluating and assessing significant change-management functions and need or change services, processes, and operations coincident with their development, implementation, and/or expansion.
- Proactive consulting with management to improve control systems and operational effectiveness (See section on Advisory Services).
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals, and determining whether the operations or programs are being carried out as planned.
- Tracking, assessing, and reporting on management's actions taken in response to audit recommendations.
- Assisting in the investigation of significant issues within the TDHCA and notifying the TDHCA Governing Board and management as appropriate.
- Evaluation of the scope of work of external auditors, as appropriate, for the purpose of providing optimal audit coverage to TDHCA at a reasonable overall cost.

Access to Information Needed for the Program of Internal Auditing

Authorization is granted for the full and free access to any of the TDHCA's records (either manual or electronic), physical properties, activities, and personnel relevant to a review. In addition, audit personnel may make direct contact with any level of management or staff concerned with an audit. Documents and information given to internal auditors will be handled in the same prudent manner as by those employees normally accountable for them. All confidential information obtained as part of a review will remain confidential. TDHCA staff members are required to cooperate in the ongoing efforts to ensure compliance with audit requirements

Scope and Resource limitation

All scope limitation or potential limitations should be brought to the attention of the Chief Audit Executive, and significant issues in this regard will be reported to the Governing Board.

Internal Audit shall be free from control or undue influence in the selection and application of audit techniques, procedures and programs. Internal Audit shall be free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or

opinions as a result of the examination. Internal Audit shall be free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

Advisory/Consulting Services

The OIA may provide advisory services, the nature and scope of which are agreed upon with the Governing Board and management. They are intended to add value and improve TDHCA's operations. The types of advisory services the OIA provides include the following:

Assessment Services are those in which the auditor examines/evaluates a past, present or future aspect of an operation and gathers, compiles, and/or analyzes information to assist management in making decisions. Assessments are provided as timely as possible and generally do not include specific recommendations for management.

Facilitation services are those in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, such as a Control Self Assessment, the auditor does not judge organizational performance. Instead, the auditor guides Management in identifying organizational strengths and opportunities for improvements.

Liaison services are those in which the auditor attends meetings and/or reviews the work products of an internal or external work group. The purpose of the liaison service is to advise the group on how their activities may affect the agency's risk profile.

Quality Assurance

The CAE shall establish and maintain a program of quality assurance designed to evaluate the OIA's activities. The purpose of this program is to provide reasonable assurance that all work performed by the OIA conforms to established guidelines. The program includes training, supervision, and internal and external reviews. The State Auditor's Office and other external audit organizations review OIA reports and periodically review OIA working papers.

Training

Each fiscal year, the OIA will be allocated a budget for training and educational materials. Internal auditors will maintain their professional proficiency through continuing education and training. Professional development will be provided through a variety of methods including progressively challenging audit assignments, professional certifications, external training courses, performance appraisals, and participation in professional organizations.

Auditors will acquire continuing professional education (CPE) hours sufficient to comply with professional standards and/or meet applicable licensing requirements. Internal Auditors at TDHCA are expected to obtain 40 hours of CPE each fiscal year.

Supervision

The quality assurance program will include audit supervision by CAE to ensure conformance with internal auditing standards and the internal OIA policies and procedures. This includes periodic meetings with CAE to discuss and review statuses of each audit engagement.

Internal and External Reviews

Internal reviews will be performed periodically to appraise the quality of the audit work performed. These reviews will include reviews of working papers, periodic discussions of the status of projects, annual self assessment, and accountability for time budgets. External peer reviews will be arranged and conducted in accordance with the Institute of Internal Auditing

guidelines, *The Professional Practices Framework* and the Government Accountability Office guidelines.

Internal Audit Reports

Written reports, which include management’s responses, are prepared and issued following the conclusion of each audit. These reports include background information related to the areas audited as well as scope of the audit, the overall conclusion of the auditors, findings, recommendations, and management comments and action plans. Draft audit reports will be provided to appropriate members of management team to review and provide corrective action plans when appropriate. Audit reports will be discussed and presented to the Board at periodic open meetings of the Texas Department of Housing and Community Affairs.

Internal Audit is responsible for communicating completed audit reports to the State Auditor’s Office, the Legislative Budget Board, the Office of the Governor, and the Sunset Commission within 30 days after the report is submitted to the state agency’s governing board.

Audit Follow-up Responsibilities

Internal auditors are required to follow-up to ascertain that appropriate action is taken on audit findings. A report to the Governing Board on recommendation-implementation status will be provided periodically and no less than annually on all audit findings.

Communication of Internal Audit Activities to the Governing Board.

Results of internal audit work are communicated to management and the Governing Board in periodic written reports. Internal Audit reports and other audit activities are discussed in periodic open meetings of the Texas Department of Housing and Community Affairs. In limited and appropriate circumstances, matters may be addressed in Executive Session with the concurrence of the Legal Division that one or more specific provisions of law permit such treatment.

PASSED and APPROVED this 26th day of January 2017

Chair of the Governing Board

Executive Director

Board Secretary

Chief Audit Executive

REPORT ITEMS

R1

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

Presentation and Discussion of the Report on the Internal Audit “Review of Compliance Monitoring”

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Compliance Monitoring (CM) Division
Audit Report # 16-004

Executive Summary

The Office of Internal Audit (OIA) evaluated the monitoring processes performed by The Compliance Monitoring Division. Based on the fieldwork performed between September 2016 and October 2016, OIA concludes that the Compliance Monitoring processes are generally performed accurately and according to applicable rules; However, the following opportunities for improvement were identified.

Findings

- Our audit indicated that opportunity for improvement exists within The Compliance Monitoring Division to strengthen and improve its internal policies and procedures, and to achieve a higher standard of consistency as it relates to timeliness of reporting and time card reporting.

Recommendations

- The timeliness of reporting on compliance activities could be improved.
- Reporting on time spent on compliance activities allocated among different programs could be improved.

Response:

Management agreed with our recommendations.
Detailed responses are included in the body of the audit report.

Responsible Area:

Division Director and Division Manager

Objective, Scope and Methodology

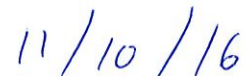
The audit of the Compliance Monitoring Division was identified in the Fiscal Year 2016 Annual Audit Plan. Based on an assessment of risks and controls, the following audit objectives were developed:

to determine if staff members are performing their compliance monitoring as intended and based upon standard operating procedures; and
to determine if staff members are properly allocating time to time-cards.

The audit scope included the fiscal year 2015 and calendar year 2015 desk and onsite reviews performed by the Compliance Division's Compliance Monitoring Section (CMS). The scope did not include subrecipient monitoring. The audit methodology included gaining an understanding of the CMS, its activities and processes by interviewing employees of the CMS and other staff, and by reviewing TDHCA, State, and Federal documentation. OIA identified relevant criteria for evaluating the monitoring process. OIA tested a random sample of desk and on-sight reviews. OIA summarized the results in the Report # 16-004 that follows.



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit



Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS
J. Paul Oser, *Chair*
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Tom H. Gann
J.B. Goodwin

November 10, 2016

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

RE: An Internal Audit Review of Compliance Monitoring

To: Chairman J. Paul Oser and the Board Members of the Texas Department of Housing and Community Affairs

Dear Chairman Oser and Board Members,

This report presents the results of the Office of Internal Audit's (OIA) "Review of Compliance Monitoring." The review was included in the Fiscal Year 2016 Annual Audit Plan. Based on OIA's evaluation of risks and controls, the following audit objectives were developed:

- to determine if staff members are performing their compliance monitoring as intended and based upon standard operating procedures; and
- to determine if staff members are properly allocating time to time-cards.

The audit scope included the fiscal year 2015 and calendar year 2015, desk and onsite reviews performed by the Compliance Division's Compliance Monitoring Section (CMS). The scope did not include subrecipient monitoring.

The audit methodology included gaining an understanding of the CMS, its activities and processes by interviewing employees of the CMS and other staff, and by reviewing TDHCA, State, and Federal documentation. OIA identified relevant criteria for evaluating the monitoring process. OIA tested a random sample of desk and on-sight reviews.

The audit was conducted in accordance with *Generally Accepted Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*.

A. AUDIT RESULTS

Our audit indicated that opportunity for improvement exists within Compliance Monitoring Division to strengthen and improve its internal policies and procedures, and to achieve higher standard of consistency as it relates to timeliness of reporting and time card reporting.



B. MULTIFAMILY COMPLIANCE MONITORING OVERVIEW

The objectives of the Department in performing regular monitoring of affordable rental housing are¹: to provide for monitoring that meets applicable requirements of U.S. Department of Housing and Urban Development (HUD), the U.S. Department of treasury (Treasury), the Internal Revenue Services (IRS), and applicable state laws and rules; enable the Department to communicate with responsible persons; report information to the Federal Department and the TDHCA Governing Board regarding the condition and operations of developments; articulate and communicate clear standards to promote the maintenance and operation of development; identify matters of noncompliance; ensure that responsible persons understand the compliance status of their developments and the implications of such status; and to provide a transparent system of accountability, consistency, and an awareness of the high quality standards of affordable housing in the State of Texas.

The affordable rental housing programs monitored by the Compliance Division are: the Housing Tax Credit Program (HTC); the HOME investment Partnership Program (HOME); the Tax Exempt Bond Program (BOND); the Housing Trust Fund Program (HTF); the Tax Credit Assistance Program (TCAP); the Tax Credit Exchange Program (Exchange); the Neighborhood Stabilization Program (NSP); and Preservation programs.

TDHCA requires reports to be submitted electronically through the Department's web-based Compliance Monitoring and Tracking System (CMTS). Each development is required to submit an Annual Owner Compliance Report (AOCR) no later than April 30 of each year, reporting data current as of December 31 of the previous year. The four (4) parts to the AOCR are: A) Owner's Certification of Program Compliance; B) Unit Status Report (USE); C) Housing for Persons with Disabilities, owner's of state or federally assisted housing Developments with twenty (20) or more housing units are required to report information regarding housing units designed for persons with disabilities; and D) Internal Revenue Service(IRS) Form 8703, must be filed by tax exempt bond properties and submit a copy of the filed form to the Department. Other Financial Information that the owner is required to submit through CMTS are: A) the Annual Owner's Financial Certification; B) Development assisted through Exchange or TCAP must also submit a Quarterly Owner's Financial Certification which are due the 15th day of January, April, July, and October; C) When required, Periodic USRs are due the 10th day of January, April, July, and October and must report occupancy as of the last day of the previous month for the reporting period; and D) Exchange developments must submit IRS Form(s) 8609 thirty (30) days after the department issues the executed form(s). Also, all rental Developments assisted or administered by the Department are required to submit a current USR prior to an onsite monitoring visit².

A written notice is required to be provided to the Owner of a Development if the Compliance Monitoring Section (CMS) does not receive the AOCR and will specify a thirty (30) day corrective action period. Also, for other noncompliance, other than a violation that imposes an imminent hazard or threat to health and safety, the notice will specify a ninety (90) day corrective action period. Extensions to corrective action periods may be authorized, which can be up to an additional six (6) months, from the date of the notice to the Development Owner only if there is good cause and the owner requests the extension during the original ninety (90) days corrective action period³.

¹ Texas Administrative Code Rule §10.601

² Texas Administrative Code Rule §10.607

³ Texas Administrative Code Rule §10.602

The TDHCA Compliance Division⁴ ensures housing program compliance and financial compliance with federal and state regulatory mandates through established oversight and monitoring procedures. Onsite monitoring visits and desk reviews are mechanisms used for in-depth investigation and overall assessment, respectively. Compliance objectives are achieved through five sections within the division: Contract Monitoring, Compliance Monitoring, Physical Inspection, and Community Affairs Monitoring.

The Compliance Monitoring division is responsible for long-term compliance with the various housing programs administered by TDHCA. Compliance Monitoring is also responsible for fair housing issues, property compliance training, and public information requests.

The Compliance Division and the Compliance Monitoring Section is tasked to determine the Frequency and the Depth of monitoring for Housing Tax Credit Properties after the Federal Compliance Period, which is period commencing on January 1st of the first year of the credit Period as elected on Form 8609 by the owner extending fifteen years. During the compliance period Onsite reviews are conducted approximately every three years. Additionally, Bond, HOME, and Housing Trust Fund programs are subject to limited annual Desk reviews. The total number of properties under Compliance Monitoring Division is 2152 properties. During 2015 Compliance Monitoring Division performed 186 Desk reviews and 660 Onsite reviews.

C. EVALUATION OF THE TDHCA MULTIFAMILY COMPLIANCE MONITORING PROCESS

The primary product or service that the TDHCA CMS provides is the review of necessary records to assure adherence to program requirements and terms of the deed restrictions on multifamily affordable housing properties. Compliance monitors regularly conduct site inspections to verify that the income of tenants and rents charged for housing are at or below limits established by programs. Monitors perform on-site and desk monitoring reviews and collect Annual Owner's Compliance Reports as required under Chapter 2306 of the Texas Government Code.

The Department regularly conducts training sessions for the Housing Tax Credit Program (HTC), the Bond Program (BOND), and the HOME Investment Partnerships Program (HOME) to ensure compliance with all program requirements. These training sessions teach program regulations and will help all individuals ensure compliance when implementing Department funded programs. The main types of available training sessions are **Property Compliance** and **1st Thursday Income Eligibility**.

D. FINDINGS AND/OR RECOMMENDATIONS

D.16-004.1 Findings and Recommendations:

The timeliness of reporting on compliance activities could be improved.

- a. From a sample of 20 on-sites reviewed 10 (50%) did not meet the internal policy of issuing post site visit reports within 35 days of onsite.
- b. In one case the corrective action documents were received on 8/04/16, but follow up letter and / or final report has not been issued as of 10/04/16.
- c. From a sample of 20 Desk reviews tested we found that the USR was not received by the established deadline for seven properties in 2015, and eight properties in 2016.
- d. From a sample of 20 Desk reviews tested a Desk Review letter was not issued by the deadline in five instances.

⁴ <http://www.tdhca.state.tx.us/pmcomp/>

- c. From a sample of 20 Desk Reviews tested 11 properties (55%) did not have a Desk review performed during FY 15 or CY 15.

D.16-004.2 Finding and Recommendations:

Reporting on time spent on compliance activities allocated among different programs could be improved.

- a. From sample of 20 site visits reviewed (16 Monitors), in 12 instances the time card did not reflect the accurate coding for the program under review. Information derived from time sheets may not be reliable for the purposes of work scheduling, budgeting, and billing.

MANAGEMENT COMMENTS – CORRECTIVE ACTION TABLE

<i>Finding Item Number</i>	<i>Management Comments – Status Pertaining to the Recommendations and Action to be Taken</i>	<i>Target Completion Date</i>	<i>Responsible Party</i>
D.16-004.1a	Management agrees. The division’s Standard Operating Procedure (SOP) # 2082.17 has already been updated to reflect the necessary changes	Completed	
D.16-004.1b	Management agrees that the division was in violation of SOP # 2882.12, however the 45 days requirement is not a Federal requirement and therefore not a Federal violation. As a result the SOP has been updated to only require the deadline for Housing Tax Credit properties to ensure compliance with Treasury Regulation §1.42-5. For all other programs the response is to be completed within 45 days of the end of the CAP, unless deadline is extended by the Director of Multifamily Compliance if needed.	Completed	
D.16-004.1c/d/e	Management agrees. In response management has reviewed to SOPs against the federally mandated requirements and determined that the SOP exceeds the review requirements established in federal regulations. As a result the SOP has been updated eliminating quarterly desk reviews. Management acknowledges that some Desk Reviews were not completed in FY15 in accordance with the SOP, and that staff did not comply with the SOP, but would like to note that the federal review requirements were satisfied.	Completed	
D.16-004.2	Management requested this issue to be tested for and appreciates Internal Audit’s review of this issue. Memos have been distributed to the compliance staff on November 4, 2016 to provide clear guidance for time card reporting for each program.	Completed	



OIA extends our sincere appreciation to management and staff of TDHCA for their cooperation and assistance during the course of this audit.

Sincerely,



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

MES/bke

cc:

Tim Irvine, Executive Director
Jeffrey Pender, Deputy General Counsel
Patricia Murphy, Chief of Compliance
Stephanie Naquin, Director of Multifamily Compliance

R2

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

Presentation and Discussion of the Internal Audit Self Assessment for Peer Review

BACKGROUND

The Internal Audit Division is required by statute to comply with the standards set by the Institute of Internal Auditors. The *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing* require that the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including both internal and external assessments. Standard 1311's interpretation of internal assessments is that "Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards."



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Greg Abbott
GOVERNOR

BOARD MEMBERS
J. Paul Oxer, *Chair*
Juan S. Muñoz, PhD, *Vice Chair*
Leslie Bingham-Escareño
Tom H. Gann
J.B. Goodwin

January 26, 2017

Writer's direct phone # 512.475.3813

Email: mark.scott@tdhca.state.tx.us

RE: Internal Audit Division's Quality Assurance and Improvement Program (Self assessment)

To: Chairman J. Paul Oxer and the Board Members of the Texas Department of Housing and Community Affairs (TDHCA)

Dear Chairman Oxer and Board Members,

This is the Office of Internal Audit (OIA) report (report # 17-005) on the self assessment of the TDHCA internal audit function. This project was identified in the FY 2017 internal audit plan. It is part of the quality assurance program required by the Texas Internal Auditing Act, and a required deliverable for an external assessment of the internal auditing program.

The Institute of Internal auditor's *International Standards for the Professional Practice of Internal Auditing* requires that the director of Internal Audit develop and maintain a quality assurance and improvement program. The objective of the internal assessments is to evaluate the internal audit activity's conformance with the Institute of Internal Auditors: Definition of internal auditing, the Standards and the Code of Ethics. These standards require:

- 1300 – Quality Assurance / Improvement Program
 - 1311 – Internal Assessments
 - Periodic review performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

In conducting the self assessment of internal auditing at TDHCA, OIA utilized the peer review manual developed by the State Agency Internal Audit Forum (SAIAF), a work group comprised of internal auditors in Texas State government. This manual includes a checklist which covers the Institute of Internal Auditors International Professional Practices Framework (IPPF), or "Red Book", including Code of Ethics, Attribute Standards, and Performance Standards. (see Exhibit A)



Our self-assessment of internal audit work quality included an evaluation of the audit project *An Internal Audit of the Real Estate Analysis Division* (Report # 16-002), issued in April 2016. Our self assessment of OIA indicated general compliance with the standards. For each of the standards, we have noted documents that demonstrate compliance with the standard. These include audit charters, audit reports, and various types of audit working papers, as well as internal Standard Operating Procedures (SOPs).

We noted opportunities for improvement in the following areas:

The Internal Audit Division at TDHCA

The internal auditing program is managed by the Director of Internal Audit, who reports directly to the Audit Committee of the agency's Governing Board. Audit committee meetings are held every three months. The quality assurance review showed that the audit charter did not include all the references to ethics literature required by the peer review manual. This is being updated.

Overall Audit and Risk Coverage

The Internal Auditing Act requires that an agency conduct a program of internal auditing that includes audits of an agency's financial systems, information systems, administrative systems and programs. We reviewed the history of prior internal audit work done at TDHCA and did not find that audits of information systems have been conducted. A 2010 review of I.T. Governance (see Exhibit B) is the only indication of audits of information systems. I.T. security testing is performed by an externally contracted company. However, that company does not conduct audits that include all the IPPF scope areas. To address this issue, we have an extensive audit of I.T. planned for 2017.

Findings from Work-paper Review

As part of the peer review preparation, the SAIAF work paper review tool was utilized to review one complete set of audit working papers, for the audit of Real Estate Analysis (REA). The REA audit was well received by agency management and included an important finding related to timeliness of underwriting reports. The following issues were noted in the work paper review:

1. The auditor did not evaluate Information Systems used by REA for internal control and reliability of information.
2. The auditor recorded the audit methodology and procedure steps in a planning memo, rather than in a formal work program.
3. The standard audit template includes a statement that the audit was conducted in accordance with applicable standards including IIA, or Red Book standards. GAGAS, or yellow book standards, incorporate AICPA literature related to financial statement audits. These include statistical probability and confidence intervals, reporting by the "audit organization" to the external auditee, and other aspects not relevant or possible in the conduct of internal audit. The audit report thus did not include a reference to compliance with GAGAS.

The issues identified during this self assessment will be included as part of audit close-out and quality assurance review, for future audits.

This self assessment and the accompanying work papers and review tools will be provided to the external quality assurance team.

Sincerely,



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

MES/bke

cc:

Tim Irvine, Executive Director

Jeffrey Pender, Deputy General Counsel

Exhibit A

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Introduction to the Standards

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the *Standards*.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the *Standards* demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* employ terms as defined specifically in the Glossary. To understand and apply the *Standards* correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the *Standards* use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the *Standards*.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the *Standards* and inconsistencies exist between the *Standards* and other requirements, internal auditors and the internal audit activity must conform with the *Standards* and may conform with the other requirements if such requirements are more restrictive. The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion before issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's website as well as being distributed to all IIA institutes.

Suggestions and comments regarding the *Standards* can be sent to:

The Institute of Internal Auditors
Standards and Guidance
1035 Greenwood Blvd, Suite 401
Lake Mary, FL 32746 USA

E-mail: guidance@theiia.org Web: www.globaliia.org



International Standards for the Professional Practice of Internal Auditing (*Standards*)

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

- **1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.
- **1000.C1** – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognizing Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.

International Standards for the Professional Practice of Internal Auditing (Standards)

This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter.*
- *Approving the risk-based internal audit plan.*
- *Approving the internal audit budget and resource plan.*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
- *Approving decisions regarding the appointment and removal of the chief audit executive.*
- *Approving the remuneration of the chief audit executive.*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scopes or resource limitations.*

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual

objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3 – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.

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- Adequacy and effectiveness of governance, risk management, and control processes.
 - Probability of significant errors, fraud, or noncompliance.
 - Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement's objectives.
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.

-
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
 - Conclusions of assessors.
 - Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

Interpretation:

The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*

- *It considers trends and emerging issues that could impact the organization.*

The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination and Reliance

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- *The audit charter.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities.*
- *Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.*
- *Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.*

-
- *These and other chief audit executive communication requirements are referenced throughout the Standards.*

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- *Organizational objectives support and align with the organization's mission.*

-
- *Significant risks are identified and assessed.*
 - *Appropriate risk responses are selected that align risks with the organization's risk appetite.*
 - *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations. The plan must consider the organization’s strategies, objectives, and risks relevant to the engagement.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity’s objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

Communications must include the engagement's objectives, scope, and results.

2410.A1 – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and

balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will include:

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Exhibit B



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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November 17, 2010

To: The Governing Board and Audit Committee Members of the Department of Housing and Community Affairs

Re: An Internal Audit of Information Technology Governance

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) information technology (IT) governance. The objective of this audit was to determine if the Department's leadership, organizational structures and processes ensure that the Department's information technology sustains the Department's organizational strategies and objectives.

We found that the Department's leadership supports the Information Systems Division (IS) and ensures that IS supports the goals and objectives of the Department. IS addresses business needs, considers user needs, involves users in development and implementation, tracks projects, and communicates project status to management. Although the Department's IT strategy is well aligned with its business strategy, there are two processes that could be improved to further document this alignment. The IS Steering Committee, used to review and approve new IT systems and changes to existing systems, should resume meeting formally to discuss and prioritize these systems and changes. In addition, the policies and procedures used to manage systems requests should be revised to reflect the actual processes used to make these requests.

IT governance is the process used to manage an organization's IT functions and to ensure that these functions reflect the priorities and objectives of the organization. IT governance helps to keep the organization on track to achieve its goals and to maximize its investment in information technology. Governance includes the process for deciding how money is spent, how functions are prioritized and how the IS division is managed. The IT Governance Institute maintains that: *"Effective IT governance helps ensure that IT supports business goals, maximizes business investment in IT, and appropriately manages IT-related risks and opportunities."*

IS Steering Committee

The IT Governance Institute's CoBIT manual for best practices states that an IT steering committee should be established and should be composed of executive, business and IT management. The purpose of the IT steering committee is to determine prioritization of IT projects in line with the enterprise's business strategy and priorities, track status of projects and resolve resource conflicts, and monitor service levels and improvements. The Department's IS Steering Committee previously met regularly to fulfill these responsibilities, but it is not currently meeting. Instead, the process is managed via email among the various parties responsible for the process. As a result, there is a risk that the committee members may not feel that they have adequate time to express their opinions or to consider various options.

Recommendation

The IS Steering Committee should begin meeting on a regularly scheduled basis to ensure that IS projects are in line with the agency's organizational strategies and objectives.

Management's Response

Management agrees with the recommendation and will begin scheduling IS Steering Committee meetings again in accordance with the IS Steering Committee Policy Statement. The first meeting will be scheduled in January 2011.

SOP 1264.08 – Requesting IS Services

The policies and procedures used by IS to handle requests for new systems or for system changes may need revision. Examples of system changes include modifications to custom or third-party information systems, bug fixes, or web site updates. The current policy (SOP 1264.08) classifies IS requests into eight different categories and identifies the process for requesting the IS service. In addition, the policy states that any IS request that is estimated to take 16 hours or more to complete requires the completion of the Change Request Form and any IS request that is estimated to take 200 hours or more to complete requires the completion of the IS Project Request Form. These forms are then presented to the IS Steering Committee for approval. However, IS does not consistently follow this policy as it relates to the Change Request Form and the IS Project Request Form. There is a risk that these requests may not be consistently tracked or appropriately prioritized without the use of a formal documented process to consistently handle these requests.

Recommendation

IS should consistently follow the policy 1264.08 – Requesting IS Services as stated or update the policy to reflect the current process.

Management's Response

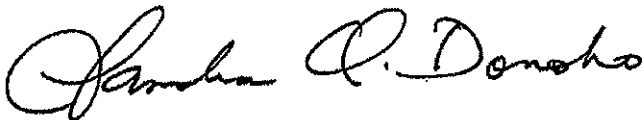
In conjunction with the renewal of IS Steering Committee meetings, management will resume consistent use of the Change Request Form and IS Project Request Form as defined in SOP 1264.08.

This audit was a performance audit and was conducted as part of the 2010 annual internal audit plan. An audit of IT governance is required by the *International Standards for the Professional Practice of Internal Auditing*. We conducted fieldwork for this audit in September and October 2010. This audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*.

We reviewed documents, conducted interviews with key staff, and tested a judgmental sample of three IT projects. Our criteria included the Institute of Internal Auditors' Standard 2110.A2 of the *International Professional Practices Framework*, and best practices from the IT Governance Institute (ITGI) and the Committee on Sponsoring Organizations (COSO).

We would like to extend our sincere thanks to executive management and the management and staff of the Information Systems Division for their cooperation and assistance during the course of this audit.

Sincerely,



Sandra Q. Donoho, MPA, CISA, CIA, CFE, CICA
Director of Internal Audit

cc:

Michael Gerber, Executive Director
Tim Irvine, General Counsel
Bill Dally, Deputy Executive Director Administration
Curtis Howe, Director Information Systems

R3

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

Discussion of Contracting for Peer Review

BACKGROUND

Internal Audit Standards (the *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing*) require that external assessments must be conducted at least once every five years. Statement 1312's interpretation is "External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified."

The contracting for services process is a function of the Financial Administration Division.

**ORAL
PRESENTATION**

R4

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

STATUS of NET CLAIMS CONTRACT

ORAL PRESENTATION

R5

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

DISCUSSION OF RECENT INTERNAL AUDIT and CONSULTING ACTIVITY

ORAL PRESENTATION

R6

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 26, 2017

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY

ORAL PRESENTATION

SPECIAL REQUEST ITEM