AUDIT COMMITTEE MEETING
JANUARY 19, 2011
Gloria Ray, Chair

TEXAS DEPARTMENT OF
HOUSING & COMMUNITY AFFAIRS
Building Homes. Strengthening Communities.

Tom Gann, Member
Lowell Keig, Member

AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

January 19, 2011
5:00 pm

TDHCA Headquarters
221 E. 11th Street, Room 116
Austin, TX

AGENDA

CALL TO ORDER, ROLL CALL — Gloria Ray, Chair

CERTIFICATION OF QUORUM — Gloria Ray, Chair

PUBLIC COMMENT
The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit public comment at the beginning of the meeting and will also provide for public comment on each agenda item after the presentation made by the Department staff and motions made by the Committee.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

REPORT ITEMS — Sandy Donoho, Dir Internal Audit

Item 1 Presentation, Discussion, and Possible Approval of Audit Committee Minutes for November 9, 2010

Item 2 Presentation, Discussion and Possible Action on the 2011 audit committee charter and board resolution #11-017

Item 3 Presentation and Discussion of Audit Results from Deloitte and Touche, CPAs — Julia Petty, Deloitte & Touche
-Communications with Audit Committee
-Opinion Audit on FY 2010 Basic Financial Statements
-Opinion Audit on FY 2010 Revenue Bond Program Financial Statements
-Opinion Audit on FY 2010 Computation of Unencumbered Fund Balances

Item 4 Presentation and Discussion of the status of the Internal Audit work plan

Item 5 Presentation and Discussion of recent internal audit reports

Item 6 Presentation and Discussion of the status of external audits

Item 7 Presentation and Discussion of recent external audit reports

Item 8 Presentation and discussion of the status of prior audit issues

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, Texas Government Code, Chapter 551 and under Texas Government Code §2306.039

ADJOURN — Gloria Ray, Chair

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 Nidia Hiroms, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3934 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 days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Nidia Hiroms, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Recommended Action

Approve the November 9, 2010 audit committee meeting minutes.

Background

None.

AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

NOVEMBER 9, 2010; 4:00 PM

TDHCA HEADQUARTERS
221 E. 11TH STREET, ROOM 116, AUSTIN, TX

MINUTE SUMMARY

CALL TO ORDER, ROLL CALL; CERTIFICATION OF QUORUM

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of November 9, 2010 was called to order by Chair, Gloria Ray, at 4:00 p.m. It was held at the 221 E. 11th Street, Room 116, Austin, TX. Roll call certified a quorum was present.

Members Present:

Gloria Ray, Chair
Tom Gann, Member
Lowell Keig, Member

PUBLIC COMMENT

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit public comment at the beginning of the meeting and will also provide for public comment on each agenda item after the presentation made by the Department staff and motions made by the Committee.

No public comment.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

REPORT ITEMS

AGENDA ITEM 1 Presentation, Discussion, and Possible Approval of Audit Committee Minutes for July 28, 2010.
Motion by Mr. Keig; duly seconded by Mr. Gann; passed unanimously.

AGENDA ITEM 2 Presentation, Discussion, and Possible Action on the proposed 2011 internal audit plan
Motion by Mr. Gann; duly seconded by Mr. Keig; passed unanimously.

AGENDA ITEM 3 Presentation and Discussion of recent internal audit reports
Report item; no action taken.

AGENDA ITEM 4 Follow-up Discussion on ACS/HUD-OIG Contract Process
Report item; no action taken.

AGENDA ITEM 5 Follow-up Discussion on WAP Monitoring Process
Report item; no action taken.

AGENDA ITEM 6 Presentation and Discussion of the status of external audits
Report item; no action taken.

AGENDA ITEM 7 Presentation and Discussion of recent external audit reports
Report item; no action taken.

AGENDA ITEM 8 Presentation and discussion of the status of prior audit issues
Report item; no action taken.

EXECUTIVE SESSION

At 5:22 p.m. Ms. Ray convened the Executive Session of the Audit Committee.

OPEN SESSION

At 6:05 p.m. Ms. Ray reconvened the Open Session and announced that no action had been taken during the Executive Session of the Audit Committee and certified that the posted agenda had been followed.

ADJOURN

Since there was no further business to come before the Committee, Gloria Ray adjourned the meeting of the Audit Committee at 6:06 p.m. on November 9, 2010.

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Michele Atkins, Assistant Board Secretary

For a full transcript of this meeting, please visit the TDHCA website at www.tdhca.state.tx.us.

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Recommended Action

Approve the Internal Audit Charter and the Board Resolutions regarding internal audit.

Background

Internal Audit Standards (the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*) require annual approval of the Internal Audit Charter and the Board Resolutions regarding internal audit. The content of the charter and the resolutions has not changed since their last approval in March 2010. The newest version of the charter corrects some minor typographical errors.

INTERNAL AUDIT CHARTER

(Effective October 17, 2001, Amended January 20, 2011
as approved by the Department's Governing Board)

D E F I N I T I O N

Internal audit is an independent, objective assurance and consulting activity within the Texas Department of Housing and Community Affairs (Department) designed to add value and improve the Department's operations. Internal audit helps the Department accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

P U R P O S E

The purpose of internal audit's work is to determine whether:

- risks are appropriately identified and managed,
- management information is reliable, accurate and timely,
- acceptable policies and procedures are followed,
- compliance with applicable laws and regulations is achieved,
- resources are safeguarded and used efficiently and economically,
- planned missions are accomplished effectively, and
- the Department's objectives are met.

The internal audit division supports management in its responsibilities by furnishing analyses, appraisals, observations and recommendations to assist the Department in evaluating and improving the effectiveness of its risk management, control and governance processes.

A U T H O R I T Y

The Internal Auditing Act (Chapter 2102, Government Code) and the Department's enabling legislation (Chapter 2306, Government Code) authorizes the establishment of an internal audit program. Internal auditors shall have full access to all of the Department's records, facilities, properties and personnel relevant to the performance of engagements or investigations, and are free to review and evaluate all policies, plans, procedures and records. However, internal auditors shall have no direct responsibility for, or authority over, any of the activities reviewed, and the auditing, review and evaluation of an area shall in no way relieve management of its assigned responsibilities.

Department management shall respond to all information requests by the internal auditor or internal audit staff pursuant to this authority within two business days of such requests, including requests of information considered confidential by its nature or due to pending or actual litigation. The internal audit staff shall use discretion in its review of records and assure the confidentiality of all matters that come to its attention.

The director of internal audit or a designated representative will be included in all entrance and exit conferences conducted by any external, federal or state auditors or monitors and shall receive copies of the audit or monitoring reports along with management's written response. The internal audit division shall be available to assist management in providing additional information, preparing responses to reports and examinations, and subsequently reviewing the progress made to correct the deficiencies reported.

I N D E P E N D E N C E

Internal auditors shall not develop or install procedures, prepare records, perform internal control functions, or engage in any other activity which they would normally review and evaluate and which could reasonably be construed to compromise the independence of the internal audit division. However, the independence of the internal audit division shall not be adversely affected by determining and recommending standards of control to be applied to the development of the systems and procedures reviewed. The internal audit division shall be responsive to requests for assistance from management, provided that the subject of the request is related to auditing or internal controls. The internal audit division staff shall not assume operating responsibilities or direct the activities of any employee not employed by the internal audit department or assigned to assist the internal auditors.

The internal audit division shall be available to perform consulting and advisory services at the specific request of the board, or of management with the board's approval. The nature and scope of these services are subject to agreement with management and the board. Consulting and advisory services are intended to add value and improve the Department's governance, risk management and control processes. These consulting and advisory services will only be performed if the director of internal audit deems that the engagement can be performed while still maintaining the auditors' objectivity and independence, and if the assignment does not result in the internal audit division or any member of the internal audit staff assuming any management responsibility.

A C C O U N T A B I L I T Y

The director of internal audit shall report directly to the audit committee of the governing board of the Department and administratively to the executive director of the Department. The director of internal audit shall furnish copies of all audit reports to the audit committee and to the governing board in accordance with the criteria established by the audit committee. The director of internal audit shall periodically appear before the audit committee and/or the governing board at its meetings to report on audit findings and the operations of the internal audit division.

The audit committee and the governing board shall periodically assess whether resources allocated to the internal audit division are adequate to implement an effective program of internal auditing. To facilitate ~~the~~ this process, the director of internal audit will emphasize significant risks to the Department that are not addressed in the annual audit plan as proposed to the audit committee and/or the governing board for approval, and will periodically report to the audit committee and/or the governing board on internal audit staffing levels.

R E S P O N S I B I L I T I E S

The internal audit division shall:

- comply with the Texas Internal Auditing Act.
- execute a comprehensive audit program to insure all activities of the Department are reviewed at appropriate intervals as determined by the director of internal audit and as approved by the audit committee and/or the governing board.
- review and evaluate systems of control and the quality of ongoing operations, recommend

actions to correct any deficiencies and follow-up on management’s response to assure that corrective action is taken on a timely basis.

- perform an objective assessment of evidence to provide an independent opinion or conclusions regarding the Department, its operations, functions, processes and systems.

- evaluate the quality of management performance in terms of compliance with policies, plans, procedures, laws and regulations.

- evaluate the effectiveness and contribute to the improvement of risk management processes, including evaluating the potential for the occurrence of fraud and how the Department manages fraud risk.

- assess and make appropriate recommendations for improving the governance process in promoting ethics and values within the Department, ensuring effective organizational performance, communicating risk and control information to appropriate areas of the Department, and coordinating and communicating information among the governing board, external auditors and management.

- review the controls of significant new systems and subsequent revisions before they are implemented. In addition, the environmental, operational and security controls of the Department’s automated processes shall be assessed and reviewed as needed.

- verify the existence of Department assets and assure that proper safeguards are maintained to protect them from losses of all kinds.

- audit the reliability and operation of the accounting and reporting system as needed.

- consider the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Department .

- conduct or participate in internal investigations of suspected fraud, theft or mismanagement, and provide advice relating to internal fraud and security.

- identify operational opportunities for performance improvement by evaluating the functional effectiveness against Department and industry standards. From time to time other divisions and individuals may also be engaged in this or similar functions.

- coordinate its audit efforts with those of the Department’s external, state, and federal auditors.

- evaluate the adequacy of management’s corrective actions and perform necessary follow-up procedures to ensure that the corrective actions have been implemented.

The Director of Internal Audit shall:

- ensure that written reports are prepared for every internal audit and that such reports are furnished to the director responsible for the audited activity. Copies of each audit report and management's responses shall be provided to the audit committee and the governing board in accordance with the criteria established by the audit committee. Management is responsible for providing the internal audit division with a detailed written response to reported deficiencies. Such response, stating corrective action taken or planned, including a target date for completion, should be received by the director of internal audit within ten (10) business days after management has received the report draft disclosing the deficiencies ~~conditions~~. Additional response time may be granted by the director of internal audit if circumstances warrant additional time.

- present a summary of audit activities to the audit committee or to the governing board at least three times annually. Each presentation will include comments about major audit findings and if necessary, an opinion of the adequacy of management's response to the audit reports. In addition, the director of internal audit will meet, as needed, with the executive director and/or the audit committee to discuss the purpose, authority, responsibility and performance of the internal audit division, the status of the audit plan, the status of management's resolution of audit recommendations, and other significant issues involving the internal audit function.

- prepare an annual summary report of audit activities, including opinions on the overall condition of the Department's controls and operations.

- confirm to the audit committee and/or the governing board on an annual basis the independence of the internal audit division and its audit staff.

- periodically review the internal audit charter and present it to management, the audit committee and/or the governing board for approval.

- promote and encourage the advancement of audit and control knowledge through the dissemination of related information and the active participation in professional groups and organizations.

STANDARDS OF AUDIT PRACTICE

As a means of assuring the quality and performance of the internal audit division, the audit committee requires the internal audit division to meet or exceed the *International Standards for the Professional Practice of Internal Auditing* and to comply with the *Code of Ethics* prescribed by the Institute of Internal Auditors and with generally accepted governmental auditing standards, as may be periodically amended. It is also expected that the internal audit division will obtain an external peer review of the internal audit division to evaluate the quality of its operations at least once every three years.

AUDIT COMMITTEE - BOARD RESOLUTIONS

Resolution # 11-017

(As approved by the Board on January 20, 2011)

WHEREAS the original audit committee (Committee) members were appointed by the chairman of the governing board (Board) in April, 1992, pursuant to the Texas Government Code, Chapter 2306, *Texas Department of Housing and Community Affairs* (Department), section 2306.056, *Committees,* and whereas the Committee's authority and composition has not been specified, and whereas the Committee members' duties and responsibilities have not been previously enumerated, the Board hereby resolves the following:

RESOLVED, that the Committee shall have the authority to investigate any organizational activity as it deems necessary and appropriate, and shall have unrestricted access to all information, including documents and personnel, and shall have adequate resources in order to fulfill the oversight responsibilities it conducts on behalf of the Board, including full cooperation of Department employees. The Committee has the authority to pre-approve the annual audit plan, and to approve any non-audit services or requests for audits or investigations outside of the annual audit plan.

RESOLVED, that the Committee shall be composed of three board members appointed by the Board's chairperson who shall serve for two year terms each or until their respective successor shall be duly appointed and qualified. Audit committee members shall be free of any relationships that would interfere with their ability to exercise independent judgment as a member of the Committee.

RESOLVED, that a chairperson of the Committee shall be appointed by the Board's chairperson.

RESOLVED, that the Committee shall meet a minimum of three times each year, either in a separate meeting or as part of a larger Board meeting, or at such additional or special meetings as may be called as needed by the Board chairperson, the Committee chairperson, or the executive director; and that the Committee shall report on its proceedings and actions to the Board with such recommendations as the Committee deems appropriate.

RESOLVED, that the Committee's primary function is to assist the Board in carrying out its oversight responsibilities as they relate to financial and other reporting practices, internal control, and compliance with Board and ethics policies, and to ensure the independence of the internal audit function.

RESOLVED, that in fulfilling its function, the Committee's responsibility for (i) financial and other reporting practices is to provide assurance to the Board that financial and other reporting information reported by management reasonably portrays the circumstances or plans reported; (ii) internal control is to monitor the effectiveness of control systems and processes through the results of internal and external audits and reviews; (iii) compliance with Board and ethics policies is to periodically inquire of management, the internal audit director, and the independent accountant about significant risks or exposures and assess the steps management has taken to minimize such risk; (iv) the internal audit function is to support the internal audit division so that internal auditors can gain the cooperation of auditees and perform their work independently and free from interference and to provide reasonable assurance that the internal auditors perform their responsibilities.

PASSED AND APPROVED this 20th day of January, 2011.

Chair of the Governing Board ______________________________

Executive Director ______________________________

Board Secretary ______________________________

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Recommended Action

Acceptance of the audit report from Deloitte and Touche, LLP.

Background

Audit requirements:

1) The Department's governing statute, Texas Govt. Code §2306.074, requires an annual audit of the Department's books and accounts.
2) Texas Govt. 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 require audited financial statements of the Housing Finance Division and the Supplemental Bond Schedules.

Results of the audits conducted by Deloitte & Touch LLP:

<u>FY 2010 Basic Financial Statements</u>

Unqualified Opinion

<u>FY 2010 Revenue Bond Program Audit</u>

Unqualified Opinion

<u>FY 2010 Unencumbered Fund Balances Calculation</u>

Audit results yielded no required transfer to the Housing Trust Fund

<u>FY 2010 Report to Management</u>

Section I – Material Weakness

Accounting For Long Term Loan Programs -

During the final phases of the year end closing procedure, the Department inadvertently reverted to 2008 policy by classifying Loans on the Balance Sheet but recording current year loan activity as Deferred Revenue instead of Fund Balance/Net Assets.

Recommendation:

The Department should:

- implement appropriate review processes for timely review of year-end financial closing entries to ensure consistent application of significant accounting policies.
- further incorporate reconciliations between Loan Servicing and Accounting Operations to ensure accuracy of the reported balances of the related loan programs.

- coordinate with other program specific Program Service departments (e.g. HOME/CDBG) that might also provide specific loan program activity data that would aid in the recording of proper period end closing entries and financial statement reporting.

Texas Department of Housing and Community Affairs

Basic Financial Statements

for the year ended August 31, 2010

(With Independent Auditors' Report Thereon)

Texas Department of Housing and Community Affairs

www.tdhca.state.tx.us

Rick Perry
Governor

Michael Gerber
Executive Director

December 20, 2010

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Texas Comptroller
Mr. John O'Brien, Director, Legislative Budget Board
Mr. John Keel, CPA, State Auditor

Dear Governor Perry, Comptroller Combs, Mr. O'Brien and Mr. Keel:

We are pleased to submit the Annual Financial Report of the Texas Department of Housing and Community Affairs for the year ended August 31, 2010, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

The accompanying annual financial report has been prepared in accordance with Generally Accepted Accounting Principles (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, Director of Financial Administration at (512) 475-3875. Esther Ku may be contacted at (512) 475-3871 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Michael Gerber
Executive Director

MG/tt

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Basic Financial Statements
for the year ended August 31, 2010

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Rick Perry, Governor,
and the Governing Board of
Texas Department of Housing and Community Affairs:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the Texas Department of Housing and Community Affairs (the "Department") as of and for the year ended August 31, 2010, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major 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, 2010, 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.

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, each major fund, and the aggregate remaining fund information of the Department, as of August 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The supplementary schedules listed in the table of contents are presented for the purpose of additional analysis as required by the Texas Comptroller of Public Accounts and are not a required part of the basic financial statements. These schedules are the responsibility of the Department's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

December 20, 2010

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, 2010. 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 assets increased $52.3 million and governmental activities net assets increased $109 million.

- The Department's proprietary fund experienced a decrease in operating income in the amount of $33.5 million to an operating income of $38.7 million. This impact on operating income resulted primarily from an increase in the fair value of investments in the amount of $42.5 million, a decrease of $14 million in interest and investment income, an increase of $4.2 million in other operating revenue and a decrease of $18.1 million in interest expense.

- The Department administers several significant programs under the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA): Homelessness Prevention and Rapid Re-Housing Program (HPRP), Weatherization (ARRA DOE), Community Services Block Grant (ARRA CSBG), Tax Credit Assistance Program (TCAP), Housing Tax Credit Exchange (Exchange), Neighborhood Stabilization Program (NSP) and the National Foreclosure Mitigation Counseling (NFMC) Program. The Department also administers the Community Development Block Grant (CDBG) awarded from the US Department of Housing and Urban Development (HUD) for housing recovery efforts related to Hurricanes Rita, Katrina, Ike and Dolly. Activities related to these grants increased significantly during fiscal year 2010.

- Net Assets in the Department's Governmental Activities increased from $192.7 million to $301.6 million. The majority of the change represents an increase in long-term revolving loans and contracts related to HOME, CDBG and TCAP.

- The Department's proprietary fund debt increased $5.5 million to $2.7 billion. Debt issuances and debt retirements totaled $300 million and $294.5 million, respectively.

- Loan originations in the Department's proprietary and governmental funds for the year totaled $11 million and $106 million, respectively.

- For the fiscal year ended, August 31, 2010, the Department adopted Governmental Accounting Standards Board Statement (GASB) No. 53, Accounting and Financial Reporting for Derivative Instruments. GASB 53 requires the reporting of derivative instruments at fair value. The Department's interest rate swaps, which are 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 as of the end of the fiscal year in the balance sheet. As of August 31, 2010, the Department's five interest rate swaps had a total notional amount of $322.1 million and a negative $37 million fair value which was recorded in the deferred outflow of resources account and a derivative swap liability.

- A rise in the number of borrowers who are unable to pay debt obligations has led to increased foreclosures causing uncertainty in the housing market. According to Standard and Poor's, Housing Finance Agencies (HFAs) face lower risk from defaults on their loans. Homebuyer education programs, conservative underwriting, generous reserves and ongoing HFA asset management have resulted in strong portfolio performance which is expected to continue for the long-term. Since 1988, the Department has had its single family mortgage loans guaranteed by Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

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 Assets and the Statement of Activities.

- The remaining statements are fund financial statements of the Department's governmental fund and proprietary fund. The governmental fund's activities are funded primarily from Federal funds but also include 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 Statement" section which explains some of 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 a "Supplementary Information" section, which presents supplementary 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 Assets 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 and 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 which provide resources for the Department's programs and operations. The fiduciary activity is not included in the government wide statements.

Statement of Net Assets – 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 Statements of Net Assets
As of August 31, 2010

	Governmental Activities		Increase / (Decrease)	
Assets	**2010**	**2009**	**Amount**	**%**
Cash & Investments	$ 5,921,161	5,093,871	$ 827,290	16.2
Legislative Appropriations	6,964,299	2,062,755	4,901,544	237.6
Federal Receivables	68,074,966	17,169,899	50,905,067	296.5
Other Intergovernmental Receivables	1,627,831	1,384,622	243,209	17.6
Accounts Receivable	6,105	40,674	(34,569)	(85.0)
Interfund Receivable	561,946	36,030	525,916	1,459.7
Loans and Contracts	299,731,889	193,151,588	106,580,301	55.2
Due From Other Agencies	3,226,496	-	3,226,496	-
Capital Assets	85,172	147,991	(62,819)	(42.4)
Other Assets	65,314	80,606	(15,292)	(19.0)
Total Assets	386,265,179	219,168,036	167,097,143	76.2
Liabilites				
Accounts Payable	72,983,506	23,736,528	49,246,978	207.5
Payroll Payable	1,685,158	1,141,654	543,504	47.6
Due to Other Agencies	2,117,401	-	2,117,401	-
Interfund Payable	610,709	188,434	422,275	224.1
Deferred Revenue	5,227,511	-	5,227,511	-
Other Current Liabilities	1,574,283	1,044,716	529,567	50.7
Other Non-current Liabilities	442,176	327,140	115,036	35.2
Total Liabilities	84,640,744	26,438,472	58,202,272	220.1
Net Assets				
Invested in Capital Assets	85,172	147,991	(62,819)	(42.4)
Restricted By Grantor	46,342	42,666	3,676	8.6
Unrestricted	301,492,921	192,538,907	108,954,014	56.6
Total Net Assets	$ 301,624,435	192,729,564	$ 108,894,871	56.5

Net Assets of the Department's governmental fund increased by $109 million. The increase was a result of an increase in Unrestricted Net Assets which primarily consists of revolving loans associated with HOME, CDBG and TCAP. Unrestricted Net Assets also includes balances related to Housing Trust Fund Administration and Manufactured Housing activity. Restricted Net Assets represent balances in Investor Owned Utility Programs.

Legislative Appropriations increased by $5 million. The increase represents an increased balance in the Homeless Housing and Services Program (HHSP). This state funded program was appropriated during the 81st Legislative Session to be administered by the Department to assist in the eight largest urban areas in providing services to homeless individuals and families, including case management, housing placement and retention.

The Department experienced an increase in Federal Receivables of $50.9 million. This change occurred primarily because of the substantial payment activities for the ARRA, HERA and CDBG grants at year end. The Department experienced similar changes in Accounts Payable of $49.2 million.

The Department experienced increases of Loans and Contracts. The increase is primarily because of the disbursement of current and non-current program loans, which are funded by federal funds. These loans are for the purpose of HOME, CDBG (disaster recovery activities) and a newly awarded TCAP grant.

Due from Other Agencies represents pass-through awards receivable from the Texas Department of Rural Affairs (TDRA) at year end. Theses CDBG awards are intended for disaster recovery efforts related to Hurricanes Ike and Dolly. Due to Other Agencies represents pass-through awards payable to TDRA at year end. These CDBG awards are intended for disaster recovery efforts related to Hurricane Rita.

The change in Payroll Payable is primarily attributed to an increase in August 2010 payroll compared to the August 2009 payroll. This increase represents temporary, Article IX federally funded employees. The increase is also attributed to an additional share of payroll benefits to the Governmental Fund. A benefits proportionality calculation is prepared in accordance with State Comptroller Accounting Policy Statement #11.

Deferred Revenue primarily represents revenues over expenditures for Section 8 and the FEMA-Alternative Housing Pilot Program.

Included in Other Liabilities is the current and non-current portion of Employees' Compensable Leave. It represents unpaid balances of employees' accumulated annual leave. A significant number of new employees were hired to assist with ARRA, HERA, and disaster recovery activities which are federally funded. Consequently, leave hours and unpaid balances of employee's accumulated annual leave increased.

Business Type Activities

Texas Department of Housing and Community Affairs
Business-Type Activities
Condensed Statements of Net Assets as of August 31, 2010

	Business-Type Activities		Increase / (Decrease)	
Assets	**2010**	**2009**	**Amount**	**%**
Cash & Investments	$ 1,736,323,357	1,692,810,901	$ 43,512,456	2.6
Loans and Contracts	1,275,677,613	1,293,742,533	(18,064,920)	(1.4)
Interest Receivable	14,628,301	14,791,537	(163,236)	(1.1)
Capital Assets	73,033	127,569	(54,536)	(42.8)
Deferred Outflow of Resources	36,966,154	-	36,966,154	-
Real Estate Owned	520,919	449,474	71,445	15.9
Deferred Issuance Cost	9,778,101	10,971,378	(1,193,277)	(10.9)
Other Assets	2,215,859	1,616,563	599,296	37.1
Total Assets	3,076,183,337	3,014,509,955	61,673,382	2.0
Liabilites				
Current				
Interest Payable	32,465,592	35,926,576	(3,460,984)	(9.6)
Deferred Revenue	19,514,063	20,870,600	(1,356,537)	(6.5)
Other Liabilities	7,138,520	7,463,348	(324,828)	(4.4)
Non-current				
Bonds/Notes Payable	2,671,049,369	2,668,859,650	2,189,719	0.1
Derivative Hedging Instrument	36,966,154	-	36,966,154	-
Other Non-current Liabilities	94,255,523	118,888,245	(24,632,722)	(20.7)
Total Liabilities	2,861,389,221	2,852,008,419	9,380,802	0.3
Net Assets				
Invested in Capital Assets	73,033	127,569	(54,536)	(42.8)
Restricted Bonds	139,489,798	91,457,425	48,032,373	52.5
Unrestricted	75,231,285	70,916,542	4,314,743	6.1
Total Net Assets	$ 214,794,116	162,501,536	$ 52,292,580	32.2

Net assets of the Department's proprietary fund increased $52.3 million, or 32.2%, to $214.8 million. The majority of this increase is attributed to the Department's fair value of its investments, changes in interest income on investments, and bond interest expense.

Restricted net assets of the Department's proprietary fund increased $48 million or 52.5%. Unrestricted net assets increased $4.3 million or 6.1%.

Cash and investments increased $43.5 million, or 2.6%, to $1.7 billion, related to the change in fair value and funds received related to the Housing Trust Fund. Program loans receivable (current and non-current) decreased $18.1 million, or 1.4%, to $1.3 billion, primarily as a result of loan payoffs related to the Department's Multi-family Bond Program. Total bonds and notes payable (current and non-current) only increased $2.2 million, or .1%, due to the Department's issuance of debt offset by monthly retirement of existing debt.

The Department adopted GASB 53 during fiscal year 2010 which requires the accounting and reporting of derivative instruments at fair value on the balance sheet. The Department's five interest rate swaps are considered to be derivative instruments per GASB 53. The negative $37 million fair value of the swaps is reporting as deferred outflow of resources and a derivative hedging instrument classified as a liability.

Statement of Activities

The Statement of Activities reflects the sources of the Department's changes in net assets as they arise through its various programs and functions. Single Family, Multifamily and Housing Trust Fund are shown as business-type activities, and ten major 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 year's ended August 31, 2009 and 2010 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	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charge for Services	$ 5,477	4,838	$ 138,792	148,426	$ 144,269	153,264
Operating Grants and Contributions	760,782	309,977	-	-	760,782	309,977
General Revenues	23,504	7,830	40,986	78,609	64,490	86,439
Total Revenue	789,763	322,645	179,778	227,035	969,541	549,680
Total Expenses:	670,025	253,712	136,169	154,874	806,194	408,586
Excess before Transfers	119,738	68,933	43,609	72,161	163,347	141,094
Transfers	(10,844)	(6,747)	8,683	4,190	(2,161)	(2,557)
Change in Net Assets	108,894	62,186	52,292	76,351	161,186	138,537
Beginning Net Assets	192,730	1,884	162,502	61,314	355,232	63,198
Cumulative Effect of Change in Accounting Principle	-	128,660	-	24,837	-	153,497
Ending Net Assets	$ 301,624	192,730	$ 214,794	162,502	$ 516,418	355,232

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 revenue increased $467 million. This change consisted primarily of increases of $451 million in Operating Grants and Contributions and in General Revenues of $16 million. The increase of Operating Grants and Contributions is a result of federal programs associated with the American Recovery and Reinvestment Act (ARRA). There is also an increase in HOME, LIHEAP and CDBG Programs.

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. The net impact to expenses is primarily due to increased activities in the ARRA, HOME, LIHEAP and CDBG programs.

Transfers composed primarily of the transferring out of Housing Trust Fund (HTF) from Governmental Activities to Business-Type Activities according to TDHCA rider 10 in the 2010-2011 General Appropriations Act. It also included transfers of Earned Federal Funds collected in accordance with S.B. 1, Article VII.

Business-Type Activities

Revenues of the Department's Business-type Activities were primarily from charges for services of $138.8 million and an increase in fair value of investments of $35.7 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 of which are restricted to those programs by a pledge to the respective bond indentures. Total charges for services decreased $9.6 million which is accounted by an $8.1 million decrease in interest and investment income related to Single Family Mortgage Revenue bonds and a $1.5 million decrease related to Residential Mortgage Revenue bonds due to lower investment yields.

Expenses of the Department's Business-type Activities consist primarily of interest expense of $116.5 million, which decreased $18.1 million and professional fees and services of $2.6 million, which decreased $.5 million. The decrease in interest expense is a result of the frequency in retirement of the Department's bonds and lower interest rates related to the Department's variable rate debt. The direct expenses also include Administrative Funds, allocations of expenses of Department programs that directly involve the production or monitoring activities associated with the housing programs, as well as certain costs incurred, both internally and externally. Administrative expenses, which were incurred within the Department's Administrative Fund, including all other administrative and supportive functions and overhead expenses remained approximately constant.

The Department's Business-type Activities Charges for Services of $138.8 million exceeded expenses of $136.2 million by $2.6 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.

The Department's Business-type Activities also generated $393.8 thousand of unrestricted investment income, which was used primarily to pay administrative costs.

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 two 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 Funds would be substantially the same as that of the Condensed Statement of Net Assets – Governmental Activities and therefore, 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 assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes or debt service. The Condensed Statement of Net Assets – Proprietary Funds would be exactly the same as the Business-Type Activities Condensed Statement of Net Assets and therefore, is not included.

Governmental Fund

Texas Department of Housing and Community Affairs
Governmental Fund Activities
Condensed Statements of Revenues, Expenditures and Changes in Fund Balances

			Increase / (Decrease)	
OPERATING REVENUES	**2010**	**2009**	**Amount**	**%**
Legislative Appropriations	$ 23,298,426	7,789,818	$ 15,508,608	199.1
Federal Revenues	734,061,870	307,897,106	426,164,764	138.4
Federal Grant Pass-Through	25,245,729	479,907	24,765,822	5,160.5
State Grant Pass-Through	2,624	5,262	(2,638)	(50.1)
Licenses, Fess and Permits	4,913,975	4,302,088	611,887	14.2
Interest and Investment Income	1,153,495	1,016,889	136,606	13.4
Sales of Goods and Services	562,927	534,715	28,212	5.3
Other Revenue	800,189	1,127,872	(327,683)	(29.1)
Total Operating Revenues	790,039,235	323,153,657	466,885,578	144.5
OPERATING EXPENDITURES				
Salaries Wages	12,255,711	10,360,767	1,894,944	18.3
Payroll Related Costs	3,538,601	2,752,607	785,994	28.6
Professional Fess and Services	3,000,411	723,331	2,277,080	314.8
Travel	751,462	589,566	161,896	27.5
Materials and Supplies	543,031	257,204	285,827	111.1
Communications and Utilities	367,000	273,180	93,820	34.3
Repairs and Maintenance	358,894	254,521	104,373	41.0
Rentals and Leases	226,353	119,856	106,497	88.9
Printing and Reproduction	265,284	111,646	153,638	137.6
Claims and Judgements	526,785	237,407	289,378	121.9
Federal Grant Pass-Through	16,162,836	13,708,391	2,454,445	17.9
Intergovermental Payments	117,582,454	63,790,474	53,791,980	84.3
Public Assistance Payments	513,439,279	159,675,512	353,763,767	221.6
Other Operating Expenditures	505,279	409,998	95,281	23.2
Capital Outlay	3,944	48,774	(44,830)	(91.9)
Total Operating Expenditures	669,527,324	253,313,234	416,214,090	164.3
Excess of Revenues over Expenditures	120,511,911	69,840,423	50,671,488	72.6
Other Financing Sources (Uses)	(10,844,139)	(6,748,701)	(4,095,438)	60.7
CHANGE IN FUND BALANCE	109,667,772	63,091,722	46,576,050	73.8
Beginning Fund Balance	193,953,430	2,710,226	191,243,204	7,056.4
Cumulative Effect of Change in				
Accounting Principle	-	128,660,128	(128,660,128)	(100.0)
Appropriations (Lapsed)	(275,480)	(508,646)	233,166	(45.8)
Ending Fund Balance	$ 303,345,722	193,953,430	$ 109,392,292	56.4

Governmental Fund Cont'd.

Revenues of the Department's governmental activities totaled $790 million. These activities were generated by federal grants primarily from LIHEAP, CSBG, CDBG, DOE, HOME and five ARRA programs. Expenditures of $670 million consisted primarily of Intergovernmental and Public Assistance Payments.

Total revenues from governmental activities increased by $467 million in 2010. It consisted of increases in Federal Revenues, Federal Grant Pass-Through Revenues and Legislative Appropriations.

Federal Revenues increased by $426 million. ARRA grants significantly increased Federal Revenues. The increase in Federal Revenues was also attributed to the increase in CDBG and LIHEAP Programs. CDBG funds were used to help restore and rebuild areas of the State directly impacted by Hurricanes Rita, Katrina, Ike and Dolly. There was also an increase in LIHEAP revenues due to additional funding in program year 2010.

The change to Federal Grant Pass-Through Revenues was due to the funding awarded from HUD and passed through from the TDRA. This program was for housing recovery assistance resulting from hurricanes Ike and Dolly.

Legislative Appropriations increased by $16 million. The legislature appropriated $10 million annually to fund the Homeless Housing and Services Program (HHSP) in the eight largest cities in Texas. Appropriation authority for Housing Trust Fund was also increased in fiscal year 2010.

The Department experienced similar changes in expenditures. The majority of the increase was attributed to the Intergovernmental and Public Assistance Payments for the ARRA grants and CDBG and LIHEAP Programs. Federal Pass-Through expenditures represent payments to TDRA for the CDBG disaster recovery program. It was funded from HUD for recovery efforts related to hurricane Rita.

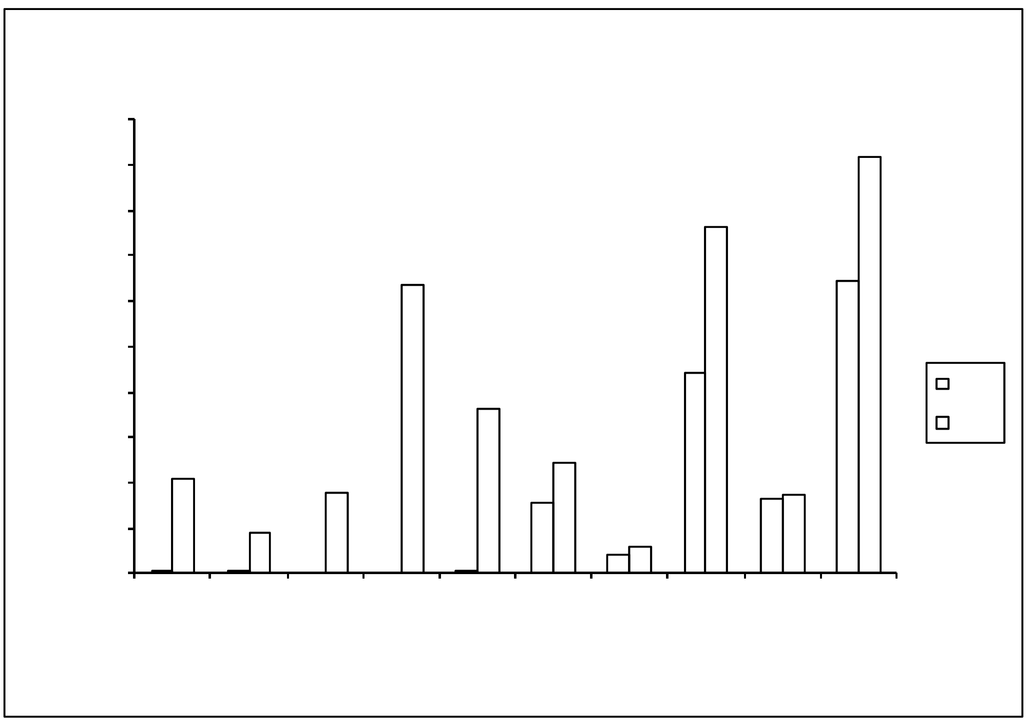
The fiscal year 2010 Other Financing Sources (Uses) consisted primarily of the transfer of HTF from General Revenue to Texas Treasury Safekeeping Trust Company. It also included transfers of interest earnings and loan repayments received during the year. There were also transfers of Earned Federal Funds to the Comptroller's Office for the purpose of reimbursement to the General Revenue Fund.

Governmental Fund Cont'd.

The following graphs illustrate a comparison between fiscal year 2009 and 2010 for Federal Revenues, Intergovernmental and Public Assistance Payments. The acronyms used in the graphs are defined as following:

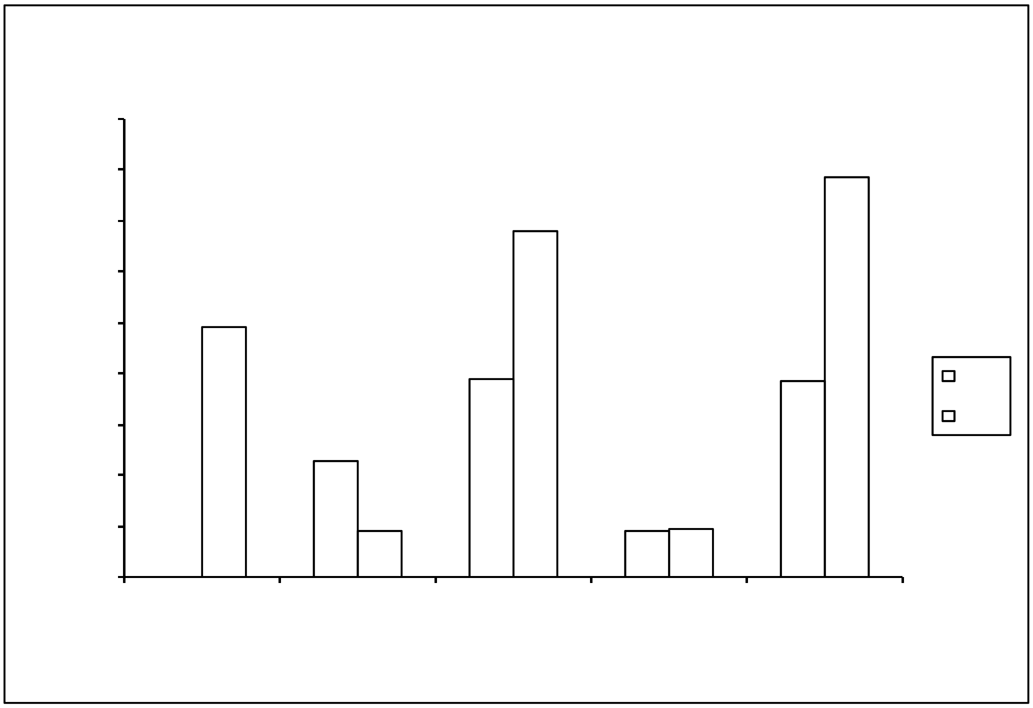
ARRA CSBG	Community Services Block Grant – Recovery Act
ARRA HPRP	Homeless Prevention and Rapid Re-Housing Program – Recovery Act
ARRA TCAP	Tax Credit Assistance Program – Recovery Act
ARRA Exchg	Housing Tax Credit Exchange – Recovery Act
ARRA DOE	Department of Energy, Weatherization Assistance for Low-Income Persons – Recovery Act
HOME	HOME Investment Partnerships Program
DOE	Department of Energy, Weatherization Assistance for Low-Income Persons
LIHEAP	Low-Income Home Energy Assistance Program
CSBG	Community Services Block Grant
CDBG	Community Development Block Grant

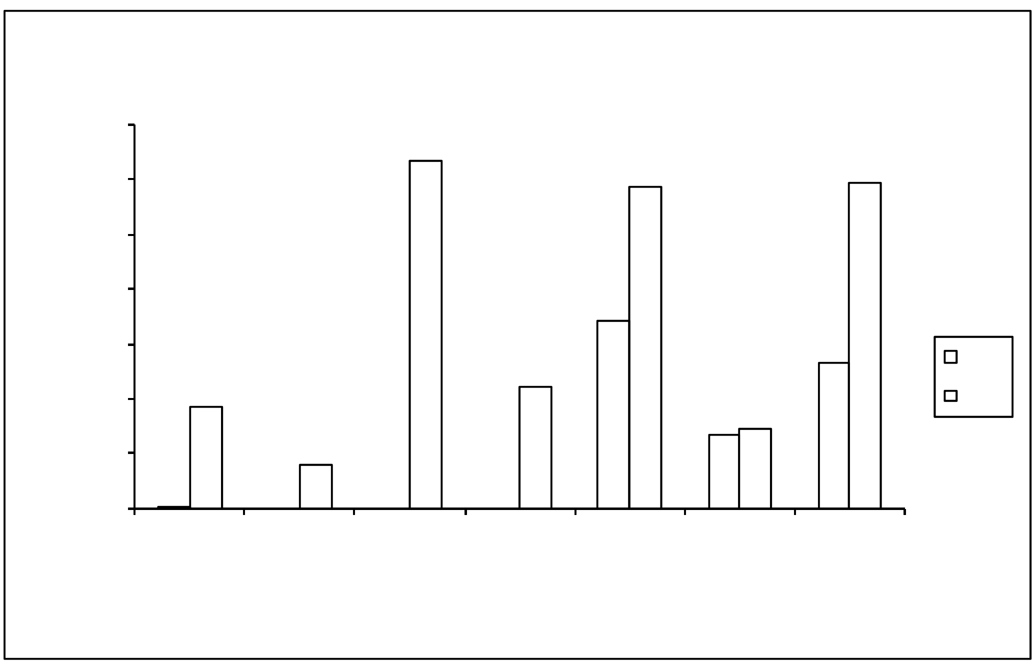
Federal Revenues: Receipts from the State's participation in programs financed with federal funds.



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 Net Assets of the Department's proprietary fund for the fiscal years ended August 31, 2010 and August 31, 2009.

Texas Department of Housing and Community Affairs
Business-Type Activities
Statements of Revenues, Expenses and Changes in Net Assets

			Increase / (Decrease)	
OPERATING REVENUES	**2010**	**2009**	**Amount**	**%**
Interest and Investment Income	$ 121,591,960	135,545,426	$ (13,953,466)	(10.3)
Net Increase in Fair Value	35,670,235	78,139,311	(42,469,076)	(54.4)
Other Operating Revenues	17,593,827	13,349,831	4,243,996	31.8
Total Operating Revenues	174,856,022	227,034,568	(52,178,546)	(23.0)
OPERATING EXPENDITURES				
Salaries Wages	8,518,848	7,758,671	760,177	9.8
Payroll Related Costs	1,720,493	1,726,459	(5,966)	(0.3)
Professional Fess and Services	2,644,144	3,178,411	(534,267)	(16.8)
Travel	251,738	240,413	11,325	4.7
Materials and Supplies	362,653	222,995	139,658	62.6
Communications and Utilities	139,182	92,610	46,572	50.3
Repairs and Maintenance	299,575	325,266	(25,691)	(7.9)
Rentals and Leases	128,352	43,702	84,650	193.7
Printing and Reproduction	9,061	24,993	(15,932)	(63.7)
Depreciation Expense	787,983	1,545,859	(757,876)	(49.0)
Interest	116,471,499	134,544,337	(18,072,838)	(13.4)
Bad Debt Expense	274,645	1,235,529	(960,884)	(77.8)
Down Payment Assistance	2,863,601	1,917,980	945,621	49.3
Other Operating Expenses	1,697,390	2,017,227	(319,837)	(15.9)
Total Operating Expenses	136,169,164	154,874,452	(18,705,288)	(12.1)
Operating Income	38,686,858	72,160,116	(33,473,258)	(46.4)
NONOPERATING REVENUES	13,605,722	4,190,296	9,415,426	224.7
CHANGE IN NET ASSETS	52,292,580	76,350,412	(24,057,832)	(31.5)
Beginning Net Assets	162,501,536	61,314,317	101,187,219	165.0
Revision	-	24,836,807	(24,836,807)	(100.0)
Beginning Net Assets Revised	162,501,536	86,151,124	76,350,412	88.6
Ending Net Assets	$ 214,794,116	162,501,536	$ 52,292,580	32.2

Proprietary Fund Cont'd.

Net assets of the Department's proprietary fund increased by $52.3 million, or 32.2%, to $214.8 million.

Earnings within the Department's various funds were $179.8 million of which $165.2 million is classified as restricted and $14.6 million is unrestricted.

Restricted earnings are composed of $121.2 million in interest and investment income, $35.7 million in fair value of investments, and $3.4 million in other revenue. Interest and investment income are restricted per bond covenants for debt service. Fair value of investments is an unrealized gain due to the fact that the Department holds investments until maturity. Other revenue is predominately an accounting recognition of fees received in previous years that are deferred when received and are being amortized over a period of time.

Interest earned on program loans decreased by $4.4 million, or 7.1%, due primarily to a decrease within the Department's Multifamily Bond Program, due to lower interest rates related to variable rate debt and the corresponding mortgage loans.

Investment income decreased $9.6 million or 12.9% and reflected lower investment yields. The primary decrease in investment income was within the Single Family Mortgage Revenue Bond Program in the amount of $7.8 million and the Residential Mortgage Revenue Bond Program in the amount of $1.5 million. The remaining decrease is accounted by the Housing Trust Fund Program and Housing Initiatives & Compliance.

The Net Increase in Fair Value decreased $42.5 million primarily due to a lower increase in the fair value of the Department's mortgage backed securities during the fiscal year.

Other Operating Revenues increased $4.2 million primarily due to the recovery of estimated loan loss from previous estimations in the amount of $3.1million and a $1.1 million increase in the recognition of commitment fees income.

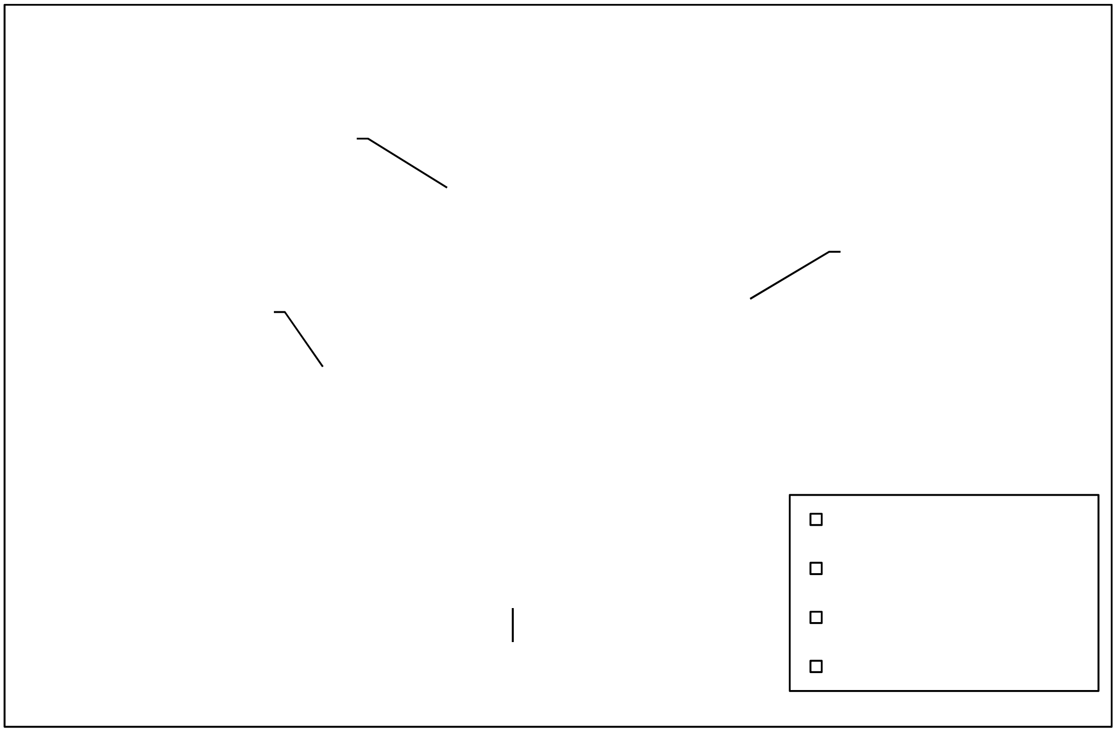
Interest expense decreased $18.1 million related to the Department's debt. One of the factors in this decrease is the Department's decision to pay down its bonds on a monthly basis as opposed to every six months and a decrease in interest rates related to variable rate debt.

Unrestricted earnings are composed of $393.8 thousand in interest and investment income and $14.2 million in other operating revenue.

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

Fees earned under the Tax Credit Program are application fees, commitment fees, and inspection 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 that 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.

The graph below illustrates the composition of the $14.2 million in other operating revenue, classified as unrestricted earnings, according to the different housing programs.



The following table illustrates the changes in net assets by program of the Department's business-type activities for fiscal years 2010 and 2009.

Texas Department of Housing and Community Affairs
Business-Type Activities
Changes in Net Assets by Programs
(Amounts in Thousands)

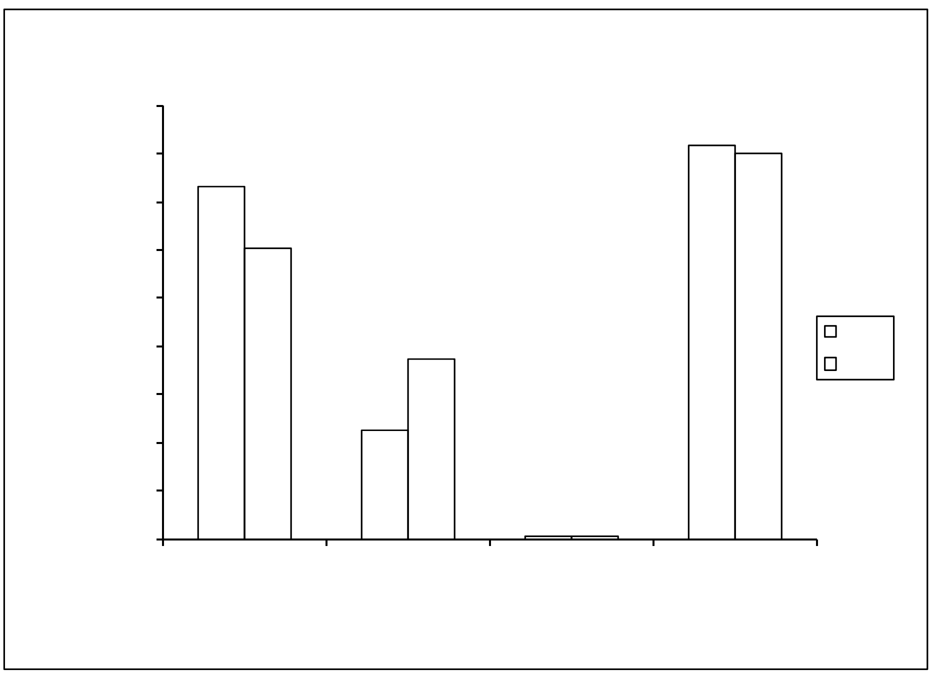
			Increase / (Decrease)	
Fund	**2010**	**2009**	**Amount**	**%**
Single Family	$ 101,370	$ 65,447	$ 35,923	54.9
RMRB	31,291	24,470	6,821	27.9
CHMRB	1,829	1,514	315	20.8
Multifamily	(402)	(126)	(276)	(219.0)
Commerical Paper	-	26	(26)	(100.0)
General Funds	13,326	13,433	(107)	(0.8)
Housing Trust Fund	61,747	52,221	9,526	18.2
Administration Fund	(529)	(310)	(219)	(70.6)
Housing Initiatives & Compliance	6,162	5,825	337	5.8
Total	$ 214,794	$ 162,500	$ 52,294	32.2

Proprietary Fund Cont'd.
The net assets of the Single Family Bond Program increased by $35.9 million or 54.9%, and the RMRB Bond Program increased $6.8 million or 27.9%, primarily due to an increase in fair value in investments.

The net assets of the Housing Trust Fund increased $9.5 million or 18.2% primarily due to the yearly transfer of funds from general revenue appropriations.

Department Debt
The Department's new debt issuances during fiscal year 2010 totaled $300 million. The Residential Mortgage Revenue Bond Program issued $300 million in bonds under the New Issue Bond Program. The Department also had $294.5 million in debt retirement during the year primarily due to consumer refinancing and prepayments of original loans. The net result was an increase in bonds payable of $5.5 million to $2.7 billion of which $26.2 million is due within one year. For additional information, see Note 5, Bond Indebtedness, and supplementary bond information schedules.

The following graph will illustrate a comparison of bonds outstanding between fiscal year 2009 and 2010 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, Director of Financial Administration, P.O. Box 13941, Austin, Texas, 78711-3941.

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BASIC

FINANCIAL STATEMENTS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT I
STATEMENT OF NET ASSETS - GOVERNMENT WIDE
As of August 31, 2010

	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	86,574	106,574
Cash in State Treasury	-	1,032,380	1,032,380
Cash Equivalents	-	41,559,460	41,559,460
Restricted:			
Cash and Cash Equivalents (Note 3):			
Cash in Bank	-	16,354,016	16,354,016
Cash in State Treasury	5,900,961	-	5,900,961
Cash Equivalents	-	437,803,439	437,803,439
Short-term Investments (Note 3)	-	11,675,198	11,675,198
Loans and Contracts	-	12,363,992	12,363,992
Interest Receivable	-	14,561,767	14,561,767
Federal Receivable	68,074,966	-	68,074,966
Legislative Appropriations	6,964,299	-	6,964,299
Receivables From:			
Interest Receivable	60,656	66,534	127,190
Accounts Receivable	6,105	1,794,467	1,800,572
Other Intergovernmental	1,627,831	-	1,627,831
Interfund Receivable (Note 7)	561,946	48,763	610,709
Due From Other Agencies (Note 7)	3,226,496	-	3,226,496
Consumable Inventories	4,658	4,658	9,316
Loans and Contracts	13,749,722	2,319,171	16,068,893
Other Current Assets	-	367,971	367,971
Total Current Assets	100,197,840	540,038,590	640,236,430
Non-Current Assets:			
Loans and Contracts	-	39,448,849	39,448,849
Capital Assets (Note 2):			
Depreciable or Amortizable, Net	85,172	73,033	158,205
Restricted Assets:			
Investments (Note 3)	-	1,227,812,090	1,227,812,090
Loans and Contracts	285,982,167	1,221,545,601	1,507,527,768
Deferred Outflow of Resources (Note 4)	-	36,966,154	36,966,154
Other Non-Current Assets:			
Deferred Issuance Cost, net (Note 5)	-	9,778,101	9,778,101
Real Estate Owned, net	-	520,919	520,919
Total Non-Current Assets	286,067,339	2,536,144,747	2,822,212,086
Total Assets	$ 386,265,179	$ 3,076,183,337	$ 3,462,448,516

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT I (Continued)
STATEMENT OF NET ASSETS - GOVERNMENT WIDE
As of August 31, 2010

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
LIABILITIES			
Current Liabilities:			
Payables:			
Accounts Payable	$ 72,983,506	$ 796,646	$ 73,780,152
Accrued Bond Interest Payable	-	32,465,592	32,465,592
Payroll Payable	1,685,158	-	1,685,158
Due To Other Agencies (Note 7)	2,117,401	-	2,117,401
Claims and Judgments Payable (Note 9)	210,000	-	210,000
Interfund Payable (Note 7)	610,709	-	610,709
Deferred Revenues	5,227,511	19,514,063	24,741,574
Employees' Compensable Leave (Note 4)	1,364,283	767,099	2,131,382
Revenue Bonds Payable (Notes 4 & 5)	-	26,246,737	26,246,737
Other Current Liabilities	-	5,574,775	5,574,775
Total Current Liabilities	84,198,568	85,364,912	169,563,480
Non-Current Liabilities:			
Employees' Compensable Leave (Note 4)	442,176	226,562	668,738
Revenue Bonds Payable (Notes 4 & 5)	-	2,644,802,632	2,644,802,632
Derivative Hedging Instrument (Note 4)	-	36,966,154	36,966,154
Other Non-Current Liabilities (Note 4)	-	94,028,961	94,028,961
Total Non-Current Liabilities	442,176	2,776,024,309	2,776,466,485
Total Liabilities	84,640,744	2,861,389,221	2,946,029,965
NET ASSETS			
Invested in Capital Assets	85,172	73,033	158,205
Restricted:			
For Single Family Bonds	-	139,489,798	139,489,798
By Grantor	46,342	-	46,342
Unrestricted	301,492,921	75,231,285	376,724,206
Total Net Assets	$ 301,624,435	$ 214,794,116	$ 516,418,551

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT II
STATEMENT OF ACTIVITIES - GOVERNMENT WIDE
For the Year Ended August 31, 2010

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets — Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2010 Total**
Primary Government						
Governmental Activities:						
Manufactured Housing	$ 5,500,787	$ 5,418,687	$ -	$ (82,100)	$ -	$ (82,100)
HOME Investment in Affordable Housing	7,070,232	-	49,856,241	42,786,009	-	42,786,009
Energy Assistance	164,084,703	-	164,245,075	160,372	-	160,372
Community Services	40,052,634	18,290	40,185,824	151,480	-	151,480
Community Development	174,226,684	-	208,810,909	34,584,225	-	34,584,225
Federal Emergency Management	523,739	-	525,329	1,590	-	1,590
Section 8	6,040,859	-	6,022,945	(17,914)	-	(17,914)
National Foreclosure Mitigation Counseling	615,785	-	615,785	-	-	-
CSBG - ARRA	41,939,968	-	41,939,968	-	-	-
HPRP - ARRA	18,220,116	-	18,221,264	1,148	-	1,148
WAP - ARRA	72,774,319	-	72,908,127	133,808	-	133,808
TCAP - ARRA	-	-	28,952,670	28,952,670	-	28,952,670
EXCHANGE - ARRA	126,771,100	-	126,771,100	-	-	-
Homeless Housing & Services Program	7,178,614	-	-	(7,178,614)	-	(7,178,614)
Housing Trust Fund	634,334	9,703	143,594	(481,037)	-	(481,037)
Administration	4,390,869	30,222	1,583,650	(2,776,997)	-	(2,776,997)
Total Governmental Activities	670,024,743	5,476,902	760,782,481	96,234,640	-	96,234,640
Business-type Activities:						
Single Family Bonds	64,999,412	69,027,482	-	-	4,028,070	4,028,070
Multifamily Bonds	55,875,307	55,599,147	-	-	(276,160)	(276,160)
Housing Trust Fund Program	1,491,738	2,065,312	-	-	573,574	573,574
Administration	13,802,706	12,100,018	-	-	(1,702,688)	(1,702,688)
	136,169,163	138,791,959	-	-	2,622,796	2,622,796
Total Primary Government	$ 806,193,906	$ 144,268,861	$ 760,782,481	96,234,640	2,622,796	98,857,436

General Revenues:

	Governmental Activities	Business-type Activities	2010 Total
Original Appropriations	$ 21,624,024	-	21,624,024
Additional Appropriations	1,674,402	-	1,674,402
Interest & Other Investment Income	170,286	393,827	564,113
Appropriations Lapsed	(275,480)	-	(275,480)
Other Revenues	311,138	-	311,138
Net Increase in Fair Value of Investments	-	35,670,235	35,670,235
Transfers In (Out) (Note 7)	(10,844,139)	8,683,171	(2,160,968)
Gain on sale of Investments	-	4,922,551	4,922,551
Total General Revenues and Transfers	12,660,231	49,669,784	62,330,015
Change in Net Assets	108,894,871	52,292,580	161,187,451
Net Assets, September 1, 2009	192,729,564	162,501,536	355,231,100
Net Assets - August 31, 2010	$ 301,624,435	$ 214,794,116	$ 516,418,551

See accompanying notes to the financial statements.

EXHIBIT III
BALANCE SHEET - GOVERNMENTAL FUND
As of August 31, 2010

	Total
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	5,900,961
Federal Receivable	68,074,966
Legislative Appropriations	6,964,299
Accounts Receivable	6,105
Receivables From:	
Other Intergovernmental	1,627,831
Interest	60,656
Interfund Receivable (Note 7)	561,946
Due From Other Agencies (Note 7)	3,226,496
Consumable Inventories	4,658
Restricted - Loans and Contracts	13,749,722
Total Current Assets	100,197,840
Non-Current Assets:	
Restricted - Loans and Contracts	285,982,167
Total Non-Current Assets	285,982,167
Total Assets	386,180,007
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts Payable	72,983,506
Payroll Payable	1,685,158
Claims and Judgments Payable (Note 9)	210,000
Interfund Payable (Note 7)	610,709
Due To Other Agencies (Note 7)	2,117,401
Deferred Revenues	5,227,511
Total Liabilities	82,834,285
FUND FINANCIAL STATEMENT-FUND BALANCES	
Fund Balances:	
Reserved for:	
Encumbrances	1,277,146,142
Inventories	4,658
Imprest	20,200
Loans and Contracts	292,219,092
Unreserved/Undesignated	(1,266,044,370)
Total Fund Balances as of August 31	303,345,722
NOTE: Amounts reported for governmental activities in the statement of net assets are different because:	
Capital net assets net of accumulated depreciation used in governmental activities are not financial resources and therefore not reported in the funds.	85,172
Long term liabilities relating to employees' compensable leave are not due and payable in the current year therefore are not reported in the funds.	(1,806,459)
NET ASSETS AS OF AUGUST 31	$ 301,624,435

See accompanying notes to the financial statements.

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, 2010

		Total
REVENUES		
Legislative Appropriations:		
Original Appropriations (GR)	$	21,624,024
Additional Appropriations (GR)		1,674,402
Federal Revenue (PR-OP G/C)		734,061,870
Federal Revenue Grant Pass-Thru Revenue (PR-OP G/C)		25,245,729
State Grant Pass-Through Revenue (PR-OP G/C)		2,624
Licenses, Fees & Permits (PR-C/S)		4,913,975
Interest and Other Investment Income (PR-OP G/C)		983,209
Interest and Other Investment Income (GR)		170,286
Sales of Goods and Services (PR-C/S)		562,927
Other (PR-OP G/C)		489,050
Other (GR)		311,139
Total Revenues		790,039,235
EXPENDITURES		
Salaries and Wages		12,255,711
Payroll Related Costs		3,538,601
Professional Fees and Services		3,000,411
Travel		751,462
Materials and Supplies		543,031
Communication and Utilities		367,000
Repairs and Maintenance		358,894
Rentals & Leases		226,353
Printing and Reproduction		265,284
Claims and Judgments		526,785
Federal Pass-Through Expenditures		16,162,836
Intergovernmental Payments		117,582,454
Public Assistance Payments		513,439,279
Other Expenditures		505,279
Capital Outlay		3,944
Total Expenditures		669,527,324
Excess of Revenues Over Expenditures		120,511,911
OTHER FINANCING SOURCES (USES)		
Transfers Out (Note 7)		(10,844,139)
Total Other Financing (Uses)		(10,844,139)
Net Change in Fund Balances		109,667,772
FUND FINANCIAL STATEMENT-FUND BALANCES		
Fund Balances--Beginning		193,953,430
Appropriations (Lapsed)		(275,480)
Fund Balances - August 31	$	303,345,722

See accompanying notes to the financial statements.

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, 2010

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

		Total
Net Change in Fund Balances (Exhibit IV)	$	109,667,772
Appropriations (Lapsed)		(275,480)
Changes in Fund Balances		109,392,292
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because of the adjustments to:		
- capital outlay expense		3,944
- depreciation expense		(66,763)
- payroll expense due to Compensable Leave		(434,602)
Changes in Net Assets, August 31 (Exhibit II)	$	108,894,871

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT V
STATEMENT OF NET ASSETS - PROPRIETARY FUND
August 31, 2010

	Total
ASSETS AND DEFERRED OUTFLOWS	
Current Assets:	
Cash and Cash Equivalents (Note 3)	
Cash on Hand	$ 200
Cash in Bank	86,574
Cash in State Treasury	1,032,380
Cash Equivalents	41,559,460
Restricted Assets:	
Cash and Cash Equivalents (Note 3)	
Cash in Bank	16,354,016
Cash Equivalents	437,803,439
Short-term Investments (Note 3)	11,675,198
Loans and Contracts	12,363,992
Interest Receivable	14,561,767
Receivable:	
Interest Receivable	66,534
Accounts Receivable	1,794,467
Interfund Receivable (Note 7)	48,763
Consumable Inventories	4,658
Loans and Contracts	2,319,171
Other Current Assets	367,971
Total Current Assets	540,038,590
Non-Current Assets and Deferred Outflows:	
Loans and Contracts	39,448,849
Capital Assets: (Note 2)	
Depreciable or Amortizable, Net	73,033
Restricted Assets:	
Investments (Note 3)	1,227,812,090
Loans and Contracts	1,221,545,601
Deferred Outflow of Resources	36,966,154
Deferred Issuance Cost, net (Note 5)	9,778,101
Real Estate Owned, net	520,919
Total Non-Current Assets and Deferred Outflows	2,536,144,747
Total Assets and Deferred Outflows	$ 3,076,183,337

See accompanying notes to the financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT V (Continued)
STATEMENT OF NET ASSETS - PROPRIETARY FUND
August 31, 2010

	Total
LIABILITIES AND DEFERRED INFLOWS	
Current Liabilities	
Payables:	
Accounts Payable	$ 796,646
Accrued Bond Interest Payable	32,465,592
Deferred Revenues	19,514,063
Employees' Compensable Leave (Note 5)	767,099
Revenue Bonds Payable (Notes 4 & 5)	26,246,737
Other Current Liabilities	5,574,775
Total Current Liabilities	85,364,912
Non-Current Liabilities and Deferred Inflows	
Employees' Compensable Leave (Note 4)	226,562
Revenue Bonds Payable (Notes 4 & 5)	2,644,802,632
Derivative Hedging Instrument (Note 4)	36,966,154
Other Non-Current Liabilities (Note 5)	94,028,961
Total Non-Current Liabilities and Deferred Inflows	2,776,024,309
Total Liabilities and Deferred Inflows	2,861,389,221
NET ASSETS	
Invested in Capital Assets	73,033
Restricted	139,489,798
Unrestricted	75,231,285
Total Net Assets	$ 214,794,116

See accompanying notes to the financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND
For the fiscal year ended August 31, 2010

	Total
OPERATING REVENUES	
Interest and Investment Income	$ 121,591,960
Net Increase in Fair Value	35,670,235
Other Operating Revenues	17,593,827
Total Operating Revenues	174,856,022
OPERATING EXPENSES	
Salaries and Wages	8,518,848
Payroll Related Costs	1,720,493
Professional Fees and Services	2,644,144
Travel	251,738
Materials and Supplies	362,653
Communications and Utilities	139,182
Repairs and Maintenance	299,575
Rentals and Leases	128,352
Printing and Reproduction	9,061
Depreciation and Amortization	787,983
Interest	116,471,499
Bad Debt Expense	274,645
Down Payment Assistance	2,863,601
Other Operating Expenses	1,697,390
Total Operating Expenses	136,169,164
Operating Income	38,686,858
NONOPERATING REVENUES	
Gain on Sale of Investments	4,922,551
Total Non-Operating Revenues	4,922,551
Income before Other Revenues, Expenses, Gains, Losses and Transfers	43,609,409
OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS	
Transfers In (Note 7)	8,683,171
Total Other Revenues, Expenses, Gains, Losses and Transfers	8,683,171
CHANGE IN NET ASSETS	52,292,580
Net Assets, September 1, 2009	162,501,536
NET ASSETS, AUGUST 31, 2010	$ 214,794,116

See accompanying notes to the financial statements.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VII
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the fiscal year ended August 31, 2010

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Loan Programs	$ 60,951,012
Proceeds from Other Revenues	13,121,193
Payments to Suppliers for Goods/Services	(10,160,392)
Payments to Employees	(10,207,293)
Payments for Loans Provided	(11,020,427)
Net Cash Provided by Operating Activities	42,684,093
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Debt Issuance	300,000,000
Proceeds from Transfers from Other Funds	8,683,171
Proceeds from Other Funds	103,641
Payments of Principal on Debt Issuance	(294,546,935)
Payments of Interest	(121,377,791)
Payments for Other Cost of Debt	(1,368,344)
Net Cash Provided by Noncapital Financing Activities	(108,506,258)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Additions to Capital Assets	(6,089)
Net Cash (Used for) Capital Activities	(6,089)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	568,954,788
Proceeds from Interest/Invest. Income	73,094,665
Payments to Acquire Investments	(377,394,800)
Net Cash Provided by Investing Activities	264,654,653
Net Increase in Cash and Cash Equivalents	198,826,399
Cash and Cash Equivalents, September 1, 2009	298,009,670
Cash and Cash Equivalents, August 31, 2010	$ 496,836,069

See accompanying notes to the financial statements.

EXHIBIT VII (Continued)
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the fiscal year ended August 31, 2010

		Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	38,686,858
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Amortization and Depreciation		787,983
Provision for Uncollectibles		274,645
Operating Income and Cash Flow Categories Classification Differences		13,964,288
Changes in Assets and Liabilities:		
(Increase) in Receivables		(455,337)
Decrease in Accrued Interest Receivable		163,236
Decrease in Loans / Contracts		18,064,918
(Increase) in Property Owned		(71,446)
Decrease in Acquisition Costs		1,193,277
(Increase) in Other Assets		(149,259)
(Decrease) in Payables		(187,786)
(Decrease) in Deferred Revenues		(1,356,537)
(Decrease) in Accrued Interest Payable		(3,460,983)
(Decrease) in Other Liabilities		(24,769,764)
Total Adjustments		3,997,235
Net Cash Provided by Operating Activities		42,684,093

NON CASH TRANSACTIONS
Increase in Fair Value of Investments for 2010 was $35,670,235

Loans and the related properties acquired were transferred to real estate owned in the amount of $87,401 for 2010

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)

EXHIBIT VIII
COMBINED STATEMENT OF FIDUCIARY NET ASSETS
As of August 31, 2010

AGENCY FUND		**Total**
ASSETS		
Current Assets:		
Restricted:		
Cash in State Treasury	$	52,728
Total Current Assets		52,728
Total Assets	$	52,728
LIABILITIES		
Current Liabilities:		
Funds Held for Others	$	52,728
Total Current Liabilities		52,728
Total Liabilities	$	52,728

See accompanying notes to the financial statements.

NOTES TO THE

FINANCIAL STATEMENTS

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 with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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 Assets 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

General Fund
The General 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.

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 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.

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

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 ASSETS

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 No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* (GASB Statement 31). 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 (GNMA, FNMA, FHLMC) has been established by each bond issue's trustee using a pricing service.

The Department has reported all investment securities at fair value as of August 31, 2010 with exception of some short-term money market investments and nonparticipating interest-earning investments 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 Net Assets-Proprietary Fund as "Net Increase in the Fair Value of Investments." 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 non-operating revenue.

Restricted Assets
Restricted assets include 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.

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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.

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 General Fund made from federal funds for the purpose of Single Family loans and Multifamily development loans from the HOME, Community Development Block Grant and Tax Credit Assistance programs.

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. Deferred commitment fees relating to the Single Family, Residential Mortgage Revenue Bonds (RMRB) Series 1987A and certain Multifamily programs are included as a reduction of loans receivable. 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. Deferred commitment fees are recognized using the interest method over the estimated lives of the loans.

Deferred Outflow of Resources

The Department implemented Government Accountant Standards Board (GASB) Statement No. 53, Accounting and Financial Reporting for Derivative Instruments for the year ended August 31, 2010. Per the statement, the Department identified its derivative instruments and measured their effectiveness. 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.

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. During the year, 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.

Commitment Fees

Commitment fees received in connection with the origination of loans are deferred and recognized using the interest method over the estimated lives of the related loans and mortgage-backed securities, or if the commitment expires unexercised it is credited to income upon expiration of the commitment.

Deferred Issuance Costs
Deferred issuance costs on bonds are amortized using the interest method over the contractual life 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 related deferred issuance costs.

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.

Deferred Revenues
Deferred Revenues in the proprietary fund represent fees such as commitment fees and compliance fees that are deferred upon receipt and amortized over a period of time. Deferred 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 assets.

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 assets.

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 Instrument
Per Government Accountant Standards Board (GASB) Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, the Department is to recognize its interest rate swaps at fair value on the Statement of Net Assets. For the year ended August 31, 2010, the fair value of the Department’s five swaps is considered to be negative indicating the Department would be obligated to pay the counterparty the fair value as of the termination date.

Notes and Loans Payable
Notes and Loans Payable is composed of Commercial Paper Notes issued by the Department. Proceeds not used to refund outstanding Commercial Paper Notes are intended to redeem single-family mortgage revenue bonds.

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.

Fund Balance/Net Assets

The difference between fund assets and liabilities is “Net Assets” on the government-wide, proprietary and fiduciary fund statements, and the “Fund Balance” is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance
Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

Reserved for Encumbrances
This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Reserved for Consumable Inventories
This represents the amount of postage to be used in the next fiscal year.

Reserved for Imprest Accounts
This represents reserves for travel and imprest cash in amounts equal to the assets.

Reserved for Loans and Contracts
This represents the Fund Balance reserved for the asset balance of loans and contracts receivable that are not available for use.

Unreserved/Undesignated
Unreserved represents the unappropriated balance at year-end.

Net Assets
Invested in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation. The Department reports net assets as restricted when constraints placed on net assets are externally imposed by bond covenants and federal grants. Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets or Restricted Net Assets.

Interfund Transactions and Balances

The Department may have the following types of transactions among funds:

1. Transfers - Legally required transfers that are reported when incurred as “Transfers In” by the recipient fund and as “Transfers Out” by the disbursing fund.
2. Legislative Sources/Uses – Budget transfers between agencies within the General Revenue Fund (0001).
3. Quasi-External Transactions - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

NOTE 2: CAPITAL ASSETS - A summary of changes in Capital Assets for the year ended August 31, 2010, is presented below:

	PRIMARY GOVERNMENT				
	Balance 09/01/09	**Adjustments**	**Additions**	**Deletions**	**Balance 08/31/10**
GOVERNMENTAL ACTIVITIES					
Depreciable Assets					
Furniture and Equipment	$ 1,770,158	$ (1,307,012)	$ 3,943	$ (13,660)	$ 453,429
Other Capital Assets	$ 130,964	$ -	$ -	$ -	$ 130,964
Total Depreciable Assets	$ 1,901,122	$ (1,307,012)	$ 3,943	$ (13,660)	$ 584,393
Less Accumulated Depreciation for:					
Furniture and Equipment	$ (1,653,260)	$ 1,281,708	$ (27,259)	$ 13,660	$ (385,151)
Other Capital Assets	$ (99,871)	$ -	$ (26,192)	$ -	$ (126,063)
Total Accumulated Depreciation	$ (1,753,131)	$ 1,281,708	$ (53,451)	$ 13,660	$ (511,214)
Depreciable Assets, Net	$ 147,991	$ (25,304)	$ (49,508)	$ -	$ 73,179
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	$ -	$ (1,281,708)	$ (13,311)	$ -	$ (1,295,019)
Total Accumulated Amortization	$ -	$ (1,281,708)	$ (13,311)	$ -	$ (1,295,019)
Amortizable Assets - Intangible, Net	$ -	$ 25,304	$ (13,311)	$ -	$ 11,993
Governmental Activities Capital Assets, Net	$ 147,991	$ -	$ (62,819)	$ -	$ 85,172

	PRIMARY GOVERNMENT				
	Balance 09/01/09	**Adjustments**	**Additions**	**Deletions**	**Balance 08/31/10**
BUSINESS-TYPE ACTIVITIES					
Depreciable Assets					
Furniture and Equipment	$ 1,064,154	$ (679,785)	$ 6,089	$ (6,338)	$ 384,120
Other Capital Assets	$ 132,279	$ -	$ -	$ -	$ 132,279
Total Depreciable Assets	$ 1,196,433	$ (679,785)	$ 6,089	$ (6,338)	$ 516,399
Less Accumulated Depreciation for:					
Furniture and Equipment	$ (967,990)	$ 671,008	$ (28,619)	$ 6,338	$ (319,263)
Other Capital Assets	$ (100,874)	$ -	$ (26,456)	$ -	$ (127,330)
Total Accumulated Depreciation	$ (1,068,864)	$ 671,008	$ (55,075)	$ 6,338	$ (446,593)
Depreciable Assets, Net	$ 127,569	$ (8,777)	$ (48,986)	$ -	$ 69,806
Amortizable Assets - Intangible					
Computer Software	$ -	$ 679,785	$ -	$ -	$ 679,785
Total Amortizable Assets - Intangible	$ -	$ 679,785	$ -	$ -	$ 679,785
Less Accumulated Amortization for:					
Computer Software	$ -	$ (671,008)	$ (5,550)	$ -	$ (676,558)
Total Accumulated Amortization	$ -	$ (671,008)	$ (5,550)	$ -	$ (676,558)
Amortizable Assets - Intangible, Net	$ -	$ 8,777	$ (5,550)	$ -	$ 3,227
Business-Type Activities Capital Assets, Net	$ 127,569	$ -	$ (54,536)	$ -	$ 73,033

Depreciation is reported as Expenses within the administration Functions/Programs of the Statement of Activities – Government-wide.

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, 2010, the carrying amount of deposits was $16,460,590.

Governmental and Business-Type Activities	
Governmental Funds Current Assets Cash in Bank	$ 20,000
Proprietary Funds Current Assets Cash in Bank	
Texas Treasury Safekeeping Trust	$ 86,574
Proprietary Funds Current Assets Restricted Cash in Bank	
Texas Treasury Safekeeping Trust	$ 130,739
Demand Deposits	$ 16,223,277
Cash in Bank per AFR	$ 16,460,590

At August 31, 2010 the Department's cash and deposits in the State Treasury amounted to $6,933,341. Of that amount, $6,933,341 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.

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

At August 31, 2010, the fair value of investments (including both short-term and long-term) are shown below.

Business Type Activities	Fair Value
U.S. Government	
U.S. Government Agency Obligations	$ 1,220,168,936
Repurchase Agreements (TTSTC)	$ 152,732,857
Fixed Income Money Markets	$ 326,630,042
Misc (Investment Agreements/GICs)	$ 19,318,352
Total	$ 1,718,850,187

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, 2010, the Department's credit quality distribution for securities with credit risk exposure was as follows.

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	Not Rated	AAA	AA	A
05	3054	U.S. Government Agency Obligations		$ 206,506,969		
05	3054	Repurchase Agreements (TTSTC)	$ 152,732,857			
05	3054	Misc (Investment Agreements/GICs)	$ 19,318,352			
			Not Rated	**AAA-M**	**AA-M**	**A-M**
05	3054	Fixed Income Money Market		$ 326,630,042		

A total of $1,013,661,967 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, 2010, the Department's concentration of credit risk is as follows.

Fund Type	GAAP Fund	Issuer	Carrying Value	% of Total Portfolio
05	3054	Warburg	$ 152,732,857	8.89%

NOTE 3: 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 Departments 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)

Government and 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	$ 1,220,168,936	$ 11,674,248		$ 3,023,534	$ 1,205,471,154
Repurchase Agreements (TTSTC)	$ 152,732,857	$ 152,732,857			
Fixed Income Money Markets	$ 326,630,042	$ 326,630,042			
Misc (Investment Agreements/GICs)	$ 19,318,352	$ 950	$ 657,589		$ 18,659,813
Total	$ 1,718,850,187	$ 491,038,097	$ 657,589	$ 3,023,534	$ 1,224,130,967

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. Any fluctuation in fair value generates an unrealized gain or loss. As of August 31, 2010, the Department holds $1,220,168,936 in mortgage backed securities.

NOTE 4: SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2010, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/2009	Additions	Reductions	Balance 08/31/2010	Amounts Due Within One Year
Compensable Leave	$ 1,371,857	$ 1,364,283	$ 929,681	$ 1,806,459	$ 1,364,283
Total Governmental Activities	$ 1,371,857	$ 1,364,283	$ 929,681	$ 1,806,459	$ 1,364,283

Business-Type Activities	Balance 09/01/2009	Additions	Reductions	Balance 08/31/2010	Amounts Due Within One Year
Revenue Bonds Payable	$ 2,668,859,650	$ 300,000,000	$ 297,810,281	$ 2,671,049,369	$ 26,246,737
Derivative Instrument Liability	$ -	$ 36,966,154	$ -	$ 36,966,154	$ -
Compensable Leave	$ 961,613	$ 771,277	$ 739,229	$ 993,661	$ 767,099
Total Business-Type Activities	$ 2,669,821,263	$ 337,737,431	$ 298,549,510	$ 2,709,009,184	$ 27,013,836

Commercial Paper Notes Payable
The Department is authorized to issue the Notes in an aggregate principal amount not to exceed $75,000,000 outstanding. Proceeds of the initial issuance of the Notes and of future issues not issued to refund outstanding Notes will be used to redeem certain of the Department’s single-family mortgage revenue bonds (the “Refunded Bonds”), which are subject to redemption as a result of the receipt by the Department of prepayments of the related underlying mortgage loans. Such prepayments may, at a future date, be recycled into new mortgage loans by the Department.

Derivative Instrument Liability
Per GASB 53, the Department is to recognize its interest rate swaps at fair value on the Statement of Net Assets. As of August 31, 2010, the fair value of the Department’s five swaps is considered to be negative indicating the Department would be obligated to pay the counterparty the fair value as of the termination date.

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 Assets. 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.

Other Non-current Liabilities
Other non-current liabilities in the Enterprise Fund totaling $94,028,961 primarily account for funds due to Developers as a result of Multifamily bond proceeds which have corresponding investment balances not 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.

NOTE 5: BONDED INDEBTEDNESS

The Department has 123 bond issues outstanding at August 31, 2010. 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 and 1-E.)

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 backed by mortgage loans. Proceeds from the remaining Multifamily bond issues were used to finance mortgage loans.

DEBT SERVICE REQUIREMENTS

PRINCIPAL ONLY (amounts in thousands):

Description	2011	2012	2013	2014	2015	2016 to 2020	2021 to 2025
Single-family	$ 12,575	$ 13,170	$ 14,490	$ 15,125	$ 15,805	$ 122,665	$ 160,525
RMRB	3,800	304,560	4,795	5,060	4,760	30,435	55,805
CHMRB							8,000
Multifamily	9,658	9,675	10,186	10,618	11,303	68,981	105,934
Total	**$ 26,033**	**$ 327,405**	**$ 29,471**	**$ 30,803**	**$ 31,868**	**$ 222,081**	**$ 330,264**

Description	2026 to 2030	2031 to 2035	2036 to 2040	2041 to 2045	2046 to 2050	Total
Single-family	$ 191,835	$ 231,805	$ 118,085	$	$	$ 896,080
RMRB	62,430	61,155	26,565			559,365
CHMRB						8,000
Multifamily	176,848	166,520	352,092	254,050	24,489	1,200,355
Total	**$ 431,113**	**$ 459,480**	**$ 496,742**	**$ 254,050**	**$ 24,489**	**$ 2,663,800**

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.

NOTE 5: BONDED INDEBTEDNESS Cont'd

PRINCIPAL AND INTEREST (amounts in thousands):

Description	2011	2012	2013	2014	2015	2016 to 2020	2021 to 2025
Single-family	$ 41,660	$ 41,754	$ 42,476	$ 42,470	$ 42,470	$ 245,704	$ 263,694
RMRB	17,675	317,905	17,782	17,844	17,315	89,260	105,261
CHMRB	529	582	529	582	530	2,752	10,166
Multifamily	65,103	63,239	63,172	63,004	63,056	319,009	331,570
Total	**$ 124,967**	**$ 423,480**	**$ 123,959**	**$ 123,900**	**$ 123,371**	**$ 656,725**	**$ 710,691**

Description	2026 to 2030	2031 to 2035	2036 to 2040	2041 to 2045	2046 to 2050	Total
Single-family	$ 267,544	$ 275,849	$ 126,586	$	$	$ 1,390,207
RMRB	95,859	74,816	30,665			784,382
CHMRB						15,670
Multifamily	359,741	301,619	435,463	284,299	26,190	2,375,464
Total	**$ 723,144**	**$ 652,284**	**$ 592,714**	**$ 284,299**	**$ 26,190**	**$ 4,565,723**

Interest on bonds is payable periodically. The Department currently holds variable rate debt which resets on a weekly basis. (Detailed supplemental bond information is disclosed in Schedules 1-A, 1-B, 1-C, 1-D and 1-E.)

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.

CHANGES IN BONDS PAYABLE

Deferred issuance costs at August 31, 2010, consist of the following:

	Amount
Deferred Issuance Costs at August 31, 2010	$ 43,650,482
Less Accumulated Amortization	(33,872,381)
Deferred Issuance Costs, net	$ 9,778,101

NOTE 5: BONDED INDEBTEDNESS Cont'd

CHANGES IN BONDS PAYABLE

Description	Bonds Outstanding 09/01/09	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinquished	Bonds Outstanding 08/31/10	Amounts Due Within One Year
Single Family	$ 1,087,675,000	$ -	$ 14,035,000	$ 177,560,000	$ 896,080,000	$ 12,794,161
RMRB	337,570,000	300,000,000	4,610,000	73,595,000	559,365,000	3,793,341
CHMRB	9,100,000	-	-	1,100,000	8,000,000	10,633
Multifamily	1,224,001,567	-	7,821,935	15,825,000	1,200,354,632	9,648,602
Total Principal	$ 2,658,346,567	$ 300,000,000	$ 26,466,935	$ 268,080,000	$ 2,663,799,632	$ 26,246,737
Unamortized Premium	13,808,842				9,656,808	
Unamortized Refunding (Loss)	(3,295,759)				(2,407,071)	
Total	$ 2,668,859,650				$ 2,671,049,369	

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 five 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 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.

NOTE 5: BONDED INDEBTEDNESS Cont'd

Summary

The fair value balances and notional amounts of the derivative instruments outstanding as of 08/31/2010, classified by type, and the changes in fair value of such derivative instruments added in fiscal year 2010 representing interest rate swaps are as follows.

Business Type Activities		Changes in Fair Value in FY 2010		Fair Value at August 31, 2010		
Cash Flow Hedges	**Bond Issue**	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Pay-fixed, receive-variable interest rate swap	2004B	Deferred outflow of resources	$ (2,873,456)	Debt	$ (7,519,433)	$ 53,000,000
Pay-fixed, receive-variable interest rate swap	2004D	Deferred outflow of resources	(1,699,135)	Debt	(4,434,426)	35,000,000
Pay-fixed, receive-variable interest rate swap	2005A	Deferred outflow of resources	(3,175,979)	Debt	(8,205,581)	77,290,000
Pay-fixed, receive-variable interest rate swap	2006H	Deferred outflow of resources	(1,516,806)	Debt	(4,609,496)	36,000,000
Pay-fixed, receive-variable interest rate swap	2007A	Deferred outflow of resources	(4,852,636)	Debt	(12,197,218)	120,775,000
			$ (14,118,012)		$ (36,966,154)	$ 322,065,000

TERMS AND FAIR VALUE

The terms, including the fair value of the outstanding swaps as of August 31, 2010 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
UBS AG	$ 53,000,000	$ (7,519,433)	9/1/2004	3.84%	63% of LIBOR + .30%	9/1/34 (a)
Goldman Sachs Capital Markets, LP	35,000,000	(4,434,426)	1/1/2005	3.64%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	3/1/35 (b)
JP Morgan Chase & Co.	77,290,000	(8,205,581)	8/1/2005	4.01%	Less of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	9/1/36 (c)
UBS AG	36,000,000	(4,609,496)	11/15/2006	3.86%	63% of LIBOR +.30%	9/1/25 (d)
JP Morgan Chase & Co.	120,775,000	(12,197,218)	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	$ 322,065,000	$ (36,966,154)				

a. Swap Agreement has an optional early termination date of March 1, 2014 and every March and September thereafter. The maximum notional amount subject to early termination is equal to 60% of the current notional amount.
b. Swap Agreement has an optional early termination date of September 1, 2014 and every March and September thereafter.
c. Swap Agreement is subject to an early termination date at any time from mortgage loan prepayments with a 10 business day notice.
d. Swap Agreement has an optional early termination date of March 1, 2016 and every March and September thereafter. The maximum notional amount subject to early termination is current notional amount per the amortization schedule.

NOTE 5: BONDED INDEBTEDNESS Cont'd

CREDIT RISK

As of August 31, 2010, the Department is not exposed to credit risk on any of its outstanding swaps because the swaps have negative fair values. 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 and insurance policies with the counterparties. The credit ratings for the counterparties are as follows.

Counterparty	Standard & Poor's	Moody's
UBS AG	A+	Aa3
Goldman Sachs Bank	Not Rated	Aa3
JP Morgan Chase & Co.	AA-	Aa1

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 LIBOR as the rate for payments received on these swaps. The Department will be exposed to basis risk should LIBOR and SIFMA converge. The swap agreements provide an option to terminate as stated above.

INTEREST RATE RISK

The Department has entered into its swap agreements to minimize the exposure to interest rate risk. On the pay-fixed, received-variable interest rate swaps, as the LIBOR swap index decreases the Department's net payments on the swaps increase. For the related hedged variable rate debt, as the SIFMA index decreases the Department's interest payments on the bonds decrease.

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

NOTE 5: BONDED INDEBTEDNESS Cont'd

Associated Debt Issuance	Debt Maturity Date	Swap Termination Date
2004B Single Family	September 2034	60% may terminate as early as March 2014
2004D Single Family	March 2035	60% may terminate as early as September 2014, 100% may terminate after September 2033
2005A Single Family	September 2036	May terminate at anytime from mortgage loan prepayments giving 10 day notice
2006H Single Family	September 2037	100% may terminate as early as March 2016
2007A Single Family	September 2038	May terminate at anytime from mortgage loan prepayments giving 10 day notice

SWAP PAYMENTS AND ASSOCIATED DEBT

Using rates as of August 31, 2010, 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 Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2011	$ -	$ 985,398	$ 11,329,354	$ 12,314,752
2012	-	985,398	11,329,354	12,314,752
2013	-	985,398	11,329,354	12,314,752
2014	-	985,398	11,329,354	12,314,752
2015	2,020,000	984,565	11,319,985	14,324,550
2016-2020	46,630,000	4,631,685	53,237,697	104,499,382
2021-2025	68,540,000	3,714,555	42,704,558	114,959,113
2026-2030	82,810,000	2,541,560	29,225,502	114,577,062
2031-2035	88,325,000	1,206,890	13,969,158	103,501,048
2036-2039	33,740,000	156,693	1,854,882	35,751,575
Total	**$ 322,065,000**	**$ 17,177,540**	**$ 197,629,198**	**$ 536,871,738**

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, 2010, the Department has an aggregate liability related to the interest rate swaps in the amount of $5,758,569 payable September 1, 2010.

Demand Bonds

The Department currently holds seven single family bond series in the amount $331,720,000 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.

NOTE 5: BONDED INDEBTEDNESS Cont'd

Demand Bonds - Standby Purchase Agreements				
Single Family Bond Series	Liquidity Provider	Commitment Fee Rate	Outstanding Variable Rate Demand Bonds as of 8/31/10	Liquidity Facility Expiration Date
2007A	Comptroller of Public Accounts	0.12%	$ 120,775,000	2/28/2011
2006H	Comptroller of Public Accounts	0.12%	36,000,000	2/28/2011
2005A	Comptroller of Public Accounts	0.12%	77,290,000	2/28/2011
2004D	Comptroller of Public Accounts	0.12%	35,000,000	2/28/2011
2004B	Comptroller of Public Accounts	0.12%	53,000,000	2/28/2011
2005C	Comptroller of Public Accounts	0.12%	5,800,000	2/28/2011
2004A Jr. Lien	Comptroller of Public Accounts	0.12%	3,855,000	2/28/2011
Total Demand Bonds			**$ 331,720,000**	

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 every ninety days 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.

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." All series are revenue bonds backed by these pledged revenue sources and funds are restricted per bond covenants through the life of the related bonds. 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.

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
Total Single Family Bonds	$ 226,991,090	$ 1,737,239	$ 14,035,000	$ 45,022,721
Total Residential Mtg Revenue Bonds	88,530,255	955,292	4,610,000	16,715,610
Total 1992 CHMRB	1,794,994	6,614	-	591,263
Total Multifamily Bonds	71,423,435	9,533	7,821,935	55,587,213
Total	**$ 388,739,774**	**$ 2,708,678**	**$ 26,466,935**	**$ 117,916,807**

NOTE 6: OPERATING LEASES

The Department's five-year operating lease at office space located at 1106 Clayton Lane, Austin, Texas expires on September 30, 2015.

Year Ended August 31	Governmental Activities	Business-Type Activities	Total
2011 (Future Year 1)	$ 183,527	$ 75,274	$ 258,801
2012 (Future Year 2)	241,421	57,532	298,953
2013 (Future Year 3)	241,421	57,532	298,953
2014 (Future Year 4)	241,421	57,532	298,953
2015 (Future Year 5)	20,118	4,794	24,912
Total Minimum Future Lease Rental Payments	$ 927,908	$ 252,664	$ 1,180,572

NOTE 7: 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, 2010, follows:

Fund	**Current Interfund Receivable**	**Current Interfund Payable**
General Fund (01)		
General Revenue (0001)	$ 561,946	$ -
Consolidated Federal (0127)	-	610,709
Enterprise Fund (05, 0896)	48,763	-
Total Interfund Receivable/ Payable (Exhibits I, III & V)	**$ 610,709**	**$ 610,709**

General (01)	**Due From Other Agencies**	**Due To Other Agencies**	**Source**
Appd Fund 0001, D23 Fund 0001			
(Agency 320, D23 Fund 0165)	$	$ 133	Transfers
(Agency 902, D23 Fund 0001)		111,611	Transfers
Appd Fund 0001, D23 Fund 0066			
(Agency 320, D23 Fund 0165)		2,460	Transfers
Appd Fund 0127, D23 Fund 0127			
(Agency 357, D23 Fund 5091)	3,226,426	1,993,453	Federal P-T
(Agency 320, D23 Fund 0165)		9,744	Transfers
Appd Fund 5140, D23 Fund 5140			
(Agency 608, D23 Fund 5140)	70		Transfers
Total Due From/To Other Agencies (Exhibits I &III)	**$ 3,226,496**	**$ 2,117,401**	

NOTE 7: INTERFUND ACTIVITY AND TRANSACTIONS Cont'd

Fund	Transfers In	Transfers Out	Purpose
General Fund (01)			
Appd Fund 0001, D23 Fund 0001		$ 8,683,171	Article VII-6, Rider 10
Appd Fund 0001, D23 Fund 0001		1,703,861	Article IX, § 6.22
Appd Fund 0001, D23 Fund 0066		431,153	Gov't Code, Sect. 403.021
Appd Fund 0369, D23 Fund 0369		25,954	Article IX, § 6.22
Total Transfers for Fund 0001 (Exhibits II & IV)		**$ 10,844,139**	
Enterprise Fund (05)			
Appd Fund 3054, D23 Fund 0999	$ 8,683,171		Article VII-6, Rider 10
Total Transfers for Fund 3054 (Exhibits II, IV & VI)	**$ 8,683,171**		
Total Transfers*	**$ 8,683,171**	**$ 10,844,139**	

* The $2,160,968 difference between total transfers in/out represents transfers to the Texas Comptroller of Public Accounts.

NOTE 8: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2011 unless continued in existence as provided by the Act. If abolished, the Department may continue until September 1, 2012 to close out its operations.

NOTE 9: CONTINGENCIES AND COMMITMENTS

The Department is a defendant in legal actions arising from transactions and activities conducted in the ordinary course of business. Management, after consultation with legal counsel, believes that the aggregate liabilities, if any, will not be material to the financial statements.

The Department receives federal grants that are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The Department's management has recorded $210,000 as an estimate of potential settlement of disallowed costs pursuant to administration of federal programs. The disallowed costs were recovered from the contractor after year end by a reduction of the amount of administrative funds allowed.

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.

NOTE 9: CONTINGENCIES AND COMMITMENTS Cont'd

Series	Collateral Posting Exposure at Current Credit Rating	Credit Rating Downgrade Threshold	MTM Threshold
2004B (1)	None	A3/A- or below for FSA and TDHCA	After downgrade of FSA and TDHCA, 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
2006H	None	Baa1/BBB+ or below	After downgrade, 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) FSA Swap Insurance still in effect. Collateral posting only required if FSA is downgraded to A3/A- or below AND TDHCA is downgraded to A3/A- or below.

As of August 31, 2010 the Department's credit rating related to the Single Family Indenture was AAA 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 ($36,966,154). If the collateral posting requirements had been triggered at August 31, 2010, the Department would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments.

WAREHOUSING AGREEMENT

The Department has entered into a Warehousing Agreement on April 8, 2010 with both Plains Capital Bank and First Southwest Company. The agreement allows for the temporary warehousing of mortgage backed securities by the provider until the Department purchases them with expected issued bond proceeds. The maximum dollar volume of mortgage backed securities to be held by the providers should not exceed $100,000,000 ($50,000,000 per provider) at any time with a cumulative purchased maximum of $500,000,000 ($250,000,000 per provider). The Department has agreed to purchase the warehoused mortgage backed securities from the providers before December 31, 2010 or at a later date with the written consent of the warehouse providers at a price equal to the current par value of the securities. As of August 31, 2010, Plains Capital Bank and First Southwest Company have warehoused $2,710,022 in mortgage backed securities.

NOTE 10: 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. Currently there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities. The Department carries Public Official Liabilities Insurance coverage in the amount of $10,000,000; automobile liability insurance in the amount of $1,000,000, errors and omissions insurance of $300,000 related to loan servicing for others and a $350,000 Public Employee Fidelity Bond.

NOTE 10: RISK MANAGEMENT Cont'd

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 incurred no claims liability during fiscal years 2009 and 2010 related to these policies.

NOTE 11: 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. Each indenture imposes the requirement of separate accounting of the revenues, expenses, gains, losses, assets, and liabilities.

CONDENSED STATEMENT OF NET ASSETS

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Restricted Assets:			
Current Assets	$ 70,489,005	$ 359,180,330	$ 254,925
Capital Assets	-	-	-
Other Assets	1,003,031,238	237,981,520	10,005,008
Total Assets	1,073,520,243	597,161,850	10,259,933
Liabilities:			
Current Liabilities	45,367,116	9,491,590	294,225
Long Term Liabilities	926,783,659	556,379,097	8,136,541
Total Liabilities	972,150,775	565,870,687	8,430,766
Net Assets:			
Restricted Net Assets	$ 101,369,468	$ 31,291,163	$ 1,829,167
Total Restricted Net Assets	$ 101,369,468	$ 31,291,163	$ 1,829,167

NOTE 11: SEGMENT INFORMATION FOR ENTERPRISE FUND Cont'd

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

	Single Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Operating Revenues:			
Interest and Investment Income	$ 50,937,065	$ 14,014,959	$ 658,150
Net Increase in Fair Value	30,183,748	5,297,288	189,199
Other Operating Revenues	2,457,259	923,183	36,844
Operating Expenses	(45,785,707)	(17,926,722)	(569,043)
Depreciation and Amortization	(499,320)	(214,520)	(3,984)
Operating Income	37,293,045	2,094,188	311,166
Nonoperating Revenues (Expenses):			
Other Nonoperating Revenues (Expenses):	-	4,922,551	-
Special and Extraordinary Items	-	-	-
Transfers In (Out)	(1,370,635)	(195,153)	3,636
Changes in Net Assets	35,922,410	6,821,586	314,802
Net Assets, September 1, 2009	65,447,058	24,469,577	1,514,365
Net Assets, August 31, 2010	$ 101,369,468	$ 31,291,163	$ 1,829,167

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	$ 1,996,172	$ (2,423,822)	$ (2,630)
Noncapital Financing Activities	(242,372,378)	203,736,508	(1,665,938)
Investing Activities	186,555,265	62,373,897	1,690,959
Net Increase (Decrease)	(53,820,941)	263,686,583	22,391
Beginning Cash and Cash Equivalents	118,034,290	93,785,313	174,804
Ending Cash and Cash Equivalents	$ 64,213,349	$ 357,471,896	$ 197,195

NOTE 12: EMPLOYEE BENEFITS

Plan Description — The Department contributes to the Employees Retirement System of Texas (the "System"), a cost-sharing, multiple-employer, defined benefit plan. The Department has implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which standardizes financial reporting for pensions by state and local government employers. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Subtitle B, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207 or by calling (512) 476-6431.

Funding Policy — Under provisions in State law, plan members are required to contribute 6.5% of their annual covered salary, and the Department contributes an amount equal to 6.95% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ending August 31, 2010, 2009, and 2008, were $1,293,403, $1,084,329 and, $1,002,741 respectively, equal to the required contributions for each year.

NOTE 13: SUBSEQUENT EVENTS

On December 16, 2010, the Sunset Advisory Commission, a legislative oversight commission, unanimously voted to recommend the continued existence of the Department, in its existing form, for an additional twelve years. A bill will be introduced in the next legislative session reflective of this decision.

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SUPPLEMENTARY BOND

SCHEDULES

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-A
MISCELLANEOUS BOND INFORMATION
For the fiscal year ended August 31, 2010

Description o	Bonds Issued To Date		Range Of Interest Rates		Scheduled Mat. First Year	Scheduled Mat. Last Year	First Call Date
2002 Single Family Series A (Jr. Lien)	$	10,000,000	7.01%	7.01%	2025	2026	09/01/2012
2002 Single Family Series A		38,750,000	5.45%	5.55%	2023	2034	03/01/2012
2002 Single Family Series B		52,695,000	5.35%	5.55%	2033	2033	03/01/2012
2002 Single Family Series C		12,950,000	2.80%	5.20%	2004	2017	03/01/2012
2002 Single Family Series D		13,605,000	2.00%	4.50%	2003	2012	03/01/2012
2004 Single Family Series A		123,610,000	2.00%	4.70%	2006	2035	03/01/2013
2004 Single Family Series B		53,000,000	VAR - Weekly		2015	2034	03/01/2015
2004 Single Family Series A (Jr. Lien)		4,140,000	VAR - Weekly		2036	2036	09/01/2036
2004 Single Family Series C		41,245,000	4.30%	4.80%	2019	2036	09/01/2014
2004 Single Family Series D		35,000,000	VAR - Weekly		2035	2035	(g)
2004 Single Family Series E		10,825,000	2.45%	4.30%	2006	2013	09/01/2014
2005 Single Family Series A		100,000,000	VAR - Weekly		2007	2036	03/01/2006
2005 Single Family Series B		25,495,000	4.38%	4.38%	2006	2026	03/01/2006
2005 Single Family Series C		8,970,000	VAR - Weekly		2017	2017	03/01/2006
2005 Single Family Series D		3,730,000	5.00%	5.00%	2025	2035	03/01/2006
2006 Single Family Series A		59,555,000	5.00%	5.00%	2008	2037	09/01/2006
2006 Single Family Series B		70,485,000	5.00%	5.00%	2008	2034	09/02/2006
2006 Single Family Series C		105,410,000	5.13%	5.13%	2008	2037	09/03/2006
2006 Single Family Series D		29,685,000	4.50%	4.50%	2018	2028	09/04/2006
2006 Single Family Series E		17,295,000	4.06%	4.06%	2007	2017	09/05/2006
2006 Single Family Series F		81,195,000	4.65%	5.75%	2008	2038	03/01/2016
2006 Single Family Series G		15,000,000	3.75%	4.60%	2012	2019	03/01/2016
2006 Single Family Series H		36,000,000	VAR - Weekly		2016	2037	03/01/2016
2007 Single Family Series A		143,005,000	VAR - Weekly		2008	2038	03/01/2008
2007 Single Family Series B		157,060,000	3.90%	5.63%	2008	2039	03/01/2008
1998 RMRB Series A		102,055,000	4.05%	5.35%	2002	2031	01/01/2009
1998 RMRB Series B		14,300,000	5.30%	5.30%	2022	2022	01/01/2009
1999 RMRB Series A		25,615,000	4.80%	5.50%	2018	2021	01/01/2009
2000 RMRB Series A		50,000,000	5.10%	6.30%	2003	2031	07/01/2010
2000 RMRB Series B		82,975,000	5.70%	5.70%	2005	2033	07/01/2010
2000 RMRB Series C		13,675,000	5.82%	5.85%	2011	2025	07/01/2010
2000 RMRB Series D		18,265,000	4.55%	5.85%	2003	2020	07/01/2010
2001 RMRB Series A		52,715,000	3.15%	5.70%	2004	2033	07/01/2011
2001 RMRB Series B		15,585,000	5.00%	5.25%	2011	2022	07/01/2011
2001 RMRB Series C		32,225,000	2.55%	4.63%	2003	2015	07/01/2011
2002 RMRB Series A		42,310,000	2.25%	5.35%	2004	2034	07/01/2012
2003 RMRB Series A		73,630,000	1.70%	5.00%	2005	2034	01/01/2013
2009 RMRB Series A		80,000,000	5.13%	5.13%	2011	2039	01/01/2019
2009 RMRB Series B		22,605,000	4.72%	4.72%	2010	2022	01/01/2019
2009 RMRB Series C		300,000,000	VAR - Weekly		2010	2041	12/31/2011
1992 Coll Home Mtg Rev Bonds, Series C		72,700,000	3.48%	10.27%	2024	2024	05/04/1995
TOTAL SINGLE FAMILY & RMRB BONDS	$	2,247,360,000					
1996 MF Series A/B (Brighton's Mark)	$	10,174,000	6.13%	6.13%	2026	2026	01/01/2003
1996 MF Series A/B (Braxton's Mark)		14,867,000	5.81%	5.81%	2026	2026	01/01/2003
1998 MF Series A (Pebble Brook)		10,900,000	4.95%	5.60%	2001	2030	06/01/2001
1998 MF Series A-C (Residence Oaks)		8,200,000	5.98%	7.18%	2001	2030	05/01/2001
1998 MF Series A/B (Greens of Hickory Trial)		13,500,000	5.20%	6.03%	2001	2030	09/01/2008
1999 MF Series A-C (Mayfield)		11,445,000	5.70%	7.25%	2001	2031	05/01/2002
2000 MF Series A (Timber Point Apts)		8,100,000	VAR - Weekly		2003	2032	07/01/2000
2000 MF Series A/B (Oaks at Hampton)		10,060,000	7.20%	9.00%	2002	2040	03/01/2017
2000 MF Series A (Deerwood Apts)		6,435,000	5.25%	6.40%	2003	2032	06/01/2010
2000 MF Series A (Creek Point Apts)		7,200,000	VAR - Weekly		2004	2032	07/01/2000
2000 MF Series A/B (Parks @ Westmoreland)		9,990,000	7.20%	9.00%	2002	2040	07/01/2017
2000 MF Series A-C (Highland Meadow Apts)		13,500,000	6.75%	8.00%	2004	2033	05/01/2019

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, 2010

Description o	Bonds Issued To Date		Range Of Interest Rates		Scheduled Mat. First Year	Last Year	First Call Date
2000 MF Series A/B (Greenbridge)	$	20,085,000	7.40%	10.00%	2003	2040	03/01/2014
2000 MF Series A-C (Collingham Park)		13,500,000	6.72%	7.72%	2004	2033	05/01/2019
2000 MF Series A/B (Williams Run)		12,850,000	7.65%	9.25%	2002	2040	01/01/2011
2001 MF Series A (Bluffview Senior Apts)		10,700,000	7.65%	7.65%	2003	2041	05/01/2018
2001 MF Series A (Knollwood Villas Apts)		13,750,000	7.65%	7.65%	2003	2041	05/01/2018
2001 MF Series A (Skyway Villas)		13,250,000	6.00%	6.50%	2005	2034	12/01/2011
2001 MF Series A/B (Cobb Park)		7,785,000	6.77%	6.77%	2003	2041	07/01/2018
2001 MF Series A (Greens Road Apts.)		8,375,000	5.30%	5.40%	2004	2034	12/01/2011
2001 MF Series A/B (Meridian Apts.)		14,310,000	5.45%	6.85%	2004	2034	12/01/2011
2001 MF Series A/B (Wildwood Apts.)		14,365,000	5.45%	6.75%	2004	2034	12/01/2011
2001 MF Series A-C (Fallbrook Apts.)		14,700,000	6.06%	6.78%	2005	2034	01/01/2012
2001 MF Series A (Oak Hollow Apts.)		8,625,000	7.00%	7.90%	2003	2041	11/01/2018
2001 MF Series A/B (Hillside Apts.)		12,900,000	7.00%	9.25%	2003	2041	11/01/2018
2002 MF Series A (Millstone Apts.)		12,700,000	5.35%	5.86%	2005	2035	06/01/2012
2002 MF Series A (Sugar Creek Apts.)		11,950,000	6.00%	6.00%	2004	2042	01/01/2016
2002 MF Series A (West Oaks Apts.)		10,150,000	7.15%	7.50%	2004	2042	12/01/2018
2002 MF Series A (Park Meadows Apts)		4,600,000	6.53%	6.53%	2004	2034	05/01/2012
2002 MF Series A (Clarkridge Villas Apts)		14,600,000	7.00%	7.00%	2004	2042	08/01/2019
2002 MF Series A (Hickory Trace Apts)		11,920,000	7.00%	7.00%	2004	2042	12/01/2019
2002 MF Series A (Green Crest Apts)		12,500,000	7.00%	7.00%	2004	2042	11/01/2019
2002 MF Series A/B (Ironwood Crossing)		16,970,000	5.50%	8.75%	2005	2042	10/01/2027
2002 MF Series A (Woodway Village Apts)		9,100,000	4.95%	5.20%	2006	2023	01/01/2013
2003 MF Series A/B (Reading Road)		12,200,000	VAR-Weekly		2007	2036	01/01/2004
2003 MF Series A/B (North Vista Apts)		14,000,000	4.10%	5.41%	2006	2036	06/01/2013
2003 MF Series A/B (West Virginia Apts)		9,450,000	4.15%	5.41%	2006	2036	06/01/2013
2003 MF Series A/B (Sphinx @ Murdeaux)		15,085,000	3.55%	5.00%	2005	2042	06/20/2013
2003 MF Series A/B (Primrose Houston School)		16,900,000	5.50%	8.00%	2006	2036	07/01/2003
2003 MF Series A/B (Timber Oaks Apts)		13,200,000	6.75%	8.75%	2005	2043	06/01/2020
2003 MF Series A/B (Ash Creek Apts)		16,375,000	5.60%	15.00%	2006	2036	10/01/2003
2003 MF Series A/B (Peninsula Apts)		12,400,000	4.25%	5.30%	2007	2024	10/01/2013
2003 MF Series A (Evergreen @ Mesquite)		11,000,000	6.60%	8.00%	2006	2043	09/01/2020
2003 MF Series A/B (Arlington Villas)		17,100,000	6.75%	8.00%	2007	2036	01/01/2007
2003 MF Series A/B (Parkview Twnhms)		16,600,000	6.60%	8.50%	2006	2043	12/01/2020
2003 MF Series A (NHP-Asmara) Refunding		31,500,000	VAR - Weekly		2007	2033	07/01/2007
2004 MF Series A/B (Timber Ridge)		7,500,000	5.75%	8.00%	2007	2037	03/01/2007
2004 MF Series A/B (Century Park)		13,000,000	5.75%	5.75%	2007	2037	05/01/2007
2004 MF Series A/B (Veterans Memorial)		16,300,000	6.60%	8.50%	2006	2044	03/01/2006
2004 MF Series A (Rush Creek)		10,000,000	5.38%	6.70%	2006	2044	03/01/2021
2004 MF Series A (Humble Park)		11,700,000	6.60%	6.60%	2007	2041	07/01/2021
2004 MF Series A (Chisholm Trail)		12,000,000	VAR - Weekly (b)		2006	2037	10/15/2006
2004 MF Series A (Evergreen @ Plano)		14,750,000	5.25%	6.55%	2007	2044	06/01/2021
2004 MF Series A (Montgomery Pines)		12,300,000	VAR - Weekly		2006	2037	12/15/2006
2004 MF Series A (Bristol)		12,625,000	VAR - Weekly		2007	2037	06/15/2007
2004 MF Series A (Pinnacle)		14,500,000	VAR - Weekly (c)		2007	2044	09/01/2007
2004 MF Series A (Tranquility Bay)		14,350,000	6.50%	6.50%	2007	2044	06/01/2021
2004 MF Series A (Sphinx @ Delafield)		11,380,000	5.05%	5.35%	2006	2044	07/20/2014
2004 MF Series A (Churchill @ Pinnacle)		10,750,000	5.25%	6.55%	2007	2044	09/01/2021
2004 MF Series A/B (Post Oak East)		13,600,000	VAR - Weekly		(d)	2037	(d)
2004 MF Series A (Village Fair)		14,100,000	5.00%	6.50%	2007	2044	12/01/2021
2005 MF Series A (Pecan Grove)		14,030,000	5.00%	6.50%	2007	2045	01/01/2022
2005 MF Series A (Prairie Oaks)		11,050,000	4.75%	6.50%	2007	2045	01/01/2022
2005 MF Series A (Port Royal)		12,200,000	5.00%	6.50%	2007	2045	02/01/2022
2005 MF Series A (Del Rio)		11,490,000	5.00%	6.50%	2007	2045	02/01/2022
2005 MF Series A (Atascocita Pines)		11,900,000	VAR - Weekly (c)		2007	2037	(f)
2005 MF Series A (Tower Ridge)		15,000,000	VAR - Weekly (b)		2009	2038	(f)
2005 MF Series A (Prairie Ranch)		12,200,000	4.85%	4.85%	2007	2045	12/20/2015
2005 MF Series A (St Augustine)		7,650,000	VAR - Weekly		2009	2038	n/a
2005 MF Series A (Park Manor)		10,400,000	5.00%	6.40%	2008	2045	09/01/2022

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, 2010

Description o	Bonds Issued To Date	Range Of Interest Rates		Scheduled Mat. First Year	Scheduled Mat. Last Year	First Call Date
2005 MF Series A (Mockingbird)	$ 14,360,000	6.40%	6.40%	2007	2045	08/01/2022
2005 MF Series A (Chase Oaks)	14,250,000	5.05%	5.05%	2007	2035	(h)
2005 MF Series A/B (Canal Place)	16,100,000	3.45%	8.00%	2019	2039	(i)
2005 MF Series A (Coral Hills)	5,320,000	5.05%	5.05%	2038	2038	08/01/2015
2006 MF Series A (Harris Branch)	15,000,000	VAR - Weekly		2009	2039	(j)
2006 MF Series A (Bella Vista)	6,800,000	6.15%	6.15%	2008	2046	04/01/2016
2006 MF Series A (Village Park)	13,660,000	4.75%	5.13%	2009	2026	06/01/2021
2006 MF Series A (Oakmoor)	14,635,000	5.50%	6.00%	2008	2046	03/01/2023
2006 MF Series A (Sunset Pointe)	15,000,000	VAR - Weekly		2039	2039	(i)
2006 MF Series A (Hillcrest)	12,435,000	5.25%	5.25%	2009	2039	04/01/2021
2006 MF Series A (Pleasant Village)	6,000,000	6.00%	6.00%	2008	2023	(k)
2006 MF Series A (Grove Village)	6,180,000	6.00%	6.00%	2008	2023	(k)
2006 MF Series A (Red Hills Villas)	5,015,000	VAR - Weekly		2036	2036	(j)
2006 MF Series A (Champion Crossing)	5,125,000	VAR - Weekly		2036	2036	(j)
2006 MF Series A (Stonehaven)	11,300,000	5.80%	5.80%	2008	2026	(h)
2006 MF Series A (Center Ridge)	8,325,000	5.00%	5.00%	2009	2039	05/01/2021
2006 MF Series A (Meadowlands)	13,500,000	6.00%	6.00%	2009	2046	09/01/2023
2006 MF Series A (East Tex Pines)	13,500,000	4.95%	4.95%	2010	2046	(l)
2006 MF Series A (Villas at Henderson)	7,200,000	VAR - Weekly		2010	2039	(m)
2006 MF Series A (Aspen Park Apts)	9,800,000	5.00%	5.00%	2010	2039	07/01/2021
2006 MF Series A (Idlewilde Apts)	14,250,000	VAR - Weekly		2010	2040	(j)
2007 MF Series A (Lancaster Apts)	14,250,000	VAR - Weekly		2010	2040	(j)
2007 MF Series A (Park Place)	15,000,000	5.80%	5.80%	2010	2047	03/01/2024
2007 MF Series A (Terrace at Cibolo)	8,000,000	VAR - Weekly		2010	2040	(m)
2007 MF Series A (Santora Villas)	13,072,000	5.80%	5.80%	2010	2047	06/01/2024
2007 MF Series A (Villas @ Mesquite Creek)	16,860,000	5.00%	5.81%	2010	2047	01/20/2017
2007 MF Series A (Summit Point)	11,700,000	4.80%	5.25%	2009	2047	06/20/2017
2007 MF Series A (Costa Rialto)	12,385,000	5.35%	5.35%	2010	2047	08/01/2025
2007 MF Series A (Windshire)	14,000,000	VAR - Weekly		2010	2041	(j)
2007 MF Series A (Residences @ Onion Creek)	15,000,000	VAR - Weekly		2011	2040	(j)
2008 MF Series A (West Oaks)	13,125,000	VAR - Weekly		2011	2041	(n)
2008 MF Series A (Costa Ibiza)	13,900,000	VAR - Weekly		2011	2041	(f)
2008 MF Series A (Addison Park)	14,000,000	VAR - Weekly		2008	2044	(n)
2008 MF Series A (Alta Cullen Apartments)	14,000,000	VAR - Weekly		2011	2045	(n)
2009 MF Series A (Costa Mariposa Apartments)	13,690,000	VAR - Weekly		2012	2042	(n)
2009 MF Series A (Woodmont Apartments)	15,000,000	VAR - Weekly		2012	2042	(n)
TOTAL MULTIFAMILY BONDS	$ 1,306,378,000					
TOTAL BONDS ISSUED	**$ 3,553,738,000**					

FOOTNOTES:

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(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) No set amortization, per trustee, amortization will occur in $100,000 denominations when the amount in the principal reserve fund exceeds 20% of the issue.

(e) 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.

(f) 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.

(g) The Series bonds are subject to redemption prior to maturity, after giving notice as provided in the Trust Indendure, 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.

(h) 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 montl 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.

(i) 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.

(j) The Bonds are subject to optional redemption in whole or in part upon optional prepayment of the Loan by the Borrower.

(k) 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 redemptic price (as calculated by the sole bondholder) calculated in accordance with the Exhibit H plus accrued and unpaid interest, if any, to the redemptic 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.

(l) 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.

(m) 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.

(n) 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.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-B
MISCELLANEOUS BOND INFORMATION - CHANGES IN BOND INDEBTEDNESS
For the fiscal year ended August 31, 2010

Description of Issue	Bonds Outstanding 09/01/09	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/10	Amounts Due Within One Year
2002 SERIES A (Jr Lien)	$ 3,995,000	$	$	$ 3,995,000	$	$
2002 SERIES A	35,920,000			4,415,000	31,505,000	-
2002 SERIES B	29,090,000			7,385,000	21,705,000	7,217
2002 SERIES C	9,735,000		530,000	1,125,000	8,080,000	486,174
2002 SERIES D	3,585,000		840,000	105,000	2,640,000	829,689
2004 SERIES A	92,365,000		2,845,000	23,335,000	66,185,000	2,153,339
2004 SERIES B	53,000,000				53,000,000	-
2004 SERIES A (Jr Lien)	3,855,000				3,855,000	-
2004 SERIES C	27,195,000		165,000	7,455,000	19,575,000	-
2004 SERIES D	35,000,000				35,000,000	-
2004 SERIES E	6,615,000		1,085,000	655,000	4,875,000	968,581
2005 SERIES A	90,825,000			13,535,000	77,290,000	-
2005 SERIES B	15,420,000		630,000	2,390,000	12,400,000	504,967
2005 SERIES C	6,610,000			810,000	5,800,000	-
2005 SERIES D	3,040,000				3,040,000	-
2006 SERIES A	55,475,000		485,000	11,620,000	43,370,000	457,499
2006 SERIES B	64,335,000		1,450,000	13,380,000	49,505,000	1,252,740
2006 SERIES C	97,165,000		1,530,000	20,285,000	75,350,000	1,480,062
2006 SERIES D	21,685,000			4,550,000	17,135,000	(46,148)
2006 SERIES E	13,995,000		1,315,000		12,680,000	1,289,273
2006 SERIES F	77,265,000		510,000	22,005,000	54,750,000	507,969
2006 SERIES G	13,070,000		1,210,000	3,675,000	8,185,000	895,000
2006 SERIES H	36,000,000				36,000,000	-
2007 SERIES A	136,815,000			16,040,000	120,775,000	(27,856)
2007 SERIES B	155,620,000		1,440,000	20,800,000	133,380,000	2,035,654
1998 SERIES A	32,135,000		1,025,000	3,390,000	27,720,000	-
1998 SERIES B	5,800,000			625,000	5,175,000	-
1999 SERIES A	4,045,000			390,000	3,655,000	(8,735)
2000 SERIES A	13,965,000			13,965,000	-	-
2000 SERIES B	39,770,000			27,770,000	12,000,000	2,517
2000 SERIES C	8,385,000			4,710,000	3,675,000	-
2000 SERIES D	5,385,000		605,000	4,780,000	-	-
2001 SERIES A	26,100,000		330,000	3,775,000	21,995,000	10,999
2001 SERIES B	11,360,000			760,000	10,600,000	650,000
2001 SERIES C	6,225,000		1,005,000	450,000	4,770,000	920,375
2002 SERIES A	26,655,000		340,000	3,615,000	22,700,000	379,704
2003 SERIES A	55,140,000		745,000	6,860,000	47,535,000	645,212
2009 SERIES A	80,000,000			10,000	79,990,000	415,722
2009 SERIES B	22,605,000		560,000	2,495,000	19,550,000	777,545
2009 SERIES C		300,000,000			300,000,000	
1992 SERIES A-C	9,100,000	-	-	1,100,000	8,000,000	10,633
Total Single Family Bonds	$ 1,434,345,000	$ 300,000,000.00	$ 18,645,000.00	$ 252,255,000.00	$ 1,463,445,000.00	$ 16,598,134.72
1996 SERIES A&B (BRIGHTON'S MARK)	$ 8,075,000	$	$	$	$ 8,075,000	$
1996 SERIES A&B (BRAXTON'S MARK)	14,273,700				14,273,700	-
1998 SERIES (PEBBLE BROOK)	9,465,000		105,000	110,000	9,250,000	225,000
1998 SERIES A-C (RESIDENCE OAKS)	7,098,000		169,000		6,929,000	180,000
1998 SERIES (GREENS-HICKORY TRAIL)	11,835,000		270,000		11,565,000	290,000
1999 SERIES (MAYFIELD)	9,976,000		235,000		9,741,000	248,000
2000 SERIES (TIMBER POINT APTS)	7,470,000			100,000	7,370,000	-
2000 SERIES A/B (OAKS at HAMPTON)	9,597,547		89,260		9,508,287	96,379
2000 SERIES (DEERWOOD APTS)	5,885,000		105,000		5,780,000	115,000
2000 SERIES (CREEK POINT APTS)	6,365,000			105,000	6,260,000	-
2000 SERIES A/B (PARKS at WESTMORELAND)	9,551,242		87,074		9,464,168	93,604
2000 SERIES A-C (HIGHLAND MEADOW APTS)	8,314,000		139,000		8,175,000	149,000

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-B (Continued)
MISCELLANEOUS BOND INFORMATION - CHANGES IN BOND INDEBTEDNESS (Continued)
For the fiscal year ended August 31, 2010

Description of Issue	Bonds Outstanding 09/01/09	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2010	Amounts Due Within One Year
2000 SERIES A/B (GREENBRIDGE @ BUCKINGH	$ 19,474,075	$	$	$	$ 19,474,075	$ 339,089
2000 SERIES A-C (COLLINGHAM PARK APTS)	12,553,000		230,000		12,323,000	244,000
2000 SERIES A/B (WILLIAMS RUN APTS)	12,417,289				12,417,289	410,665
2001 SERIES (BLUFF SENIOR APTS)	10,365,641		69,051		10,296,591	74,485
2001 SERIES (KNOLLWOOD VILLAS APTS)	13,320,333		88,733		13,231,600	95,717
2001 SERIES A (SKYWAY VILLAS)	7,320,000		130,000		7,190,000	135,000
2001 SERIES A/B (COBB PARK APTS)	7,584,303				7,584,303	130,156
2001 SERIES A (GREENS ROAD APTS)	7,810,000		135,000		7,675,000	145,000
2001 SERIES A/B (MERIDIAN APARTMENTS)	8,485,000		72,000		8,413,000	75,000
2001 SERIES A/B (WILDWOOD BRANCH	6,572,000		60,000		6,512,000	60,000
2001 SERIES A-C (FALLBROOK APTS)	13,815,000		235,000		13,580,000	251,000
2001 SERIES (OAK HOLLOW APTS)	6,298,072		45,899		6,252,173	49,217
2001 SERIES A/B (HILLSIDE APTS)	12,508,343		51,666		12,456,677	55,426
2001 SERIES A (MILLSTONE APTS)	10,235,000		185,000		10,050,000	195,000
2002 SERIES (SUGARCREEK APTS)	11,550,000		45,000	11,505,000	-	-
2002 SERIES (WEST OAKS APTS)	9,453,913		66,151		9,387,762	71,039
2002 SERIES (PARK MEADOWS APTS)	4,205,000		65,000		4,140,000	80,000
2002 SERIES (CLARKRIDGE VILLAS APTS)	13,622,465		93,138		13,529,328	99,871
2002 SERIES A (HICKORY TRACE APTS)	11,263,077		76,518		11,186,559	82,049
2002 SERIES A (GREEN CREST APTS)	11,214,042		76,185		11,137,858	81,692
2002 SERIES A/B (IRON WOOD CROSSING)	16,699,569		86,716		16,612,853	94,616
2002 SERIES A (WOODWAY VILLAGE)	7,420,000		120,000		7,300,000	130,000
2003 SERIES A/B (READING ROAD)	11,840,000		30,000	200,000	11,610,000	30,000
2003 SERIES A/B (NORTH VISTA)	12,500,000		210,000		12,290,000	230,000
2003 SERIES A/B (WEST VIRGINIA)	9,020,000		155,000		8,865,000	165,000
2003 SERIES A/B (SPHINX @ MURDEAUX)	14,380,000		180,000		14,200,000	185,000
2003 SERIES A/B (PRIMROSE HOUSTON)	16,387,166		92,690		16,294,476	100,503
2003 SERIES A/B (TIMBER OAKS)	12,980,191		66,852		12,913,340	72,941
2003 SERIES A/B (ASH CREEK APTS)	16,112,424		93,571		16,018,853	101,439
2003 SERIES A/B (PENINSULA APTS)	11,780,000		150,000	25,000	11,605,000	180,000
2003 SERIES A (EVERGREEN @ MESQUITE)	10,629,280		124,696		10,504,584	132,918
2003 SERIES A/B (ARLINGTON VILLAS)	16,898,908		87,217		16,811,691	94,502
2003 SERIES A/B (PARKVIEW TWNHMS)	16,315,780		94,102		16,221,678	102,420
2003 SERIES (NHP-ASMARA)REFUNDING	20,550,000		400,000	115,000	20,035,000	420,657
2004 SERIES A/B (TIMBER RIDGE)	6,597,263		39,289		6,557,974	42,119
2004 SERIES A/B (CENTURY PARK)	12,285,000		185,000		12,100,000	190,000
2004 SERIES A/B (VETERANS MEMORIAL)	16,027,900		93,749		15,934,152	102,036
2004 SERIES (RUSH CREEK)	8,718,821		55,877		8,662,944	59,734
2004 SERIES (HUMBLE PARK)	11,400,000		110,000		11,290,000	120,000
2004 SERIES (CHISHOLM TRAIL)	11,700,000			200,000	11,500,000	-
2004 SERIES (EVERGREEN @ PLANO)	14,572,560		90,760		14,481,800	96,886
2004 SERIES (MONTGOMERY PINES)	12,300,000			200,000	12,100,000	-
2004 SERIES (BRISTOL)	12,200,000			100,000	12,100,000	-
2004 SERIES (PINNACLE)	14,165,000			100,000	14,065,000	-
2004 SERIES (TRANQUILITY BAY)	14,077,936		95,915		13,982,022	102,338
2004 SERIES (SPHINX @ DELAFIELD)	11,025,000		110,000		10,915,000	120,000
2004 SERIES (CHURCHILL @ PINNACLE)	9,955,805		76,501		9,879,304	81,665
2004 SERIES A/B (POST OAK EAST)	13,600,000				13,600,000	-
2004 SERIES (VILLAGE FAIR)	13,884,895		90,747		13,794,149	96,824
2005 SERIES (PECAN GROVE)	13,823,227		89,810		13,733,417	95,824
2005 SERIES (PRAIRIE OAKS)	10,887,147		70,733		10,816,414	75,470
2005 SERIES (PORT ROYAL)	12,026,481		77,675		11,948,806	82,876
2005 SERIES (MISSION DEL RIO)	11,326,579		73,155		11,253,424	78,053
2005 SERIES (ATASCOCITA)	11,700,000			100,000	11,600,000	-
2005 SERIES (TOWER RIDGE)	15,000,000				15,000,000	-
2005 SERIES (PRAIRIE RANCH)	11,935,000		125,000		11,810,000	125,000
2005 SERIES (ST. AUGUSTINE)	7,150,000			770,000	6,380,000	-

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-B (Continued)
MISCELLANEOUS BOND INFORMATION - CHANGES IN BOND INDEBTEDNESS (Continued)
For the fiscal year ended August 31, 2010

Description of Issue	Bonds Outstanding 09/01/09	Bonds Issued and Accretions	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2010	Amounts Due Within One Year
2005 SERIES (PARK MANOR)	$ 10,400,000	$	$	$	$ 10,400,000	$
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	14,194,965		90,762		14,104,203	96,745
2005 SERIES (PLAZA CHASE OAKS)	13,896,799		226,606		13,670,193	238,319
2005 SERIES (CANAL PLACE)	16,100,000		56,423		16,043,577	80,804
2006 SERIES (CORAL HILLS)	4,995,000		70,000	25,000	4,900,000	45,000
2006 SERIES (HARRIS BRANCH)	14,900,000			200,000	14,700,000	-
2006 SERIES (BELLA VISTA)	6,740,000		45,000		6,695,000	45,000
2006 SERIES (VILLAGE PARK)	10,565,000		150,000		10,415,000	150,000
2006 SERIES (OAKMOOR)	14,420,556		94,376		14,326,180	100,196
2006 SERIES (SUNSET POINTE)	15,000,000				15,000,000	-
2006 SERIES (HILLCREST)	12,435,000		230,000	1,215,000	10,990,000	150,000
2006 SERIES (PLEASANT VILLAGE)	5,896,900		78,983		5,817,917	83,924
2006 SERIES (GROVE VILLAGE)	6,073,807		81,352		5,992,455	86,441
2006 SERIES (RED HILLS)	4,915,000				4,915,000	-
2006 SERIES (CHAMPION'S CROSSING)	5,025,000			100,000	4,925,000	-
2006 SERIES (STONEHAVEN)	11,238,793		77,453		11,161,340	82,069
2006 SERIES (CENTER RIDGE)	8,325,000				8,325,000	-
2006 SERIES (MEADOWLANDS)	12,403,768		77,254		12,326,515	82,018
2006 SERIES (EAST TEXAS PINES)	13,500,000				13,500,000	80,000
2006 SERIES (VILLAS @ HENDERSON)	7,200,000				7,200,000	145,273
2006 SERIES (ASPEN PARKS)	9,800,000		105,000		9,695,000	95,000
2006 SERIES (IDLEWILDE)	14,250,000			210,000	14,040,000	-
2007 SERIES (LANDCASTER)	14,250,000			210,000	14,040,000	-
2007 SERIES (PARK PLACE AT LOYOLA)	15,000,000				15,000,000	97,983
2007 SERIES (TERRACE AT CIBOLO)	8,000,000				8,000,000	-
2007 SERIES (SANTORA VILLAS)	13,072,000				13,072,000	63,576
2007 SERIES (A/B VILLAS @ MESQUITE)	16,860,000		75,000	135,000	16,650,000	155,000
2007 SERIES (SUMMIT POINT)	11,700,000		165,000		11,535,000	100,000
2007 SERIES (COSTA RIALTO)	12,385,000				12,385,000	91,043
2007 SERIES (WINDSHIRE)	14,000,000				14,000,000	-
2007 SERIES (RESIDENCES @ ONION CREEK)	15,000,000				15,000,000	-
2008 SERIES (WEST OAKS APTS)	13,125,000				13,125,000	-
2008 SERIES (COSTA IBIZA APTS)	13,900,000				13,900,000	-
2008 SERIES (ADDISON PARKS APTS)	13,900,000			100,000	13,800,000	-
2008 SERIES (ALTA CULLEN)	14,000,000				14,000,000	-
2009 SERIES (COSTA MARIPOSA)	13,690,000				13,690,000	-
2009 SERIES (WOODMONT APTS)	15,000,000	-	-	-	15,000,000	-
Total Multifamily Bonds	$ 1,224,001,567	$	$ 7,821,935	$ 15,825,000	$ 1,200,354,632	$ 9,648,602
	$ 2,658,346,567	**$ 300,000,000**	**$ 26,466,935**	**$ 268,080,000**	**$ 2,663,799,632**	**$ 26,246,737**

FOOTNOTES:

(a) Bonds Outstanding balance at 8/31/10 does not include unamortized premium or discounts.

Bonds Outstanding per schedule	$ 2,663,799,632
Unamortized (Discount)/Premium:	
Single Family	8,342,734
RMRB	1,380,236
CHMRB	147,174
Multi-Family	(213,337)
Unamortized Deferred Gain/(Loss) on Refunding:	
Single Family	(1,834,272)
RMRB	(572,798)
Bonds Outstanding per Exhibit III	**2,671,049,369**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

DESCRIPTION		2011	2012	2013	2014	2015
2002 SINGLE FAMILY, SERIES A	Principal	$	$	$	$	$
2002 SINGLE FAMILY, SERIES A	Interest	1,734	1,734	1,734	1,734	1,734
2002 SINGLE FAMILY, SERIES B	Principal					
2002 SINGLE FAMILY, SERIES B	Interest	1,190	1,190	1,190	1,190	1,190
2002 SINGLE FAMILY, SERIES C	Principal	500	530	1,130	1,200	1,280
2002 SINGLE FAMILY, SERIES C	Interest	401	377	351	293	229
2002 SINGLE FAMILY, SERIES D	Principal	835	880	925		
2002 SINGLE FAMILY, SERIES D	Interest	98	61	21		
2004 SINGLE FAMILY, SERIES A	Principal	2,145	2,220	2,425	3,460	2,085
2004 SINGLE FAMILY, SERIES A	Interest	2,942	2,865	2,779	2,683	2,558
2004 SINGLE FAMILY, SERIES A (JUNIOR LIEN)	Principal					
2004 SINGLE FAMILY, SERIES A (JUNIOR LIEN)	Interest	15	15	15	15	15
2004 SINGLE FAMILY, SERIES B	Principal					895
2004 SINGLE FAMILY, SERIES B	Interest	154	159	159	159	159
2004 SINGLE FAMILY, SERIES C	Principal					525
2004 SINGLE FAMILY, SERIES C	Interest	908	908	908	908	902
2004 SINGLE FAMILY, SERIES D	Principal					1,125
2004 SINGLE FAMILY, SERIES D	Interest	103	105	105	105	104
2004 SINGLE FAMILY, SERIES E	Principal	995	1,050	1,095	1,150	110
2004 SINGLE FAMILY, SERIES E	Interest	187	149	107	62	24
2005 SINGLE FAMILY,SERIES A	Principal					
2005 SINGLE FAMILY,SERIES A	Interest	244	271	270	271	271
2005 SINGLE FAMILY,SERIES B	Principal	570	600	620	625	655
2005 SINGLE FAMILY,SERIES B	Interest	557	533	508	482	454
2005 SINGLE FAMILY,SERIES C	Principal					
2005 SINGLE FAMILY,SERIES C	Interest	17	17	17	17	17
2005 SINGLE FAMILY,SERIES D	Principal					
2005 SINGLE FAMILY,SERIES D	Interest	152	152	152	152	152
2006 SINGLE FAMILY, SERIES A	Principal	430	465	500	525	555
2006 SINGLE FAMILY, SERIES A	Interest	2,163	2,141	2,118	2,092	2,066
2006 SINGLE FAMILY, SERIES B	Principal	1,210	1,265	1,320	1,385	1,455
2006 SINGLE FAMILY, SERIES B	Interest	2,460	2,399	2,335	2,268	2,198
2006 SINGLE FAMILY, SERIES C	Principal	1,295	1,355	1,440	1,515	1,580
2006 SINGLE FAMILY, SERIES C	Interest	3,845	3,778	3,708	3,633	3,554
2006 SINGLE FAMILY, SERIES D	Principal					
2006 SINGLE FAMILY, SERIES D	Interest	782	782	782	782	782
2006 SINGLE FAMILY, SERIES E	Principal	1,370	1,420	1,480	1,545	1,605
2006 SINGLE FAMILY, SERIES E	Interest	498	444	386	325	260
2006 SINGLE FAMILY, SERIES F	Principal	415	435	460	485	520
2006 SINGLE FAMILY, SERIES F	Interest	2,882	2,858	2,833	2,806	2,777
2006 SINGLE FAMILY, SERIES G	Principal	895	950	1,005	1,060	1,130
2006 SINGLE FAMILY, SERIES G	Interest	344	308	268	225	179
2006 SINGLE FAMILY, SERIES H	Principal					
2006 SINGLE FAMILY, SERIES H	Interest	104	108	108	108	108
2007 SINGLE FAMILY, SERIES A	Principal					
2007 SINGLE FAMILY, SERIES A	Interest	350	363	361	362	362
2007 SINGLE FAMILY, SERIES B	Principal	1,915	2,000	2,090	2,175	2,285
2007 SINGLE FAMILY, SERIES B	Interest	6,953	6,865	6,772	6,673	6,568
TOTAL SINGLE FAMILY BONDS		**41,660**	**41,754**	**42,476**	**42,470**	**42,470**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C (Continued)
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$	$ 11,510	$ 6,335	$ 13,660	$	$	$	$ 31,505
8,669	7,618	4,095	2,829				31,880
		6,465	15,240				21,705
5,952	5,952	5,352	2,152				25,359
3,440							8,080
271							1,921
							2,640
							180
8,935	10,740	13,110	16,920	4,145			66,185
11,645	9,439	6,704	3,342	97			45,054
				3,855			3,855
77	77	77	77	23			408
9,925	11,965	14,510	15,705				53,000
717	555	359	121				2,541
3,130	4,560	4,445	5,855	1,060			19,575
4,149	3,293	2,257	1,059	36			15,328
6,590	8,380	8,165	10,740				35,000
466	354	231	92				1,666
475							4,875
46							575
8,440	16,405	19,940	24,255	8,250			77,290
1,317	1,080	767	385	29			4,903
3,810	4,735	785					12,400
1,780	805	29					5,148
5,800							5,800
42							126
		2,110	840	90			3,040
760	760	451	141	2			2,874
3,345	4,570	6,010	12,450	14,520			43,370
9,870	8,901	7,603	5,767	1,106			43,828
8,205	10,145	12,840	11,680				49,505
9,826	7,575	4,746	1,308				35,117
9,205	11,915	15,340	19,805	11,900			75,350
16,455	13,798	10,368	5,945	930			66,015
3,085	7,280	6,770					17,135
3,776	2,509	694					10,891
5,260							12,680
350							2,264
3,850	9,000	12,035	16,100	11,450			54,750
13,384	11,720	9,025	5,402	1,010			54,696
3,145							8,185
318							1,643
4,170	6,125	8,190	10,955	6,560			36,000
516	438	333	193	29			2,047
17,505	25,665	32,005	26,670	18,930			120,775
1,715	1,384	950	514	99			6,460
14,350	17,530	22,780	30,930	37,325			133,380
30,936	26,911	21,669	14,717	5,137			133,202
245,704	**263,694**	**267,544**	**275,849**	**126,585**			**1,390,207**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

DESCRIPTION		2011	2012	2013	2014	2015
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	$	$	$	$	$
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,465	1,465	1,465	1,465	1,465
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal					
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	274	274	274	274	274
1999 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal					
1999 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	196	196	196	196	196
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal					
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	698	698	698	698	698
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal					
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	214	214	214	214	214
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	10	10	10	10	10
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,178	1,177	1,177	1,176	1,176
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal	650	685	710	730	755
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	538	505	470	434	398
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal	950	995	1,070	1,115	640
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	195	153	118	68	17
2002 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	370	360	425	430	455
2002 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,199	1,182	1,164	1,141	1,119
2003 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	660	675	675	790	820
2003 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	2,328	2,302	2,275	2,252	2,213
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	360	715	695	680	680
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	4,105	4,097	4,083	4,066	4,047
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal	800	1,120	1,210	1,305	1,400
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	937	899	852	799	739
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal		300,000			
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	548	183			
TOTAL RESIDENTIAL MTG REVENUE BONDS		**17,675**	**317,905**	**17,782**	**17,844**	**17,315**
1992 COLL HOME MTG REV BONDS, SERIES C	Princpal					
1992 COLL HOME MTG REV BONDS, SERIES C	Interest	529	582	529	582	529
TOTAL COLL HOME MTG REV BONDS		**529**	**582**	**529**	**582**	**529**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C (Continued)
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$ 6,190	$	$ 9,345	$ 12,185	$	$	$	$ 27,720
6,673	5,698	5,506	320				25,520
	5,175						5,175
1,371	460						3,202
665	2,990						3,655
918	82						1,982
	12,000						12,000
3,492	3,492						10,476
	3,675						3,675
1,069	962						3,101
50	4,615	9,640	7,640				21,995
5,869	5,559	3,525	760				21,596
4,750	2,320						10,600
1,327	154						3,826
							4,770
							551
2,385	3,325	7,965	6,985				22,700
5,226	4,549	3,083	769				19,432
4,690	7,485	15,885	15,855				47,535
10,426	9,128	6,229	1,835				38,990
2,840	9,370	19,595	18,490	26,565			79,990
19,874	19,052	15,085	9,977	4,101			88,486
8,865	4,850						19,550
2,579	320						7,124
							300,000
							730
89,260	**105,262**	**95,859**	**74,816**	**30,666**			**784,382**
	8,000						8,000
2,752	2,166						7,670
2,752	**10,166**						**15,670**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

DESCRIPTION		2011	2012	2013	2014	2015
1996 MF SERIES A&B (BRAXTON'S MARK)	Principal	$	$	$	$	$
1996 MF SERIES A&B (BRAXTON'S MARK)	Interest	829	829	829	829	829
1996 MF SERIES A&B (BRIGHTON'S MARK)	Principal					
1996 MF SERIES A&B (BRIGHTON'S MARK)	Interest	495	495	495	495	495
1998 MF SERIES (PEBBLE BROOK APARTMENTS)	Principal	225	245	255	275	295
1998 MF SERIES (PEBBLE BROOK APARTMENTS)	Interest	511	498	485	471	455
1998 MF SERIES A&B (GREENS OF HICKORY TRAIL)	Principal	290	310	335	355	370
1998 MF SERIES A&B (GREENS OF HICKORY TRAIL)	Interest	608	590	571	553	534
1998 MF SERIES A-C (RESIDENCE AT THE OAKS)	Principal	180	189	202		
1998 MF SERIES A-C (RESIDENCE AT THE OAKS)	Interest	412	401	389	381	381
1999 MF SERIES A-C (MAYFIELD)	Principal	248	263	279	294	312
1999 MF SERIES A-C (MAYFIELD)	Interest	552	537	522	506	489
2000 MF SERIES (CREEK POINT APTS)	Principal					
2000 MF SERIES (CREEK POINT APTS)	Interest	21	21	21	21	21
2000 MF SERIES (DEERWOOD APTS)	Principal	115	120			
2000 MF SERIES (DEERWOOD APTS)	Interest	365	359	354	354	354
2000 MF SERIES A&B (OAKS AT HAMPTON)	Principal	96	104	111	120	128
2000 MF SERIES A&B (OAKS AT HAMPTON)	Interest	681	674	667	658	649
2000 MF SERIES (TIMBER POINT APTS)	Principal					
2000 MF SERIES (TIMBER POINT APTS)	Interest	25	25	25	25	25
2000 A&B MF SERIES (GREENBRIDGE)	Principal	339	159	171	184	198
2000 A&B MF SERIES (GREENBRIDGE)	Interest	1,719	1,411	1,398	1,385	1,371
2000 MF SERIES PARKS AT (WESTMORELAND)	Principal	94	101	108	116	125
2000 MF SERIES PARKS AT (WESTMORELAND)	Interest	678	671	664	656	647
2000 A&B MF SERIES (WILLIAMS RUN)	Principal	411	115	124	133	144
2000 A&B MF SERIES (WILLIAMS RUN)	Interest	1,077	915	905	896	885
2000 A/C MF SERIES (COLLINGHAM PARK)	Principal	244	259	274	291	308
2000 A/C MF SERIES (COLLINGHAM PARK)	Interest	824	807	790	771	751
2000 A/C MF SERIES (HIGHLAND MEADOWS)	Principal	149	159	170	182	194
2000 A/C MF SERIES (HIGHLAND MEADOWS)	Interest	549	539	528	517	504
2001A MF SERIES (BLUFFVIEW SR. APTS.)	Principal	74	80	87	93	101
2001A MF SERIES (BLUFFVIEW SR. APTS.)	Interest	883	876	869	861	853
2001 MF SERIES (GREENS ROAD APTS.)	Principal	145	155	165	175	185
2001 MF SERIES (GREENS ROAD APTS.)	Interest	410	402	393	385	375
2001A MF SERIES (KNOLLWOOD VILLAS APTS)	Principal	96	103	111	120	130
2001A MF SERIES (KNOLLWOOD VILLAS APTS)	Interest	1,002	995	987	978	968
2001 MF SERIES (OAK HOLLOW APTS.)	Principal	49	53	57	61	65
2001 MF SERIES (OAK HOLLOW APTS.)	Interest	436	433	429	425	420
2001A MF SERIES (SKYWAY VILLAS)	Principal	135	145	150	160	170
2001A MF SERIES (SKYWAY VILLAS)	Interest	401	394	385	377	368
2001A MF SERIES (COBB PARK)	Principal	130	60	64	69	75
2001A MF SERIES (COBB PARK)	Interest	1,445	550	545	540	535
2001 A/B MF SERIES (HILLSIDE APTS.)	Principal	55	59	64	68	73
2001 A/B MF SERIES (HILLSIDE APTS.)	Interest	870	866	862	857	852
2001 MF SERIES (MERIDIAN APTS.)	Principal	75	84	84	94	96
2001 MF SERIES (MERIDIAN APTS.)	Interest	503	498	493	488	482
2001 MF SERIES (WILDWOOD APTS.)	Principal	60	67	72	72	81
2001 MF SERIES (WILDWOOD APTS.)	Interest	389	385	381	377	372
2001 A/C MF SERIES (FALLBROOK APTS.)	Principal	251	268	283	302	320
2001 A/C MF SERIES (FALLBROOK APTS.)	Interest	819	804	787	770	751

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2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$	$	$ 14,274	$	$	$	$	$ 14,274
4,147	4,147	829					13,269
		8,075					8,075
2,475	2,475	495					7,920
1,775	2,430	3,355	395				9,250
2,007	1,438	651	11				6,527
2,260	3,055	4,110	480				11,565
2,347	1,666	746	13				7,625
			6,358				6,929
1,906	1,906	1,906	95				7,776
1,852	2,458	3,264	771				9,741
2,151	1,552	753	33				7,096
			6,260				6,260
106	106	106	46				472
1,305			4,240				5,780
1,768	1,357	1,357	678				6,945
801	1,146	1,641	2,350	3,011			9,508
3,089	2,743	2,248	1,539	529			13,478
			7,370				7,370
125	125	125	52				553
1,244	1,799	2,602	3,763	5,441	3,573		19,474
6,604	6,049	5,246	4,086	2,407	43		31,720
778	1,113	1,594	2,281	3,155			9,464
3,082	2,747	2,266	1,578	593			13,582
910	1,333	1,952	2,858	4,184	254		12,417
4,235	3,813	3,194	2,288	961	3		19,172
1,854	2,519	3,444	3,130				12,323
3,413	2,696	1,718	432				12,204
1,189	1,664	2,320	2,148				8,175
2,301	1,832	1,177	300				8,247
637	930	1,358	1,983	2,897	2,057		10,297
4,114	3,782	3,298	2,590	1,557	117		19,800
1,110	1,505	2,060	2,175				7,675
1,714	1,374	907	274				6,234
818	1,195	1,745	2,549	3,722	2,643		13,232
4,672	4,295	3,745	2,942	1,768	133		22,486
403	571	810	1,148	1,628	1,407		6,252
2,023	1,855	1,617	1,278	799	108		9,822
1,020	1,370	1,840	2,200				7,190
1,683	1,359	918	322				6,207
469	678	980	1,417	2,048	1,595		7,584
2,579	2,370	2,068	1,631	999	94		13,354
454	643	912	1,293	1,833	7,000		12,457
4,174	3,985	3,716	3,335	2,795	627		22,940
587	846	6,537	10				8,413
2,312	2,100	1,751	3				8,629
477	642	5,036	5				6,512
1,781	1,615	1,090	1				6,392
1,919	2,587	3,487	4,163				13,580
3,436	2,768	1,868	656				12,660

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DESCRIPTION		2011	2012	2013	2014	2015
2002 SERIES (CLARKRIDGE VILLAS APTS)	Principal	$ 100	$ 107	$ 115	$ 123	$ 132
2002 SERIES (CLARKRIDGE VILLAS APTS)	Interest	944	937	929	921	912
2002 SERIES A (GREEN CREST APTS)	Principal	82	88	94	101	108
2002 SERIES A (GREEN CREST APTS)	Interest	777	771	765	758	751
2002 SERIES A (HICKORY TRACE APTS)	Principal	82	88	94	101	108
2002 SERIES A (HICKORY TRACE APTS)	Interest	780	775	768	761	754
2002 MF SERIES (MILLSTONE APTS.)	Principal	195	215	215	230	240
2002 MF SERIES (MILLSTONE APTS.)	Interest	551	540	528	516	504
2002 MF SERIES (PARK MEADOWS APTS.)	Principal	80	80	85	90	95
2002 MF SERIES (PARK MEADOWS APTS.)	Interest	269	264	259	253	247
2002 MF SERIES (WEST OAKS APTS.)	Principal	71	76	82	88	94
2002 MF SERIES (WEST OAKS APTS.)	Interest	669	664	658	652	645
2002 SERIES A (WOODWAY VILLAGE)	Principal	130	135	145	155	160
2002 SERIES A (WOODWAY VILLAGE)	Interest	375	369	362	355	347
2002 SERIES A/B (IRON WOOD CROSSING)	Principal	95	103	113	123	134
2002 SERIES A/B (IRON WOOD CROSSING)	Interest	1,187	1,179	1,169	1,159	1,148
2003 SERIES (EVERGREEN @ MESQUITE)	Principal	133	142	151	161	172
2003 SERIES (EVERGREEN @ MESQUITE)	Interest	697	688	679	669	659
2003 SERIES A/B (ASH CREEK APTS)	Principal	101	110	119	129	140
2003 SERIES A/B (ASH CREEK APTS)	Interest	1,068	1,059	1,050	1,040	1,030
2003 SERIES A/B (NORTH VISTA)	Principal	230	240	250	260	275
2003 SERIES A/B (NORTH VISTA)	Interest	616	606	595	584	571
2003 SERIES A/B (PENINSULA APTS)	Principal	180	190	205	215	230
2003 SERIES A/B (PENINSULA APTS)	Interest	53	44	35	25	14
2003 SERIES A/B (PRIMROSE HOUSTON)	Principal	101	109	118	128	139
2003 SERIES A/B (PRIMROSE HOUSTON)	Interest	1,075	1,067	1,058	1,048	1,037
2003 SERIES A/B (READING ROAD)	Principal	30	30	30	30	40
2003 SERIES A/B (READING ROAD)	Interest	154	151	149	147	145
2003 SERIES A/B (SPHINX @ MURDEAUX)	Principal	185	195	205	215	225
2003 SERIES A/B (SPHINX @ MURDEAUX)	Interest	697	688	678	668	658
2003 SERIES A/B (TIMBER OAKS)	Principal	73	80	87	95	103
2003 SERIES A/B (TIMBER OAKS)	Interest	909	902	895	887	879
2003 SERIES A/B (WEST VIRGINIA)	Principal	165	165	180	190	195
2003 SERIES A/B (WEST VIRGINIA)	Interest	444	437	430	422	412
2004 SERIES (BRISTOL)	Principal					
2004 SERIES (BRISTOL)	Interest	34	34	34	34	34
2004 SERIES (CHISHOLM TRAIL)	Principal					
2004 SERIES (CHISHOLM TRAIL)	Interest	32	32	32	32	32
2004 SERIES (CHURCHILL @ PINNACLE)	Principal	82	87	93	99	106
2004 SERIES (CHURCHILL @ PINNACLE)	Interest	645	639	633	627	620
2004 SERIES (EVERGREEN @ PLANO)	Principal	97	103	110	118	126
2004 SERIES (EVERGREEN @ PLANO)	Interest	946	939	932	925	917
2004 SERIES (HUMBLE PARK)	Principal	120	130	135	145	155
2004 SERIES (HUMBLE PARK)	Interest	743	735	726	717	708
2004 SERIES (MONTGOMERY PINES)	Principal					
2004 SERIES (MONTGOMERY PINES)	Interest	34	34	34	34	34
2004 SERIES (PINNACLE)	Principal					
2004 SERIES (PINNACLE)	Interest	38	38	38	38	38
2004 SERIES (RUSH CREEK)	Principal	60	64	68	73	78
2004 SERIES (RUSH CREEK)	Interest	579	574	570	565	560

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2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$ 818	$ 1,159	$ 1,644	$ 2,330	$ 3,303	$ 3,698	$	$ 13,529
4,401	4,059	3,575	2,889	1,915	419		21,901
669	948	1,345	1,906	2,702	3,096		11,138
3,625	3,345	2,949	2,388	1,592	373		18,093
672	953	1,350	1,914	2,714	3,109		11,187
3,641	3,360	2,962	2,398	1,599	374		18,172
1,425	1,865	2,450	3,215				10,050
2,301	1,861	1,277	510				8,587
590	810	1,120	1,190				4,140
1,130	907	599	181				4,109
588	840	1,199	1,713	2,447	2,189		9,388
3,112	2,860	2,500	1,987	1,253	181		15,181
965	5,610						7,300
1,602	829						4,239
878	1,312	1,862	2,640	3,742	5,611		16,613
5,532	5,098	4,548	3,770	2,668	724		28,183
1,043	1,435	1,974	2,717	1,349	1,228		10,505
3,107	2,715	2,176	1,434	694	190		13,709
891	1,258	1,760	2,463	9,046			16,019
4,961	4,602	4,110	3,421	390			22,732
1,625	2,125	2,775	3,650	860			12,290
2,627	2,160	1,549	749	33			10,091
120	955	1,735	7,775				11,605
2,221	2,700	2,323	206				7,622
891	1,274	1,774	2,470	9,292			16,294
4,993	4,621	4,131	3,450	539			23,018
220	305	430	600	9,895			11,610
684	598	477	307	33			2,845
1,300	1,655	2,090	2,670	3,410	2,050		14,200
3,114	2,764	2,316	1,742	999	156		14,478
677	1,045	1,518	2,125	2,976	4,135		12,913
4,233	3,864	3,392	2,785	1,934	605		21,286
1,155	1,535	2,015	2,640	625			8,865
1,899	1,565	1,123	542	24			7,299
				12,100			12,100
169	169	169	169	62			909
				11,500			11,500
161	161	161	161	54			859
648	898	1,245	1,726	2,392	2,503		9,879
2,984	2,734	2,387	1,906	1,239	342		14,756
769	1,065	1,477	2,047	2,838	5,731		14,482
4,444	4,147	3,736	3,165	2,375	1,082		23,609
955	1,335	1,840	2,540	3,505	430		11,290
3,366	2,999	2,486	1,783	809	14		15,087
				12,100			12,100
169	169	169	169	62			909
				14,065			14,065
190	190	190	190	70			1,019
479	669	934	1,305	1,822	3,111		8,663
2,713	2,523	2,258	1,887	1,369	536		14,134

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DESCRIPTION		2011	2012	2013	2014	2015
2004 SERIES (SPHINX @ DELAFIELD)	Principal	$ 120	$ 125	$ 135	$ 140	$ 150
2004 SERIES (SPHINX @ DELAFIELD)	Interest	572	566	559	552	545
2004 SERIES (TRANQUILITY BAY)	Principal	102	109	117	124	133
2004 SERIES (TRANQUILITY BAY)	Interest	906	899	892	884	876
2004 SERIES A/B (CENTURY PARK)	Principal	190	200	210	230	245
2004 SERIES A/B (CENTURY PARK)	Interest	650	639	628	617	604
2004 SERIES A/B (POST OAK EAST)	Principal					
2004 SERIES A/B (POST OAK EAST)	Interest	41	41	41	41	41
2004 SERIES A/B (TIMBER RIDGE)	Principal	42	45	48	52	56
2004 SERIES A/B (TIMBER RIDGE)	Interest	441	438	435	432	428
2004 SERIES A/B (VETERANS MEMORIAL)	Principal	102	111	121	132	143
2004 SERIES A/B (VETERANS MEMORIAL)	Interest	1,065	1,056	1,047	1,036	1,024
2003 SERIES A/B (PARKVIEW TWNHMS)	Principal	102	111	121	132	144
2003 SERIES A/B (PARKVIEW TWNHMS)	Interest	1,090	1,081	1,071	1,060	1,049
2003 SERIES A/B (ARLINGTON VILLAS)	Principal	95	102	111	120	130
2003 SERIES A/B (ARLINGTON VILLAS)	Interest	1,154	1,146	1,138	1,128	1,118
2003 SERIES (NHP-ASMARA)REFUNDING	Principal	430	450	480	510	540
2003 SERIES (NHP-ASMARA)REFUNDING	Interest	54	53	52	50	49
2004 SERIES (VILLAGE FAIR)	Principal	97	103	110	118	125
2004 SERIES (VILLAGE FAIR)	Interest	894	887	880	873	865
2005 SERIES (PECAN GROVE)	Principal	96	102	109	116	124
2005 SERIES (PECAN GROVE)	Interest	890	883	877	869	861
2005 SERIES (PRAIRIE OAKS)	Principal	75	81	86	92	98
2005 SERIES (PRAIRIE OAKS)	Interest	701	696	690	685	679
2005 SERIES (PORT ROYAL)	Principal	83	88	94	101	107
2005 SERIES (PORT ROYAL)	Interest	774	769	763	756	750
2005 SERIES (MISSION DEL RIO)	Principal	78	83	89	95	101
2005 SERIES (MISSION DEL RIO)	Interest	729	724	718	712	706
2005 SERIES (ATASCOCITA)	Principal					
2005 SERIES (ATASCOCITA)	Interest	33	33	32	32	32
2005 SERIES (TOWER RIDGE)	Principal					
2005 SERIES (TOWER RIDGE)	Interest	55	56	55	56	56
2005 SERIES (PRAIRIE RANCH)	Principal	125	135	140	150	160
2005 SERIES (PRAIRIE RANCH)	Interest	571	565	558	552	544
2005 SERIES (ST. AUGUSTINE)	Principal					
2005 SERIES (ST. AUGUSTINE)	Interest	19	19	18	19	19
2005 SERIES (PARK MANOR)	Principal					
2005 SERIES (PARK MANOR)	Interest	666	666	666	666	666
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	Principal	97	103	110	117	125
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	Interest	900	893	887	879	872
2005 SERIES (PLAZA CHASE OAKS)	Principal	238	251	264	277	292
2005 SERIES (PLAZA CHASE OAKS)	Interest	685	673	660	646	632
2005 SERIES (CANAL PLACE APTS)	Principal	81	88	95	103	112
2005 SERIES (CANAL PLACE APTS)	Interest	1,018	1,011	1,004	996	988
2005 SERIES (CORAL HILLS)	Principal	45	80	85	90	90
2005 SERIES (CORAL HILLS)	Interest	247	244	240	236	231
2006 SERIES (HARRIS BRANCH APTS)	Principal					
2006 SERIES (HARRIS BRANCH APTS)	Interest	44	44	44	44	44
2006 SERIES (BELLA VISTA APTS)	Principal	45	50	55	55	60
2006 SERIES (BELLA VISTA APTS)	Interest	412	409	406	403	399

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(Amounts in Thousands)

2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$ 880	$ 1,155	$ 1,510	$ 1,995	$ 2,510	$ 2,195	$	$ 10,915
2,602	2,350	2,011	1,561	971	241		12,531
809	1,119	1,547	2,139	2,958	4,826		13,982
4,232	3,922	3,494	2,902	2,083	851		21,939
1,450	1,925	2,570	3,415	1,665			12,100
2,805	2,360	1,766	976	114			11,159
				13,600			13,600
205	205	205	205	82			1,105
344	487	690	976	3,818			6,558
2,077	1,939	1,743	1,465	250			9,651
913	1,277	1,775	2,466	3,428	5,467		15,934
4,925	4,561	4,063	3,371	2,410	907		25,465
929	1,319	1,833	2,547	3,539	5,444		16,222
5,033	4,643	4,129	3,415	2,422	878		25,871
834	1,232	1,744	2,461	9,983			16,812
5,411	5,018	4,516	3,815	865			25,309
3,230	4,325	5,795	4,275				20,035
221	171	105	22				777
765	1,058	1,463	2,024	2,798	5,132		13,794
4,188	3,895	3,490	2,929	2,155	1,014		22,069
757	1,047	1,448	2,003	2,769	5,160		13,733
4,171	3,881	3,480	2,926	2,159	1,037		22,034
597	825	1,141	1,577	2,181	4,064		10,816
3,285	3,057	2,741	2,304	1,700	817		17,354
655	906	1,253	1,732	2,395	4,534		11,949
3,630	3,380	3,033	2,553	1,890	926		19,225
617	853	1,180	1,631	2,256	4,270		11,253
3,419	3,183	2,856	2,405	1,780	872		18,106
				11,600			11,600
162	162	162	162	87			899
				15,000			15,000
278	277	278	278	146			1,533
915	1,195	1,545	1,920	2,440	3,085		11,810
2,596	2,346	2,019	1,605	1,085	426		12,867
				6,380			6,380
93	92	93	93	57			520
					10,400		10,400
3,328	3,328	3,328	3,328	3,328	3,273		23,241
759	1,045	1,438	1,978	2,722	5,611		14,104
4,224	3,938	3,546	3,005	2,261	1,238		22,643
1,700	2,187	2,814	3,620	2,028			13,670
2,916	2,429	1,802	996	126			11,564
719	1,021	1,404	1,932	10,489			16,044
4,783	4,491	4,116	3,601	2,248			24,256
525	710	3,275					4,900
1,081	930	163					3,373
				14,700			14,700
221	220	221	221	158			1,261
365	495	670	915	1,240	1,685	1,060	6,695
1,935	1,808	1,635	1,401	1,083	650	65	10,605

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DESCRIPTION		2011	2012	2013	2014	2015
2006 SERIES (VILLAGE PARK)	Principal	$ 150	$ 155	$ 170	$ 175	$ 185
2006 SERIES (VILLAGE PARK)	Interest	524	517	509	501	493
2006 SERIES (OAKMOOR)	Principal	100	106	113	120	127
2006 SERIES (OAKMOOR)	Interest	857	851	844	837	830
2006 SERIES (SUNSET POINTE)	Principal					
2006 SERIES (SUNSET POINTE)	Interest	51	51	51	51	51
2006 SERIES (HILLCREST)	Principal	150	150	160	170	185
2006 SERIES (HILLCREST)	Interest	575	567	559	551	542
2006 SERIES (PLEASANT VILLAGE)	Principal	84	88	95	101	107
2006 SERIES (PLEASANT VILLAGE)	Interest	352	347	341	335	329
2006 SERIES (GROVE VILLAGE)	Principal	86	91	98	104	110
2006 SERIES (GROVE VILLAGE)	Interest	362	358	351	345	338
2006 SERIES (RED HILLS VILLAS)	Principal					
2006 SERIES (RED HILLS VILLAS)	Interest	18	18	18	18	18
2006 SERIES (CHAMPIONS CROSSING)	Principal					
2006 SERIES (CHAMPIONS CROSSING)	Interest	18	18	18	18	18
2006 SERIES (STONEHAVEN)	Principal	82	87	92	98	103
2006 SERIES (STONEHAVEN)	Interest	645	640	635	630	624
2006 SERIES (CENTER RIDGE)	Principal					
2006 SERIES (CENTER RIDGE)	Interest	416	416	416	416	416
2006 SERIES (MEADOWLANDS)	Principal	82	87	92	98	104
2006 SERIES (MEADOWLANDS)	Interest	737	732	727	721	715
2006 SERIES (EAST TEX PINES)	Principal	80	95	105	110	110
2006 SERIES (EAST TEX PINES)	Interest	781	776	770	764	757
2006 SERIES (VILLAS @ HENDERSON)	Principal	145	104	110	116	123
2006 SERIES (VILLAS @ HENDERSON)	Interest	21	20	20	20	19
2006 SERIES (ASPEN PARK)	Principal	95	100	110	110	120
2006 SERIES (ASPEN PARK)	Interest	484	479	474	468	462
2006 SERIES (IDLEWILDE)	Principal					
2006 SERIES (IDLEWILDE)	Interest	40	39	39	39	39
2007 SERIES (LANCASTER)	Principal					
2007 SERIES (LANCASTER)	Interest	40	39	39	39	39
2007 SERIES (PARK PLACE AT LOYOLA)	Principal	98	104	110	117	123
2007 SERIES (PARK PLACE AT LOYOLA)	Interest	867	862	855	849	842
2007 SERIES (TERRACES AT CIBOLO)	Principal					
2007 SERIES (TERRACES AT CIBOLO)	Interest	23	23	23	23	23
2007 SERIES (SANTORA VILLAS)	Principal	64	89	94	100	106
2007 SERIES (SANTORA VILLAS)	Interest	757	752	747	741	735
2007 SERIES (A/B VILLAS @ MESQUITE CREEK)	Principal	155	165	175	185	195
2007 SERIES (A/B VILLAS @ MESQUITE CREEK)	Interest	844	835	825	814	804
2007 SERIES (SUMMIT POINT)	Principal	100	105	120	120	130
2007 SERIES (SUMMIT POINT)	Interest	594	589	583	578	572
2007 SERIES (COSTA RIALTO)	Principal	91	96	101	107	113
2007 SERIES (COSTA RIALTO)	Interest	660	655	650	645	639
2007 SERIES (WINDSHIRE)	Principal					
2007 SERIES (WINDSHIRE)	Interest	39	39	39	39	39
2007 SERIES (RESIDENCE @ ONION CREEK)	Principal					
2007 SERIES (RESIDENCE @ ONION CREEK)	Interest	51	51	51	51	51
2008 SERIES (ADDISON PARK APTS)	Principal					
2008 SERIES (ADDISON PARK APTS)	Interest	45	44	44	44	44

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2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$ 1,100	$ 1,475	$ 7,005	$	$	$	$	$ 10,415
2,318	2,012	525					7,398
764	1,031	1,391	1,876	2,530	3,413	2,754	14,326
4,021	3,754	3,394	2,909	2,255	1,372	89	22,014
				15,000			15,000
255	255	255	255	200			1,475
1,105	1,520	7,550					10,990
2,547	2,212	764					8,317
642	4,702						5,818
1,536	707						3,947
661	4,843						5,992
1,582	728						4,065
	500	900	1,200	2,315			4,915
88	83	71	52	8			391
400	500	900	1,200	1,925			4,925
85	76	64	45	6			365
617	824	9,257					11,161
3,019	2,812	619					9,624
				8,325			8,325
2,081	2,081	2,081	2,081	1,665			12,071
626	844	1,138	1,536	2,071	2,794	2,854	12,327
3,471	3,253	2,958	2,561	2,026	1,303	164	19,369
685	900	1,195	1,585	2,105	2,785	3,745	13,500
3,675	3,447	3,145	2,744	2,213	1,508	288	20,865
727	961	1,270	1,678	1,966			7,200
91	79	63	41	14			387
710	950	460		7,040			9,695
2,214	2,012	1,789	1,760	1,408			11,550
				14,040			14,040
197	197	197	197	190			1,173
				14,040			14,040
197	197	197	197	193			1,176
737	984	1,314	1,755	2,344	3,131	4,181	15,000
4,090	3,843	3,513	3,072	2,483	1,696	318	23,289
				8,000			8,000
116	116	116	116	110			690
633	845	1,129	1,508	2,014	2,689	3,800	13,072
3,574	3,361	3,078	2,699	2,193	1,517	332	20,485
1,170	1,515	1,935	2,480	3,180	4,065	1,430	16,650
3,831	3,489	3,064	2,522	1,827	938	72	19,864
740	955	1,245	1,635	2,165	2,845	1,375	11,535
2,760	2,553	2,282	1,919	1,433	788	91	14,741
663	866	1,131	1,477	1,929	2,519	3,290	12,385
3,094	2,891	2,626	2,280	1,828	1,238	282	17,487
					14,000		14,000
196	196	196	196	196	16		1,193
					15,000		15,000
255	255	255	255	255	17		1,547
					13,800		13,800
221	221	221	221	221	151		1,476

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

DESCRIPTION		2011	2012	2013	2014	2015
2008 SERIES (COSTA IBIZA APTS)	Principal	$	$	$	$	$
2008 SERIES (COSTA IBIZA APTS)	Interest	41	42	42	42	42
2008 SERIES (WEST OAKS APTS)	Principal					
2008 SERIES (WEST OAKS APTS)	Interest	36	35	35	35	35
2009 SERIES (COSTA MARIPOSA)	Principal					
2009 SERIES (COSTA MARIPOSA)	Interest	44	44	44	44	44
2009 SERIES (WOODMONT APTS)	Principal					
2009 SERIES (WOODMONT APTS)	Interest	45	45	45	45	45
2008 SERIES (ALTA CULLEN)	Principal					
2008 SERIES (ALTA CULLEN)	Interest	47	48	48	48	48
TOTAL MULTI-FAMILY BONDS		**$ 65,103**	**$ 63,239**	**$ 63,172**	**$ 63,004**	**$ 63,056**
Total		$ 124,967	$ 423,480	$ 123,959	$ 123,900	$ 123,371
Less Interest		98,934	96,075	94,488	93,097	91,503
Total Principal		**$ 26,033**	**$ 327,405**	**$ 29,471**	**$ 30,803**	**$ 31,868**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-C (Continued)
DEBT SERVICE REQUIREMENTS (PRINCIPAL & INTEREST)
August 31, 2010
(Amounts in Thousands)

2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
$	$	$	$	$	$ 13,900	$	$ 13,900
209	208	208	208	209	42		1,292
					13,125		13,125
177	177	177	177	177	32		1,096
					13,690		13,690
219	219	219	219	219	77		1,391
					15,000		15,000
225	225	225	225	225	82		1,432
					14,000		14,000
238	238	238	238	238	218		1,646
$ 319,009	**$ 331,570**	**$ 359,741**	**$ 301,619**	**$ 435,463**	**$ 284,299**	**$ 26,190**	**$ 2,375,464**
$ 656,725	$ 710,691	$ 723,144	$ 652,284	$ 592,714	$ 284,299	$ 26,190	$ 4,565,723
434,644	380,427	292,030	192,804	95,972	30,249	1,700	1,901,923
$ 222,081	**$ 330,264**	**$ 431,113**	**$ 459,480**	**$ 496,742**	**$ 254,050**	**$ 24,489**	**$ 2,663,800**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-D
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2002 Single Family Series A	$ 6,066	$ 44	$	$ 1,829
2002 Single Family Series A (Jr. Lien)	4,378	5		154
2002 Single Family Series B	8,531	31		1,352
2002 Single Family Series C	1,563	12	530	435
2002 Single Family Series D	240	4	840	118
2004 Single Family Series A	26,886	159	2,845	3,508
2004 Single Family Series A (Jr. Lien)		8		13
2004 Single Family Series B	2,790	125		1,938
2004 Single Family Series C	8,451	58	165	1,069
2004 Single Family Series D	1,780	103		1,278
2004 Single Family Series E	896	14	1,085	220
2005 Single Family Series A	17,290	224		3,314
2005 Single Family Series B	3,088	55	630	617
2005 Single Family Series C	1,129	25		17
2005 Single Family Series D	166	13		152
2006 Single Family Series A	14,434	43	485	2,454
2006 Single Family Series B	16,577	49	1,450	2,815
2006 Single Family Series C	25,145	74	1,530	4,382
2006 Single Family Series D	5,701	18		882
2006 Single Family Series E	767	12	1,315	525
2006 Single Family Series F	25,545	96	510	3,470
2006 Single Family Series G	4,181	14	1,210	454
2006 Single Family Series H	2,276	61		1,321
2007 Single Family Series A	21,756	366		5,119
2007 Single Family Series B	27,356	127	1,440	7,587
Total Single Family Bonds	$ 226,991	$ 1,737	$ 14,035	$ 45,023
1998 RMRB Series A	5,420	27	1,025	1,593
1998 RMRB Series B	1,012	5		293
1999 RMRB Series A	707	394		209
2000 RMRB Series A	14,926	13		681
2000 RMRB Series B	30,004	219		1,920
2000 RMRB Series C	5,377	65		441
2000 RMRB Series D	4,780		605	233
2001 RMRB Series A	4,991	23	330	1,294
2001 RMRB Series B	1,337	11		568
2001 RMRB Series C	718	5	1,005	239
2001 RMRB Series D				
2002 RMRB Series A	4,934	22	340	1,323
2003 RMRB Series A	9,289	46	745	2,540
2009 RMRB Series A	1,814	99		4,105
2009 RMRB Series B	2,946	25	560	1,003
2009 RMRB Series C	275			272
Total Residential Mtg Revenue Bonds	$ 88,530	$ 955	$ 4,610	$ 16,716
1992 CHMRB Series C	1,795	7		591
Total 1992 CHMRB	$ 1,795	$ 7		$ 591
1996 MF Series A/B (Brighton's Mark)	508	6		502
1996 MF Series A/B (Braxton's Mark)	845	3		841
1998 MF Series A (Pebble Brook)	$ 629	$	$ 105	$ 519
1998 MF Series A-C (Residence Oaks)	420		169	420
1998 MF Series A/B (Greens of Hickory Trial)	616		270	616

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-D
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
1999 MF Series A-C (Mayfield)	561		235	561
2000 MF Series A (Creek Point Apts)	124			19
2000 MF Series A (Deerwood Apts)	370		105	370
2000 MF Series A (Timber Point Apts)	123			23
2000 MF Series A/B (Greenbridge)	1,441			1,441
2000 MF Series A/B (Oaks at Hampton)	688		89	688
2000 MF Series A/B (Parks @ Westmoreland)	684		87	684
2000 MF Series A/B (Williams Run)	950			950
2000 MF Series A-C (Collingham Park)	835		230	835
2000 MF Series A-C (Highland Meadow Apts)	556		139	556
2001 MF Series A (Bluffview Senior Apts)	785		69	785
2001 MF Series A (Knollwood Villas Apts)	1,009		89	1,009
2001 MF Series A (Oak Hollow Apts.)	439		46	439
2001 MF Series A (Greens Road Apts.)	415		135	415
2001 MF Series A (Skyway Villas)	406		130	406
2001 MF Series A/B (Cobb Park)	563			563
2001 MF Series A/B (Hillside Apts.)	874		52	874
2001 MF Series A/B (Meridian Apts.)	507		72	507
2001 MF Series A/B (Wildwood Apts.)	392		60	392
2001 MF Series A-C (Fallbrook Apts.)	832		235	832
2002 MF Series A (Clarkridge Villas Apts)	950		93	950
2002 MF Series A (Park Meadows Apts)	272		65	272
2002 MF Series A (Sugar Creek Apts.)	12,017		45	512
2002 MF Series A (West Oaks Apts.)	673		66	673
2002 MF Series A (Green Crest Apts)	782		76	782
2002 MF Series A (Hickory Trace Apts)	786		77	786
2002 MF Series A (Millstone Apts.)	558		185	558
2002 MF Series A (Woodway Village Apts)	380		120	380
2002 MF Series A/B (Ironwood Crossing)	1,195		87	1,195
2003 MF Series A (NHP-Asmara) Refunding	171		400	56
2003 MF Series A (Evergreen @ Mesquite)	715		125	715
2003 MF Series A/B (Reading Road)	358		30	158
2003 MF Series A/B (Arlington Villas)	1,161		87	1,161
2003 MF Series A/B (Ash Creek Apts)	1,075		94	1,075
2003 MF Series A/B (North Vista Apts)	623		210	623
2003 MF Series A/B (Parkview Twnhms)	1,098		94	1,098
2003 MF Series A/B (Peninsula Apts)	638		150	613
2003 MF Series A/B (Primrose Houston School)	1,082		93	1,082
2003 MF Series A/B (Sphinx @ Murdeaux)	703		180	703
2003 MF Series A/B (Timber Oaks Apts)	915		67	915
2003 MF Series A/B (West Virginia Apts)	450		155	450
2004 MF Series A (Bristol)	137			37
2004 MF Series A (Chisholm Trail)	236			36
2004 MF Series A (Churchill @ Pinnacle)	649		77	649
2004 MF Series A (Evergreen @ Plano)	951		91	951
2004 MF Series A (Humble Park)	749		110	749
2004 MF Series A (Montgomery Pines)	238			38
2004 MF Series A (Pinnacle)	$ 142	$	$	$ 42
2004 MF Series A (Rush Creek)	582		56	582
2004 MF Series A (Sphinx @ Delafield)	577		110	577
2004 MF Series A (Tranquility Bay)	912		96	912
2004 MF Series A (Village Fair)	899		91	899
2004 MF Series A/B (Century Park)	657		185	657

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-D
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2004 MF Series A/B (Post Oak East)	43			43
2004 MF Series A/B (Timber Ridge)	444		39	444
2004 MF Series A/B (Veterans Memorial)	1,073		94	1,073
2005 MF Series A (Atascocita Pines)	136			36
2005 MF Series A/B (Canal Place)	1,024		56	1,024
2005 MF Series A (Del Rio)	734		73	734
2005 MF Series A (Park Manor)	666			666
2005 MF Series A (Pecan Grove)	895		90	895
2005 MF Series A (Chase Oaks)	696		227	696
2005 MF Series A (Port Royal)	779		78	779
2005 MF Series A (Prairie Oaks)	705		71	705
2005 MF Series A (Prairie Ranch)	576		125	576
2005 MF Series A (Mockingbird)	905		91	905
2005 MF Series A (St Augustine)	792			22
2005 MF Series A (Tower Ridge)	54			54
2006 MF Series A (Aspen Park Apts)	488		105	488
2006 MF Series A (Bella Vista)	413		45	413
2006 MF Series A (Center Ridge)	416			416
2006 MF Series A (Champion Crossing)	117			17
2005 MF Series A (Coral Hills)	276		70	251
2006 MF Series A (East Tex Pines)	783			783
2006 MF Series A (Grove Village)	367		81	367
2006 MF Series A (Harris Branch)	254			54
2006 MF Series A (Hillcrest)	1,795		230	580
2006 MF Series A (Idlewilde Apts)	254			44
2006 MF Series A (Meadowlands)	742		77	742
2006 MF Series A (Oakmoor)	862		94	862
2006 MF Series A (Pleasant Village)	356		79	356
2006 MF Series A (Red Hills Villas)	17			17
2006 MF Series A (Stonehaven)	649		77	649
2006 MF Series A (Sunset Pointe)	54			54
2006 MF Series A (Village Park)	529		150	529
2006 MF Series A (Villas at Henderson)	22			22
2007 MF Series A (Villas @ Mesquite Creek)	990		75	855
2007 MF Series A (Costa Rialto)	663			663
2007 MF Series A (Lancaster Apts)	254			44
2007 MF Series A (Park Place @ Loyola)	870			870
2007 MF Series A (Santora Villas)	758			758
2007 MF Series A (Summit Point)	598		165	598
2007 MF Series A (Terraces at Cibolo)	24			24
2007 MF Series A (Windshire)	43			43
2007 MF Series A (Residences @ Onion Creek)	58			58
2008 MF Series A (West Oaks Apts)	39			39
2008 MF Series A (Costa Ibiza Apts)	35			35
2008 MF Series A(Addison Park)	$ 150	$	$	$ 50
2008 MF Series A (Alta Cullen)	42			42
2009 MF Series A (Costa Mariposa)	38			38
2009 MF Series A (Woodmont Apts)	41			41
Total Multifamily Bonds	$ 71,423	$ 9	$ 7,822	$ 55,587
Total	$ 388,740	$ 2,709	$ 26,467	$ 117,917

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (332)
Supplementary Bond Schedules
SCHEDULE 1-E
EARLY EXTINGUISHMENT AND REFUNDING
For the fiscal year ended August 31, 2010

			For Refunding Only		
Description of Issue	**Category**	**Amount Extinguished or Refunded**	**Refunding Issue Par Value**	**Cash Flow Increase (Decrease)**	**Economic Gain/ (Loss)**
Business-Type Activities					
2002 Single Family Series A (Jr. Lien)	Early Extinguishment	$ 3,995,000	$	$	$
2002 Single Family Series A	Early Extinguishment	4,415,000			
2002 Single Family Series B	Early Extinguishment	7,385,000			
2002 Single Family Series C	Early Extinguishment	1,125,000			
2002 Single Family Series D	Early Extinguishment	105,000			
2004 Single Family Series A	Early Extinguishment	23,335,000			
2004 Single Family Series C	Early Extinguishment	7,455,000			
2004 Single Family Series E	Early Extinguishment	655,000			
2005 Single Family Series A	Early Extinguishment	13,535,000			
2005 Single Family Series B	Early Extinguishment	2,390,000			
2005 Single Family Series C	Early Extinguishment	810,000			
2006 Single Family Series A	Early Extinguishment	11,620,000			
2006 Single Family Series B	Early Extinguishment	13,380,000			
2006 Single Family Series C	Early Extinguishment	20,285,000			
2006 Single Family Series D	Early Extinguishment	4,550,000			
2006 Single Family Series F	Early Extinguishment	22,005,000			
2006 Single Family Series G	Early Extinguishment	3,675,000			
2007 Single Family Series A	Early Extinguishment	16,040,000			
2007 Single Family Series B	Early Extinguishment	20,800,000			
1998 RMRB Series A	Early Extinguishment	3,390,000			
1998 RMRB Series B	Early Extinguishment	625,000			
1999 RMRB Series A	Early Extinguishment	390,000			
2000 RMRB Series A	Early Extinguishment	13,965,000			
2000 RMRB Series B	Early Extinguishment	27,770,000			
2000 RMRB Series C	Early Extinguishment	4,710,000			
2000 RMRB Series D	Early Extinguishment	4,780,000			
2001 RMRB Series A	Early Extinguishment	3,775,000			
2001 RMRB Series B	Early Extinguishment	760,000			
2001 RMRB Series C	Early Extinguishment	450,000			
2002 RMRB Series A	Early Extinguishment	3,615,000			
2003 RMRB Series A	Early Extinguishment	6,860,000			
2009 RMRB Series A	Early Extinguishment	10,000			
2009 RMRB Series B	Early Extinguishment	2,495,000			
1992 Coll Home Mtg Rev Bonds, Series C	Early Extinguishment	1,100,000			
1998 Series (Pebble Brook)	Early Extinguishment	110,000			
2000 Series (Timber Point Apts)	Early Extinguishment	100,000			
2000 Series (Creek Point Apts)	Early Extinguishment	105,000			
2002 Series (Sugar Creek)	Early Extinguishment	11,505,000			
2003 Series A/B (Reading Road)	Early Extinguishment	200,000			
2003 Series (Peninsula)	Early Extinguishment	25,000			
2003 Series (NHP-Asmara- Refunding)	Early Extinguishment	115,000			
2004 Series A (Chisholm Trail)	Early Extinguishment	200,000			
2004 Series (Montgomery Pines)	Early Extinguishment	200,000			
2004 Series (Bristol)	Early Extinguishment	100,000			
2004 Series (Pinnacle)	Early Extinguishment	100,000			
2005 Series (Atascocita Pines)	Early Extinguishment	100,000			
2005 Series (St Augustine)	Early Extinguishment	770,000			
2006 Series (Corral Hills)	Early Extinguishment	25,000			
2006 Series (Harris Branch)	Early Extinguishment	200,000			
2006 Series (Hillcrest)	Early Extinguishment	1,215,000			
2006 Series (Champion's Crossing)	Early Extinguishment	100,000			
2006 Series (Idlewilde)	Early Extinguishment	210,000			
2007 Series (Landcaster)	Early Extinguishment	210,000			
2007 Series (Villas @ Mesquite Creek)	Early Extinguishment	135,000			
2008 Series (Addison Park)	Early Extinguishment	100,000			
Total Business-Type Activities		**$ 268,080,000**	**$ -**	**$ -**	**$ -**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Rick Perry, Governor,
and the Governing Board of
Texas Department of Housing and Community Affairs:

We have audited the financial statements of the Texas Department of Housing and Community Affairs (the "Department") as of and for the year ended August 31, 2010, and have issued our report thereon dated December 20, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below in the following paragraph, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

The fiscal year 2010 net activity of certain long term loan programs was improperly reported in the year-end financial closing and reporting process. The Department did not properly account for the activity of revolving loan programs at year end based on its adopted accounting policies. The error was not identified timely during management's review of the fiscal year end financial closing and reporting entries. The Department corrected the error prior to the issuance of the financial statements, and the resulting adjustment had a material impact on the fiscal year 2010 financial statements.

The views of responsible Department officials and the planned corrective action plan are included in the following paragraph.

The Department acknowledges that during year-end closing procedures it inadvertently reverted to prior year policy by classifying Loans on the balance sheet, but recording Revenues associated with current year loan activities as Deferred Revenue. In order to prevent a reoccurrence of this matter the Financial Administration (FA) Division will enhance its policies and procedures. The enhancements will include a separate code structure to clearly identify loans and grants; additional reconciliations between applicable systems; incorporation of non-cash items and final reviews of Deferred Revenue and Fund Balance/Net Assets accounts to ensure that potential inconsistencies are timely detected and addressed. A full implementation will occur in State Fiscal Year 2011.

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 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. We consider the deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including the Public Funds Investment Act (§2256, Texas Government Code); 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*.

The views of responsible Department officials and the planned corrective action plan to the finding identified in our audit are described above. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governing Board, management, and federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

December 20, 2010

Texas Department of Housing and Community Affairs — Revenue Bond Program Enterprise Fund

Financial Statements and Supplemental Schedules as of and for the Year Ended August 31, 2010, and Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

To The Honorable Rick Perry, Governor, and the Governing Board
Texas Department of Housing and Community Affairs:

We have audited the accompanying statement of net assets of Texas Department of Housing and Community Affairs — Revenue Bond Program Enterprise Fund (the "Bond Program") as of August 31, 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Bond Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bond Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Revenue Bond Program Enterprise Fund of the Texas Department of Housing and Community Affairs (the "Department") and are not intended to present the financial position of the Department or the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Department of Housing and Community Affairs — Revenue Bond Program Enterprise Fund as of August 31, 2010, and the changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of Government Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Bond Program's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules 3 though 7 listed in the table of contents are presented for the purpose of additional analysis as required by the Texas Comptroller of Public Accounts and are not a required part of the basic financial statements. These schedules are the responsibility of the Bond Program's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information by bond program, included as Schedules 1 and 2, listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. These schedules are also the responsibility of the Bond Program's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

December 20, 2010

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – REVENUE BOND PROGRAM ENTERPRISE FUND MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED AUGUST 31, 2010

This section of the Texas Department of Housing and Community Affairs - Revenue Bond Program (the "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, 2010. Please read it in conjunction with the Department's Bond Program financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Bond Program's net assets increased by $42.6 million. This was primarily because of the change in fair value of investments as explained below.

- The Bond Program had an Operating Income of $41.3 million, a decrease of $35.1 million from the prior year. The change in operating income was a result of the following factors. The change in fair value of investments decreased from an unrealized gain of $78.1 million in fiscal year 2009 to an unrealized gain of $35.7 million in fiscal year 2010, or $42.5 million, which accounted for the majority of the decrease in operating results. Bond interest expense decreased $18.1 million due to lower interest rates related to variable rate debt. In addition, interest and investment income decreased by $13.8 million.

- The Bond Program's debt outstanding of $2.7 billion as of August 31, 2010, increased $5.5 million. Debt issuances and debt retirements totaled $300 million and $294.5 million, respectively. Loan originations for the year totaled $6.2 million in the Bond Program.

- For the fiscal year ended, August 31, 2010, the Department adopted, Governmental Accounting Standards Board Statement (GASB) No. 53, Accounting and Financial Reporting for Derivative Instruments. GASB 53 requires the reporting of 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 as of the end of the fiscal year in the balance sheet. As of August 31, 2010, the Department's five interest rate swaps had a total notional amount of $322.1 million and a negative $37 million fair value which was recorded in the deferred outflow of resources account and a derivative swap liability.

- A rise in the number of borrowers who are unable to pay debt obligations has led to increased foreclosures causing uncertainty in the housing market. According to Standard and Poor's, Housing Finance Agencies (HFAs) face lower risk from defaults on their loans. Homebuyer education programs, conservative underwriting, generous reserves, and ongoing HFA asset management have resulted in strong portfolio performance which is expected to continue for the long-term. Since 1988, the Department has had its single family mortgage loans guaranteed by Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and Federal Home Loan Mortgage Corporation (FHLMC).

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 assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes or debt service.

FINANCIAL ANALYSIS OF THE REVENUE BOND PROGRAM

Bond Program — Condensed Statement of Net Assets

	Bond Program 2010	Bond Program 2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
ASSETS:				
Cash and investments	$ 1,700,073,540	$ 1,660,503,359	$ 39,570,181	2.38 %
Loans, contracts, and notes receivable	1,235,234,117	1,258,552,665	(23,318,548)	(1.85)%
Interest receivable	14,562,606	14,725,422	(162,816)	(1.11)%
Real estate owned	200,415	138,169	62,246	45.05 %
Deferred Outflow of Resources	36,966,154		36,966,154	N/A
Deferred issuance cost	9,778,100	10,971,377	(1,193,277)	(10.88)%
Other assets	641,844	424,682	217,162	51.14 %
Total assets	2,997,456,776	2,945,315,674	52,141,102	1.77 %
LIABILITIES:				
Bonds/notes payable	2,671,049,369	2,668,859,650	2,189,719	0.08 %
Interest payable	32,465,592	35,926,575	(3,460,983)	(9.63)%
Derivative Hedging Instrument	36,966,154		36,966,154	N/A
Deferred revenue	10,089,112	11,407,250	(1,318,138)	(11.56)%
Other liabilities	99,472,591	124,357,238	(24,884,647)	(20.01)%
Total liabilities	2,850,042,818	2,840,550,713	9,492,105	0.33 %
NET ASSETS:				
Restricted for Bonds	139,489,798	91,457,425	48,032,373	52.52 %
Unrestricted	7,924,160	13,307,536	(5,383,376)	(40.45)%
Total net assets	$ 147,413,958	$ 104,764,961	$ 42,648,997	40.71 %

Net assets of the Bond Program increased $42.6 million, or 40.71%, to $147.4 million. The net increase primarily resulted from an increase in fair value of the Bond Program's investments, decrease in interest income, and decrease in interest expense. Restricted net assets of the Bond Program increased $48 million, or 52.52%. Unrestricted net assets decreased $5.4 million, or 40.45%.

Cash and investments increased $39.6 million, or 2.38%, to $1.7 billion, due to the change in fair value of investments, new bond proceeds, interest earnings, and construction draws to fund construction projects for previously issued multifamily bonds. The Bond Program loans receivable (current and non-current) decreased

$23.3 million, or 1.85%, to $1.2 billion, due primarily as a result of loan payoffs related to the Department's Multi-family Bond Program. Total bonds and notes payable (current and non-current) increased $2.2 million, or .08%, primarily due to the Department's issuance of debt offset by monthly retirement of existing debt.

The Department adopted Governmental Accounting Standards Board Statement (GASB) No. 53, Accounting and Financial Reporting for Derivative Instruments, for the year ended August 31, 2010 which requires the accounting and reporting of derivative instruments at fair value on the balance sheet. The Department's five interest rate swaps are considered to be derivative instruments per GASB No. 53. The negative $37 million fair value of the swaps is reporting as deferred outflow of resources and a derivative hedging instrument classified as a liability.

A comparison between 2010 and 2009 for the Statement of Revenues, Expenses, and Changes in Net Assets is as follows:

Bond Program - Statement of Revenues, Expenses, and Changes in Net Assets

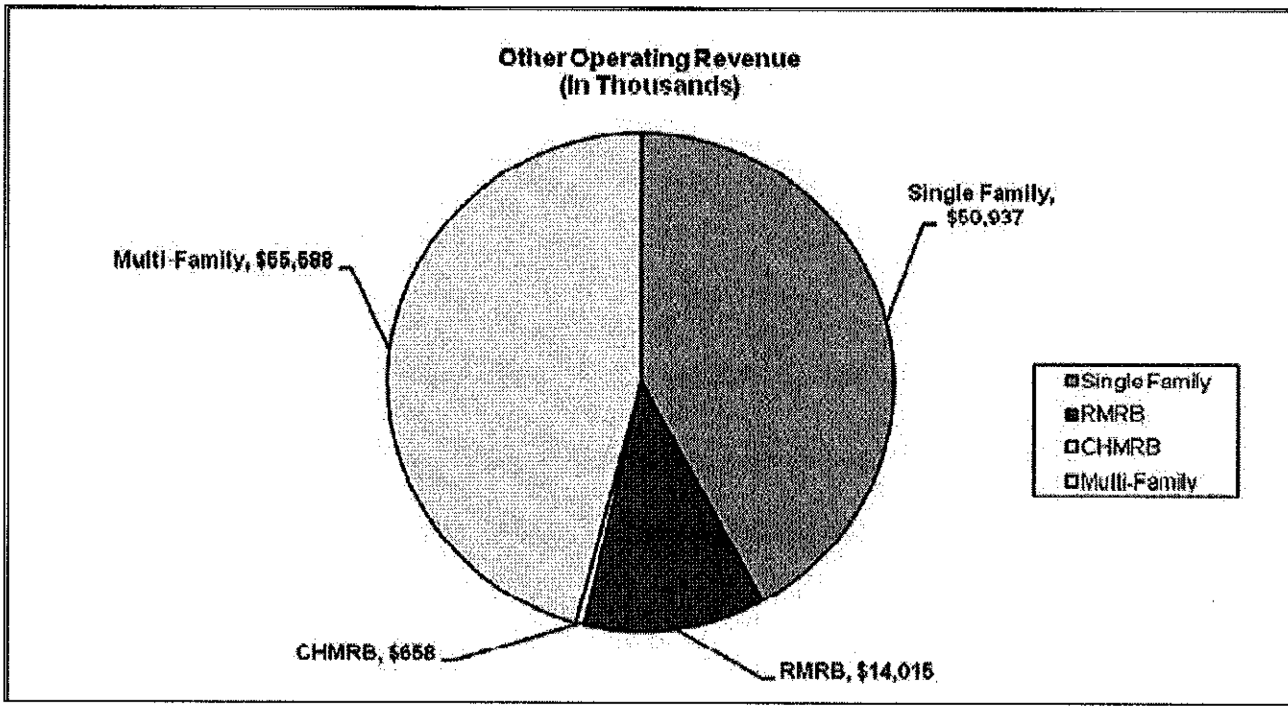
	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
OPERATING REVENUES:				
Interest and investment income	$ 121,288,357	$ 135,097,423	$ (13,809,066)	(10.22)%
Net increase in fair value	35,670,235	78,139,311	(42,469,076)	(54.35)%
Other operating revenues	5,959,333	3,696,926	2,262,407	61.20 %
Total operating revenues	162,917,925	216,933,660	(54,015,735)	(24.90)%
OPERATING EXPENSES:				
Professional fees and services	1,717,807	2,403,914	(686,107)	(28.54)%
Depreciation expense	727,358	1,483,706	(756,348)	(50.98)%
Interest	116,471,499	134,544,338	(18,072,839)	(13.43)%
Bad debt expense	270,810	166,492	104,318	62.66 %
Down payment assistance	1,601,208	704,559	896,649	127.26 %
Other operating expenses	782,185	1,233,401	(451,216)	(36.58)%
Total operating expenses	121,570,867	140,536,410	(18,965,543)	(13.50)%
OPERATING INCOME	41,347,058	76,397,250	(35,050,192)	(45.88)%
NONOPERATING REVENUES	4,922,551		4,922,551	
TRANSFERS	(3,620,612)	(7,299,542)	3,678,930	(50.40)%
CHANGE IN NET ASSETS	42,648,997	69,097,708	(26,448,711)	(38.28)%
BEGINNING NET ASSETS	104,764,961	35,667,253	69,097,708	193.73 %
ENDING NET ASSETS	$ 147,413,958	$ 104,764,961	$ 42,648,997	40.71 %

Earnings within the Bond Program's various bond indentures were $162.9 million, of which $160.3 million is classified as restricted and $2.6 million as unrestricted.

Restricted earnings are composed of $121.2 million in interest and investment income, $35.7 million increase in fair value of investments, and $3.4 million in other revenue. Interest and investment income is restricted per bond covenants for debt service, fair value in investments is an unrealized gain due to the fact that the Bond Program holds investments until maturity, and other revenue is predominantly an accounting recognition of fees received in previous years that were deferred when received and are being amortized over a period of time.

Unrestricted earnings are composed of $90.2 thousand in interest and investment income and $2.5 million in other operating revenue.

The graph below will illustrate the composition of interest revenue for the various bond indentures that make up the Bond Program:



Interest earned on program loans decreased by $4.2 million, or 7.00%, due primarily to a decrease of $4.1 million, or 6.91%, within the Bond Program's Multi-Family Program, due to lower loan amounts outstanding as a result of loan payoffs throughout the year and lower interest rates.

Investment income decreased $9.5 million, or 12.87%, and reflected lower investment yields. The primary changes in investment income were within the Single Family Revenue Bond Program funds, which decreased $7.8 million, or 13.53%, and the Residential Mortgage Revenue Bond Program in the amount of $1.5 million, or 9.48%.

Expenses of the Bond Program consist primarily of interest expense of $116.5 million, which decreased $18.1 million, or 13.43%, on the Bond Program's debt incurred to fund its various lending programs.

The changes in net assets by bond indenture for the Bond Program for fiscal years 2010 and 2009 are as follows:

Changes in Net Assets by Bond Program, Year Ended August 31,
(Amounts in thousands)

Fund	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percentage
Single Family	$ 101,369	$ 65,447	$ 35,922	54.9 %
RMRB	31,291	24,470	6,821	27.9 %
CHMRB	1,829	1,514	315	20.8 %
Multifamily	(401)	(126)	(275)	218.3 %
Commercial paper		26	(26)	(100.0)%
General funds	13,326	13,433	(107)	(0.8)%
Total	$ 147,414	$104,764	$ 42,650	40.7 %

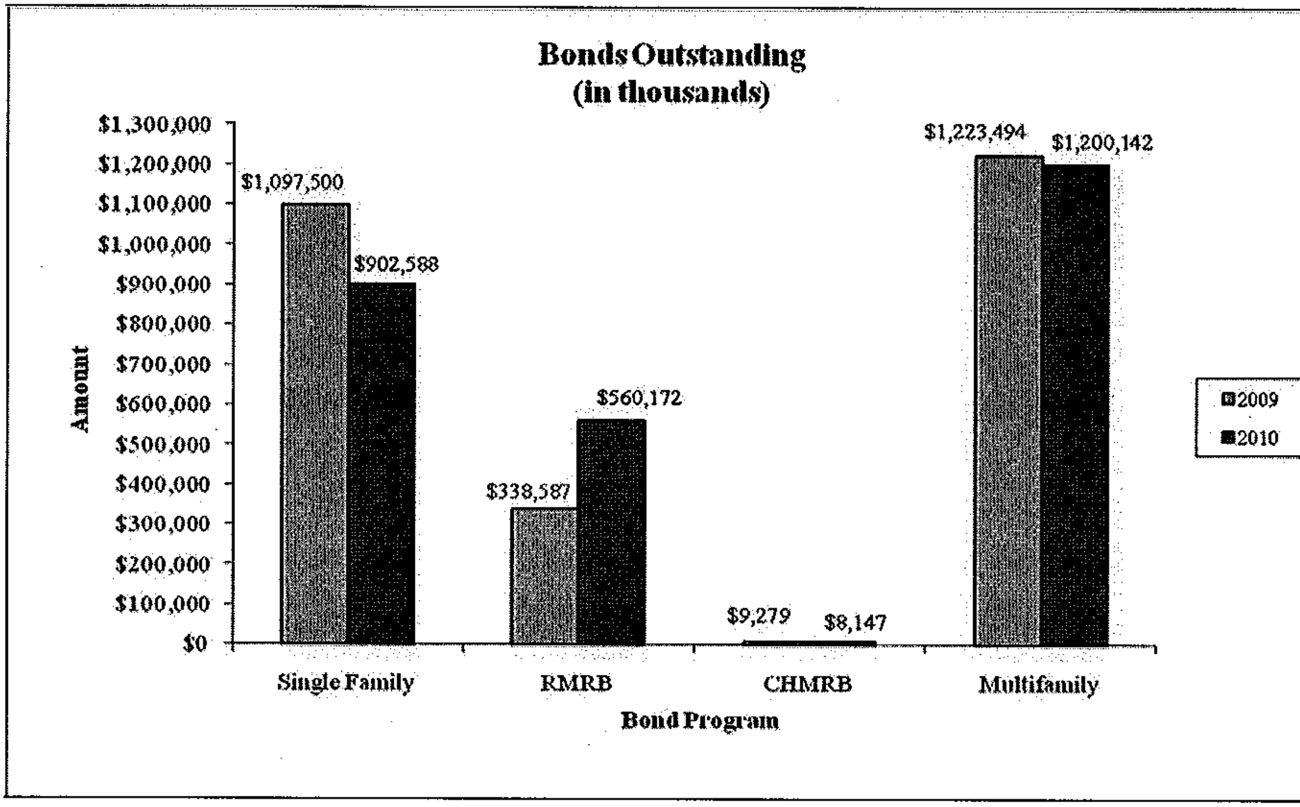
The Net assets of the Single Family Bond Programs increased by $35.9 million, or 54.9%, primarily due to an increase of $30.4 million to the fair value of investment offset by decreases in interest revenue and bond interest expense.

Net assets of the RMRB Bond Programs increased $6.8 million or 27.9% primarily due to an increase of $5.3 million to the fair value of investments offset by an increase in bond interest expense of $2.3 and a decrease of interest revenue of $1.5 million.

BOND PROGRAM DEBT

The Bond Program's new debt issuances during fiscal year 2010 totaled $300 million. The Residential Mortgage Revenue Bond Program issued $300 million in bonds under the New Issue Bond Program. The Bond Program also had $294.5 million in debt retirements during the year primarily due to consumer refinancing and paying off of original loans. The net result was an increase in bonds payable of $5.5 million to $2.7 billion of which $26.2 million is due within one year. For additional information, see Note 7, Bonds Payable, and supplementary bond information schedules.

The following graph will illustrate a comparison of bonds outstanding between fiscal year 2010 and 2009 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, Director of Financial Administration, P.O. Box 13941, Austin, Texas, 78711-3941.

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

STATEMENT OF NET ASSETS
AS OF AUGUST 31, 2010

ASSETS:		
Current assets:		
Cash and cash equivalents — cash equivalents	$	6,428,797
Restricted assets:		
Cash and cash equivalents:		
Cash in bank		16,354,016
Cash equivalents		437,803,439
Short-term investments		11,675,198
Loans and contracts		12,363,992
Interest receivable		14,561,767
Receivables:		
Interest receivable		839
Accounts receivable		408,854
Loans and contracts		719,293
Other current assets		232,990
Total current assets		500,549,185
Noncurrent assets:		
Loans and contracts		605,230
Restricted assets:		
Investments		1,227,812,090
Loans and contracts		1,221,545,602
Deferred Outflow of Resources		36,966,154
Other noncurrent assets:		
Deferred bond issuance cost — net		9,778,100
Real estate owned — net		200,415
Total noncurrent assets		2,496,907,591
Total assets		2,997,456,776

(Continued)

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

STATEMENT OF NET ASSETS
AS OF AUGUST 31, 2010

LIABILITIES:	
Current liabilities:	
Payables:	
Accounts payable	$ 2,530
Accrued bond interest payable	32,465,592
Deferred revenues	10,089,112
Revenue bonds payable	26,246,737
Other current liabilities	5,555,566
Total current liabilities	74,359,537
Noncurrent liabilities:	
Revenue bonds payable	2,644,802,632
Derivative hedging instrument	36,966,154
Other noncurrent liabilities	93,914,495
Total noncurrent liabilities	2,775,683,281
Total liabilities	2,850,042,818
NET ASSETS:	
Restricted for bonds	139,489,798
Unrestricted	7,924,160
TOTAL NET ASSETS	$ 147,413,958

See notes to financial statements. (Concluded)

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED AUGUST 31, 2010

OPERATING REVENUES:	
Interest and investment income	$ 121,288,357
Net increase in fair value of investments	35,670,235
Other operating revenues	5,959,333
Total operating revenues	162,917,925
OPERATING EXPENSES:	
Professional fees and services	1,717,807
Depreciation and amortization	727,358
Interest	116,471,499
Bad debt expense	270,810
Down payment assistance	1,601,208
Other operating expenses	782,185
Total operating expenses	121,570,867
OPERATING INCOME	41,347,058
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS:	
Other revenue	4,922,551
Transfers to the Department's Governmental Fund	(3,620,612)
CHANGE IN NET ASSETS	42,648,997
NET ASSETS — September 1	104,764,961
NET ASSETS — August 31	$ 147,413,958

See notes to financial statements.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Proceeds from loan programs	$ 59,145,913
Proceeds from other revenues	3,932,842
Payments to suppliers for goods/services	(5,689,216)
Payments for loans provided	(6,151,298)
Net cash provided by operating activities	51,238,241
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from debt issuance	300,000,000
Payments to other costs of debt	(3,620,612)
Payments to other funds	(1,368,344)
Payments of principal on debt	(294,546,935)
Payments of interest	(121,377,791)
Net cash used for noncapital financing activities	(120,913,682)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	568,954,788
Proceeds from interest and investment income	72,999,579
Payments to acquire investments	(377,394,800)
Net cash provided by investing activities	264,559,567
INCREASE IN CASH AND CASH EQUIVALENTS	194,884,126
CASH AND CASH EQUIVALENTS — Beginning of year	265,702,126
CASH AND CASH EQUIVALENTS — End of year	$ 460,586,252

(Continued)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2010

RECONCILIATION OF CASH FROM OPERATING ACTIVITIES TO OPERATING LOSS:	
Operating income	$ 41,347,058
Adjustments to reconcile operating income to net cash used in operating activities:	13,727,228
Amortization and depreciation	727,358
Provision for estimated losses	270,810
Changes in assets and liabilities:	
Decrease in accrued interest receivable	162,816
Decrease in loans	23,318,548
Increase in property owned	(62,246)
Decrease in mortgage loan acquisition costs	1,193,277
Decrease in deferred revenues	(1,318,138)
Decrease in other assets and liabilities	(24,667,487)
Decrease in accrued interest payable	(3,460,983)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 51,238,241
NONCASH TRANSACTIONS — Net change in fair value of investments	$ 35,670,235

See notes to financial statements. (Concluded)

1. GENERAL STATEMENT AND 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) — Twenty-eight series (five of which have been refunded) of these bonds have been issued pursuant to the RMRB master indenture and 25 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.

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.

Collateralized Home Mortgage Revenue Bond Program — Series 1994 and 1995 (COBs) — On November 1, 1994, the Department issued Single-Family Mortgage Revenue Bonds (Collateralized Home Mortgage Revenue Bond Program), Series 1994. This bond program was issued as a Private Placement Memorandum with Federal National Mortgage Association (FNMA). The Series 1994 and 1995 COBs were issued to provide funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured, VA-guaranteed, FMHA-guaranteed mortgage loans, or conventional mortgage loans acceptable for pooling by FNMA, made to eligible borrowers for single-family residences.

Commercial Paper Notes — By resolution adopted November 10, 1994, the Department's Board has authorized the issuance of two series of commercial paper notes: its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A, and its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series B (collectively, the "Notes"). Pursuant to the resolution, the Department is authorized to issue the Notes in an aggregate principal amount not to exceed $75,000,000 outstanding. Proceeds of the initial issuance of the Notes and of future issues not issued to refund outstanding Notes will be used to redeem certain of the Department's single-family mortgage revenue bonds (the "Refunded Bonds"), which are subject to redemption as a result of the receipt by the Department of prepayments of the related underlying mortgage loans. Such prepayments may, at a future date, be recycled into new mortgage loans by the Department. The Notes are being issued in anticipation of the issuance of refunding bonds that will refund the Notes.

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. The Housing Trust Fund is 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 Housing Trust Fund is 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.

Continuance Subject to Review — Under the Texas Sunset Act, the Department will be abolished effective September 1, 2011, unless it is continued in existence as provided in the Texas Sunset Act. If abolished, the Department may continue in existence until September 1, 2012, to close out its operations.

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 balance sheet. 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.

The Bond Program has reported all investment securities at fair value as of August 31, 2010, 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 are reported in the statement of revenues, expenses, and changes in net assets as net increase (decrease) in fair value of investments.

Loans Receivable — Loans receivable are carried at the unpaid principal balance outstanding less the allowance for estimated loan losses and deferred commitment fees. 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. Deferred commitment fees are recognized using the interest method over the estimated lives of the single-family loans and the contractual lives, adjusted for actual repayments, of the multifamily loans.

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.

Allowance for Estimated Losses on Loans and Foreclosed Properties — The allowance for estimated losses on loans is available for future chargeoffs on single-family and multifamily loans. The allowance for estimated losses on real estate owned is available for future chargeoffs 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 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 Outflow of Resources/Derivative Hedging Instrument—The Department implemented Governmental Accounting Standards Board Statement (GASB) No. 53, Accounting and Financial Reporting for Derivative Instruments for the year ended August 31, 2010. Per the statement, the Department identified its derivative instruments and measured their effectiveness. The Department contracted a service provider to measure its derivative effectiveness. Since the derivative instruments were deemed to be effective, the Department deferred the changes in fair value for these derivatives and reported them as deferred outflow of resources.

Commitment Fees — Commitment fees received in connection with the origination of loans are deferred and recognized using the interest method over the estimated life of the related loans and mortgage-backed securities, or if the commitment expires unexercised, it is credited to income upon expiration of the commitment.

Deferred Issuance Costs — Deferred issuance costs on bonds are amortized using the interest method over the contractual life 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 deferred issuance costs.

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 Assets — Certain net assets of the Bond Program are restricted for various purposes of the bond trust indentures.

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.

Gain/Loss on Refundings of Debt — Any gain/loss on refunding of bonds is deferred and amortized as a component of interest expense using the interest method.

Loss on Early Extinguishment of Debt — Any loss on extinguishment of debt prior to its stated maturity is recorded 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 balance sheet 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 and in determination of the assumptions with respect to prepayments on loans and mortgage-backed securities in the recognition of deferred commitment fees to income.

2. CASH AND CASH EQUIVALENTS, INVESTMENTS, AND MORTGAGE-BACKED SECURITIES

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 such provisions during the period.

Deposits of Cash in Bank — As of August 31, 2010, the carrying amount of deposits was $16,354 (in thousands).

Program funds — current assets — restricted cash in bank:	
Texas Treasury Safekeeping Trust	$ 131
Demand deposits	16,223
Cash in bank	$ 16,354

At August 31, 2010, the Department's cash and deposits were fully collateralized by securities held with a trustee in the Department's name.

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; director general obligations of any state within the territorial U.S.; investment agreements with any bank or financial institution; commercial paper; and guaranteed investment contracts. Certain trust indentures restrict the Department from investing in certain of the aforementioned investments.

At August 31, 2010, the fair values of investments as of the statement of net assets date (including both short term and long term) are shown below (in thousands).

Program Activities	Fair Value
U.S. government agency obligations	$ 1,220,169
Repurchase agreements (TTSTC)	117,602
Fixed income money markets	326,630
Miscellaneous (investment agreements/guaranteed investment contracts)	19,319
Total	$ 1,683,720

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.
- Prequalifying 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, 2010, the Bond Program's credit quality distribution for securities with credit risk exposure was as follows (in thousands):

Standard & Poor's

Investment Type	Not Rated	AAA
U.S. government agency obligations	$ -	$ 206,507
Repurchase agreements (TTSTC)	117,602	
Miscellaneous (investment agreements/GICs)	19,319	
	Not Rated	**AAA-M**
Fixed income money markets	$ -	$ 326,630

A total of $1,013,662 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 as of August 31, 2010.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2010, the Department's concentration of credit risk is as follows.

Issuer	Carrying Value (In thousands)	% of Total Portfolio
Warburg — Repurchase Agreement	$ 117,602	6.84 %

Interest Rate Risk — Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of any investment. Longer 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 Bond Program's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Bond Program's investments by maturity (in thousands):

Program Activities	Fair Value	12 months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. government agency obligations	$ 1,220,169	$ 11,674	$ -	$ 3,024	$ 1,205,471
Repurchase agreements (TTSTC)	117,602	117,602			
Fixed income money markets	326,630	326,630			
Miscellaneous (investment agreements/GICs)	19,319	1	658		18,660
Total	$ 1,683,720	$455,907	$658	$ 3,024	$ 1,224,131

Highly Sensitive Investments — U.S. government agency obligations held in the form of mortgage-backed 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. Any fluctuation in fair value generates an unrealized gain or loss. The fair value of these investments is inversely affected by national mortgage interest rates. In an environment of rising interest rates, the Department would recognize an unrealized loss in fair market value and vice versa. Since the end of the 2009 fiscal year, the national mortgage rates have begun to decrease; as such, the Department does not believe that the value of these assets has been impaired. As of August 31, 2010, the Department holds $1,220,169 in mortgage-backed securities.

3. SUMMARY OF LONG-TERM LIABILITIES

Commercial Paper Notes Payable — The Department is authorized to issue the Notes in an aggregate principal amount not to exceed $75,000,000. Proceeds of the initial issuance of the Notes and future issues not issued to refund outstanding Notes will be used to redeem certain of the Department's single family mortgage revenue bonds (the "Refunded Bonds"), which are subject to redemption as a result of the receipt by the Department of prepayments of the related underlying mortgage loans. Such prepayments may, at a future date, be recycled into new mortgage loans by the Department. There were no amounts outstanding at August 31, 2010.

Derivative Instrument Liability — Per GASB 53, the Department is to recognize its interest rate swaps at fair value on the Statement of Net Assets. As of August 31, 2010, the fair value of the Department's five swaps is considered to be negative indicating the Department would be obligated to pay the counterparty the fair value as of the termination date.

Other Noncurrent Liabilities — Other noncurrent liabilities totaling $93,914,495 primarily account for funds due to developers as a result of Multifamily bond proceeds as of August 31, 2010. 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 variables related to the balance, the current portion cannot be reasonably estimated.

4. RESTRICTED ASSET ACCOUNTS

Cash in bank, cash equivalents, short-term investments, loans and contracts, interest receivable, and investments (which include mortgage-backed securities) totaling $2.9 billion are restricted by the trust indentures of the related bonds and collateralized mortgage obligations as of August 31, 2010.

The trust indentures of the Department also require the establishing of accounts for the segregation of certain assets and restricting the use of bond proceeds, and other funds in connection with each bond program. Such restricted accounts, primarily including restricted cash and cash equivalents, short-term investments, and investments less the fair value of U.S. government agency obligations, at August 31, 2010, are as follows (in thousands):

Program	Mortgage and Debt Service Reserve	Unspent Bond Proceeds	Revenue Account	Self-Insurance	Rebate Account
Single-family	$ 290	$ 4,285	$ 57,826	$ 40	$ 1,751
RMRB		330,570	5,595	16	255
CHMRB			297		
Multifamily	1,063	70,420	4,663		
Commercial paper					
Total	$ 1,353	$ 405,275	$ 68,381	$ 56	$ 2,006

Additionally, deferred issuance costs and real estate owned totaling $9,778 and $200, respectively, are also restricted.

5. LOANS RECEIVABLE

Loans receivable as of August 31, 2010, consisted of the following (in thousands):

Single-family loans	$ 32,216
Multifamily loans	1,200,355
RMRB (1987 Series A) single-family loans	2,828
Miscellaneous loans	1,325
Total loans	1,236,724
Deferred commitment fees — net of accumulated amortization of $39,951 in 2010	(853)
Allowance for estimated loan losses	(637)
Total	$ 1,235,234

All of the loans made directly by the Department are secured by real estate properties located in the state.

Single-family loans are collateralized by first-lien mortgages on the applicable real estate and (i) are federally insured or guaranteed or (ii) are insured by a private mortgage insurer approved by the Department for the amount by which the loan exceeds 80% of the original appraised value.

Certain properties acquired through foreclosure are covered by mortgage pool insurance. The mortgage pool insurance covers the unpaid principal balance of the loan at the ultimate date of sale, delinquent interest up to the claim settlement date, and certain other expenses.

The single-family trust indenture requires the Department to obtain and maintain mortgage pool insurance on loans collateralizing each series of bonds issued under that trust indenture. Except with respect to four series, the requirement has been satisfied by purchasing and maintaining a mortgage pool insurance policy for each bond series. For loans collateralizing the other four series of bonds, the Department has entered into Mortgage Pool Self-Insurance Fund Agreements ("Agreements") with the trustee. The funding requirements of these Agreements have been met as of August 31, 2010.

Multifamily mortgage and lender loans are collateralized by first-lien mortgages on the applicable housing developments, letters of credit, guarantees provided by third parties and collateralized mortgage obligations issued by federally chartered, privately owned corporations.

The activity in the allowance for estimated loan losses for the year ended August 31, 2010, is as follows (in thousands):

Balance — beginning of year	$ 2,203
Provision for estimated losses on loans	(1,566)
Balance — end of year	$ 637

6. REAL ESTATE OWNED

Real estate owned for the Bond Program as of August 31, 2010, was as follows (in thousands):

Real estate owned	$ 138
Allowance for estimated losses	62
Real estate owned — net	$ 200

The activity in the allowance for estimated losses for the years ended August 31, 2010, was as follows (in thousands):

Balance — beginning of year	$ (203)
Amounts charged off	265
Balance — end of year	$ 62

7. BONDS PAYABLE

Bonds payable activity for the year ended August 31, 2010, consisted of the following (in thousands):

	Original Face Amount	Balance September 1, 2009	Additions/ Accretions	Maturities/ Prepayments	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
Single-family:							
2002 Series A — 7.01%	$10,000	$ 3,995	$ -	$ 3,995	$ -	2026	$ -
2002 Series A — 5.45% to 5.55%	38,750	35,920		4,415	31,505	2034	
2002 Series B — 5.35% to 5.55%	52,695	29,090		7,385	21,705	2033	7
2002 Series C — 2.80% to 5.20%	12,950	9,735		1,655	8,080	2017	486
2002 Series D — 2.0% to 4.5%	13,605	3,585		945	2,640	2012	830
2004 Series A — 2.0% to 4.7%	123,610	92,365		26,180	66,185	2035	2,153
2004 Series B — variable rate	53,000	53,000			53,000	2034	
2004 Series A — variable rate	4,140	3,855			3,855	2036	
2004 Series C — 4.3% to 4.8%	41,245	27,195		7,620	19,575	2036	
2004 Series D — variable rate	35,000	35,000			35,000	2035	
2004 Series E — 2.45% to 4.3%	10,825	6,615		1,740	4,875	2013	969
2005 Series A — variable rate	100,000	90,825		13,535	77,290	2036	
2005 Series B — 4.38%	25,495	15,420		3,020	12,400	2026	504
2005 Series C — 4.31% to 5.39%	8,970	6,610		810	5,800	2017	
2005 Series D — 5.0%	3,730	3,040			3,040	2035	
2006 Series A — 5.0%	59,555	55,475		12,105	43,370	2037	457
2006 Series B — 5.0%	70,485	64,335		14,830	49,505	2034	1,253
2006 Series C — 5.13%	105,410	97,165		21,815	75,350	2037	1,480
2006 Series D — 4.50%	29,685	21,685		4,550	17,135	2028	(46)
2006 Series E — 4.06%	17,295	13,995		1,315	12,680	2017	1,289
2006 Series F — 4.65% to 5.75%	81,195	77,265		22,515	54,750	2038	508
2006 Series G — 3.75% to 4.60%	15,000	13,070		4,885	8,185	2019	895
2006 Series H — variable rate	36,000	36,000			36,000	2037	
2007 Series A — variable rate	143,005	136,815		16,040	120,775	2038	(28)
2007 Series B — 3.90% to 5.63%	157,060	155,620		22,240	133,380	2039	2,036
Total principal amount		1,087,675	$ -	$191,595	896,080		$12,793
Unamortized premium		12,241			8,342		
Unamortized discount and losses on refundings		(2,416)			(1,834)		
Total single-family		1,097,500			902,588		

(Continued)

	Original Face Amount	Balance September 1, 2009	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
RMRB:							
1998 Series A — 4.05% to 5.35%	$102,055	$ 32,135	$ -	$ 4,415	$ 27,720	2031	$ -
1998 Series B — 5.30%	14,300	5,800		625	5,175	2022	
1999 Series A — 4.80% to 5.50%	25,615	4,045		390	3,655	2021	(9)
2000 Series A — 5.10% to 6.30%	50,000	13,965		13,965	-	2031	
2000 Series B — 5.70%	82,975	39,770		27,770	12,000	2033	3
2000 Series C — 5.85% to 5.82%	13,675	8,385		4,710	3,675	2025	
2000 Series D — 4.55% to 5.85%	18,265	5,385		5,385	-	2020	
2001 Series A — 3.15% to 5.70%	52,715	26,100		4,105	21,995	2033	11
2001 Series B — 5.0% to 5.25%	15,585	11,360		760	10,600	2022	650
2001 Series C — 2.55% to 4.63%	32,225	6,225		1,455	4,770	2015	920
2002 Series A — 2.25% to 5.35%	42,310	26,655		3,955	22,700	2034	380
2003 Series A — 1.70% to 5.00%	73,630	55,140		7,605	47,535	2039	645
2009 Series A — 1.70% to 5.00%	80,000	80,000		10	79,990	2022	416
2009 Series B — 1.70% to 5.00%	22,605	22,605		3,055	19,550	2041	778
2009 Series C — variable rate	300,000		300,000		300,000	2024	
Total principal amount		337,570	$300,000	$78,205	559,365		$3,794
Unamortized premium		1,896			1,380		
Unamortized discount and loss on refundings		(880)			(573)		
Total RMRB		338,586			560,172		
CHMRB — 1992 Series C — linked rate averaging 6.90%	72,700	$ 9,100	$ -	$ 1,100	$ 8,000	2024	$ 11
Total principal		9,100	$ -	$ 1,100	8,000		$ 11
Plus unamortized premium		179			147		
Total CHMRB		9,279			8,147		

(Continued)

	Original Face Amount	Balance September 1, 2009	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
1996 Series A and B (Brighton's Mark) — 6.13%	$10,174	$ 8,075	$ -	$ -	$ 8,075	2026	$ -
1996 Series A and B (Braxton's Mark) — 5.81%	14,867	14,274			14,274	2026	
1998 Series (Pebble Brook) — 4.95% to 5.60%	10,900	9,465		215	9,250	2030	225
1998 Series A, B, and C (Residence Oaks) — 5.98% to 7.18%	8,200	7,098		169	6,929	2030	180
1998 Series (Greens) — 5.2% to 6.03%	13,500	11,835		270	11,565	2030	290
1999 Series (Mayfield) — 5.7% to 7.25%	11,445	9,975		235	9,740	2031	248
2000 Series (Timber Point) — variable rate	8,100	7,470		100	7,370	2032	
2000 Series (Oaks @ Hampton) — 7.20% to 9.00%	10,060	9,597		89	9,508	2040	96
2000 Series (Deerwood) — 5.25% to 6.40%	6,435	5,885		105	5,780	2032	115
2000 Series (Creek Point) — variable rate	7,200	6,365		105	6,260	2032	
2000 Series A/B (Parks @ Westmoreland — 7.20% to 9.00%	9,990	9,551		87	9,464	2040	94
2000 MF Series A-C (Highland Meadow Apts) — 6.75% to 8%	13,500	8,314		139	8,175	2033	149
2000 MF Series A/B (Greenbridge) — 7.4% to 10%	20,085	19,474			19,474	2040	339
2000 MF Series A-C (Collingham Park) — 6.72% to 7.72%	13,500	12,553		230	12,323	2033	244
2000 MF Series A/B (Williams Run) — 7.65% to 9.25%	12,850	12,417			12,417	2040	411
2001 MF Series (Bluffview Senior Apts) — 7.65%	10,700	10,366		69	10,297	2041	74
2001 MF Series (Knollwood Villas Apts) — 7.65%	13,750	13,320		89	13,231	2041	96
2001 MF Series (Skyway Villas) — 6.0% to 6.5%	13,250	7,320		130	7,190	2034	135
2001 MF Series A/B (Cobb Park) — 6.77%	7,785	7,584			7,584	2041	130
2001 MF Series A (Greens Road Apts) — 5.3% to 5.4%	8,375	7,810		135	7,675	2034	145
2001 MF Series A (Meridian Apts) — 5.45% to 6.85%	14,310	8,485		72	8,413	2034	75
2001 MF Series A (Wildwood Apts) — 5.45% to 6.75%	14,365	6,572		60	6,512	2034	60
2001 MF Series A-C (Fallbrook Apts) — 6.06% to 6.78%	14,700	13,815		235	13,580	2034	251
2001 MF Series A (Oak Hollow Apts) — 7.0% to 7.9%	8,625	6,298		46	6,252	2041	49
2001 MF Series A/B (Hillside Apts) — 7.0% to 9.25%	12,900	12,508		51	12,457	2041	55
2002 MF Series A (Millstone Apts) — 5.35% to 5.86%	12,700	10,235		185	10,050	2035	195
2002 MF Series A (Sugar Creek Apts) — 6.0%	11,950	11,550		11,550	-	2042	
2002 MF Series A (West Oaks Apts) — 7.15% to 7.5%	10,150	9,454		66	9,388	2042	71
2002 MF Series A (Park Meadows Apts) — 6.53%	4,600	4,205		65	4,140	2034	80

(Continued)

	Original Face Amount	Balance September 1, 2009	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
2002 MF Series A (Clarkridge Villas Apts) — 7.0%	$14,600	$ 13,622	$ -	$ 93	$ 13,529	2042	$ 100
2002 MF Series A (Hickory Trace Apts) — 7.0%	11,920	11,263		77	11,186	2042	82
2002 MF Series A (Green Crest Apts) — 7.0%	12,500	11,214		76	11,138	2042	82
2002 MF Series A/B (Ironwood Crossing) — 5.5% to 8.75%	16,970	16,700		87	16,613	2042	95
2002 MF Series A/B (Woodway Village Apts) — 4.9% to 5.2%	9,100	7,420		120	7,300	2023	130
2003 MF Series A/B (Reading Road Apts) — Variable not to exceed 12%	12,200	11,840		230	11,610	2036	30
2003 MF Series A/B (North Vista Apts) — 4.1% to 5.41%	14,000	12,500		210	12,290	2036	230
2003 MF Series A/B (West Virginia Apts) — 4.15% to 5.41%	9,450	9,020		155	8,865	2036	165
2003 MF Series A/B (Sphinx @ Murdeaux) — 3.55% to 5.0%	15,085	14,380		180	14,200	2042	185
2003 MF Series A/B (Primrose Houston School) — 5.5% to 8.0%	16,900	16,387		93	16,294	2036	101
2003 MF Series A/B (Timber Oaks Apts) — 6.75 to 8.75%	13,200	12,980		67	12,913	2043	73
2003 MF Series A/B (Ash Creek Apts) — 5.6% to 15.0%	16,375	16,112		94	16,018	2036	101
2003 MF Series A/B (Peninsula Apts) — 4.25 to 5.3%	12,400	11,780		175	11,605	2024	180
2003 MF Series A/B (Evergreen @ Mesquite) — 6.6% to 8.0%	11,000	10,629		125	10,504	2043	133
2003 MF Series A/B (Arlington Villas Apts) — Variable rate	17,100	16,899		87	16,812	2036	95
2003 MF Series A/B (Parkview Twnhms Apts) — 6.6% to 8.5%	16,600	16,316		94	16,222	2043	102
2003 MF Series A (NHP-Asmara Apts) Refunding — Variable rate	31,500	20,550		515	20,035	2033	421
2004 MF Series A/B (Timber Ridge Apts) — 5.75% to 8.0%	7,500	6,597		39	6,558	2037	42
2004 MF Series A/B (Century Park Apts) — Variable rate	13,000	12,285		185	12,100	2037	190
2004 MF Series A/B (Veterans Memorial Apts) — 6.6% to 8.5%	16,300	16,028		94	15,934	2044	102
2004 MF Series A (Rush Creek Apts) — 5.38% to 6.7%	10,000	8,719		56	8,663	2044	60
2004 MF Series A (Humble Park Apts) — 5.38% to 6.7%	11,700	11,400		110	11,290	2041	120
2004 MF Series A (Chisholm Trail Apts) — Variable rate	12,000	11,700		200	11,500	2037	
2004 MF Series A (Evergreen @ Plano Apts) — 5.25% to 6.55%	14,750	14,572		91	14,481	2044	97
2004 MF Series A (Montgomery Pines Apts) — Variable rate	12,300	12,300		200	12,100	2037	
2004 MF Series A (Bristol Apts) — Variable rate	12,625	12,200		100	12,100	2037	
2004 MF Series A (Pinnacle Apts) — Variable rate	14,500	14,165		100	14,065	2044	
2004 MF Series A (Tranquility Bay Apts) — Variable rate	14,350	14,079		96	13,983	2044	102
2004 MF Series A (Sphinx @ Delafield Apts) — 5.05% to 5.35%	11,380	11,026		110	10,916	2044	120

(Continued)

	Original Face Amount	Balance September 1, 2009	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
Multifamily:							
2004 MF Series A (Churchill @ Pinnacle Apts) — 5.25% to 6.55%	$10,750	$ 9,956	$ -	$ 77	$ 9,879	2044	$ 82
2004 MF Series A/B (Post Oak East Apts) — Variable rate	13,600	13,600			13,600	2037	
2004 MF A Series (Village Fair Apts) — 5.0% to 6.5%	14,100	13,885		91	13,794	2044	97
2005 MF A Series (Pecan Grove Apts) — 5.0% to 6.5%	14,030	13,823		90	13,733	2045	96
2005 MF Series A (Prairie Oaks Apts) — 4.75% to 6.5%	11,050	10,888		71	10,817	2045	75
2005 MF Series A (Port Royal Apts) — 5.0% to 6.5%	12,200	12,027		78	11,949	2045	83
2005 MF Series A (Del Rio Apts) — 5.0% to 6.5%	11,490	11,326		73	11,253	2045	78
2005 MF Series A (Atascocita Pines Apts) — Variable rate	11,900	11,700		100	11,600	2037	
2005 MF Series A (Tower Ridge Apts) — Variable rate	15,000	15,000			15,000	2038	
2005 MF Series A (Prairie Ranch Apts) — 4.85%	12,200	11,935		125	11,810	2045	125
2005 MF Series A (St. Augustine Apts) — Variable rate	7,650	7,150		770	6,380	2038	
2005 MF Series A (Park Manor Apts) — 5.0% to 6.4%	10,400	10,400			10,400	2045	
2005 MF Series A (Mockingbird Apts) — 6.4%	14,360	14,195		91	14,104	2045	97
2005 MF Series A (Chase Oaks Apts) — 5.05%	14,250	13,898		227	13,671	2035	238
2006 MF Series A (Canal Place Apts) — Variable rate	16,100	16,100		56	16,044	2039	81
2006 MF Series A (Coral Hills) — 5.05%	5,320	4,995		95	4,900	2038	45
2006 MF Series A (Harris Branch) — Variable rate	15,000	14,900		200	14,700	2039	
2006 MF Series A (Bella Vista) — 6.15%	6,800	6,740		45	6,695	2046	45
2006 MF Series A (Village Park) — 4.75% to 5.13%	13,660	10,565		150	10,415	2026	150
2006 MF Series A (Oakmoor) — 5.50% to 6.00%	14,635	14,421		94	14,327	2046	100
2006 MF Series A (Sunset Pointe) — Variable rate	15,000	15,000			15,000	2039	
2006 MF Series A (Hillcrest) — -5.25%	12,435	12,435		1,445	10,990	2039	150
2006 MF Series A (Pleasant Village) — -6.00%	6,000	5,897		79	5,818	2023	84
2006 MF Series A (Grove Village) — -6.00%	6,180	6,073		81	5,992	2023	86
2006 MF Series A (Red Hills Villas) — Variable rate	5,015	4,915			4,915	2023	
2006 MF Series A (Champion Crossing) — Variable rate	5,125	5,025		100	4,925	2036	
2006 MF Series A (Stonehaven) — -5.80%	11,300	11,239		77	11,162	2026	82
2006 MF Series A (Center Ridge) — -5.00%	8,325	8,325			8,325	2039	
2006 MF Series A (Meadowlands) — -6.00%	13,500	12,404		77	12,327	2046	82

(Continued)

	Original Face Amount	Balance September 1, 2009	Additions Accretions	Maturities/ Prepayment	Balance August 31, 2010	Final Maturity Date	Amounts Due Within One Year
2006 MF Series A (East Tex Pines) — -4.95%	$13,500	$ 13,500	$ -	$ -	$ 13,500	2046	$ 80
2006 MF Series A (Villas at Henderson) — Variable rate	7,200	7,200			7,200	2039	145
2006 MF Series A (Aspen Park Apts) — -5.00%	9,800	9,800		105	9,695	2039	95
2006 MF Series A (Idlewilde Apts) — Variable rate	14,250	14,250		210	14,040	2040	
2007 MF Series A (Lancaster Apts) — Variable rate	14,250	14,250		210	14,040	2040	
2007 MF Series A (Park Place) — -5.80%	15,000	15,000			15,000	2047	98
2007 MF Series A (Terrace at at Cibolo) — Variable rate	8,000	8,000			8,000	2040	
2007 MF Series A (Santora Villas) — Variable rate	13,072	13,072			13,072	2047	64
2007 MF Series A (Villas @ Mesquite Creek) — 5.00 - 5.81%	16,860	16,860		210	16,650	2047	155
2007 MF Series A (Summit Point) — 4.80 - 5.25%	11,700	11,700		165	11,535	2047	100
2007 MF Series A (Costa Rialto) — -5.35%	12,385	12,385			12,385	2047	91
2007 MF Series A (Windshire) — Variable rate	14,000	14,000			14,000	2041	
2007 MF Series A (Residences at Onion — Variable rate	15,000	15,000			15,000	2040	
2007 MF Series A (West Oaks) — Variable rate	13,125	13,125			13,125	2041	
2007 MF Series A (Costa Ibiza) — Variable rate	13,900	13,900			13,900	2041	
2007 MF Series A (Addision Park) — Variable rate	14,000	13,900		100	13,800	2041	
2008 MF Series A (Alta Cullen) — Variable rate	14,000	14,000			14,000	2041	
2008 MF Series A (Costa Mariposa) — Variable rate	13,690	13,690			13,690	2041	
2009 MF Series A (Woodmont) — Variable rate	15,000	15,000			15,000	2044	
Total principal amount		1,224,002	$ -	$23,648	1,200,354		$ 9,649
Unamortized discount		(508)			(213)		
Total multifamily		1,223,494			1,200,141		
Total		$2,668,860			$2,671,049		$26,247

(Concluded)

Proceeds from the issuance of bonds under the single-family and RMRB Series 1987A programs were used to acquire loans. Proceeds from the issuance of bonds under CHMRB and remaining RMRB programs were used to acquire pass-through certificates backed by mortgage loans. Pass-through certificates were purchased with proceeds from the multifamily 1985 Series G. Proceeds from the remaining multifamily bond issues were used to finance mortgage loans. Interest on bonds 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 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 nonperformance or nonobservance of any other covenants, agreements, or conditions contained in the indentures. Management believes that it is in compliance with the covenants of the indentures.

Bond contractual maturities (principal only) at August 31, 2010, are as follows (in thousands):

Description	2011	2012	2013	2014	2015	2016 to 2020	2021 to 2025
Single-family	$ 12,575	$ 13,170	$ 14,490	$ 15,125	$15,805	$ 122,665	$160,525
RMRB	3,800	304,560	4,795	5,060	4,760	30,435	55,805
CHMRB							8,000
Multifamily	9,658	9,675	10,186	10,618	11,303	68,981	105,934
Total	$ 26,033	$327,405	$ 29,471	$ 30,803	$31,868	$ 222,081	$330,264

Description	2026 to 2030	2031 to 2035	2036 to 2040	2041 to 2045	2046 to 2050	Total
Single-family	$191,835	$231,805	$118,085	$ -	$ -	$ 896,080
RMRB	62,430	61,155	26,565			559,365
CHMRB						8,000
Multifamily	176,848	166,520	352,092	254,050	24,490	1,200,355
Total	$431,113	$459,480	$496,742	$254,050	$24,490	$2,663,800

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 maturities (principal and interest) at August 31, 2010, are as follows (in thousands):

Description	2011	2012	2013	2014	2015	2016 to 2020	2021 to 2025
Single-family	$ 41,660	$ 41,754	$ 42,476	$ 42,470	$ 42,470	$ 245,704	$263,694
RMRB	17,675	317,905	17,782	17,844	17,315	89,260	105,261
CHMRB	529	582	529	582	530	2,752	10,166
Multifamily	65,103	63,239	63,172	63,004	63,056	319,009	331,570
Total	$124,967	$423,480	$123,959	$123,900	$123,371	$ 656,725	$710,691

Description	2026 to 2030	2031 to 2035	2036 to 2040	2041 to 2045	2046 to 2050	Total
Single-family	$267,544	$275,849	$126,586	$	$	$1,390,207
RMRB	95,859	74,816	30,665			784,382
CHMRB						15,670
Multifamily	359,741	301,619	435,463	284,299	26,190	2,375,465
Total	$723,144	$652,284	$592,714	$284,299	$ 26,190	$4,565,723

Deferred issuance costs at August 31, 2010, consist of the following (in thousands):

	2010
Deferred issuance costs	$ 43,650
Less accumulated amortization	(33,872)
Deferred Issuance Costs, net	$ 9,778

8. EMPLOYEE BENEFITS

Plan Description — The Department contributes to the Employees Retirement System of Texas (the "System"), a cost-sharing, multiple-employer, defined benefit plan. The Department has implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which standardizes financial reporting for pensions by state and local government employers. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Subtitle B, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207 or by calling (512) 476-6431.

Funding Policy — Under provisions in State law, plan members are required to contribute 6.5% of their annual covered salary, and the Department contributes an amount equal to 6.95% of the Department's covered payroll. The Department and the employees' contributions to the System for the years ended August 31, 2010, 2009, and 2008, were $1,293,403, $1,084,329, and $1,002,741, respectively, equal to the required contributions for each year.

9. SEGMENT FINANCIAL DATA

Segment financial data of the Bond Program's direct-debt activities at August 31, 2010, and for the year then ended are follows (in thousands):

	Single-Family Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Funds
Condensed statement of net assets:			
Restricted assets:			
Current assets	$ 70,489	$359,180	$ 255
Other assets	1,003,031	237,982	10,005
Total assets	1,073,520	597,162	10,260
Liabilities:			
Current liabilities	45,367	9,492	294
Long-term liabilities	926,784	556,379	8,137
Total liabilities	972,151	565,871	8,431
Net assets — restricted net assets	$ 101,369	$ 31,291	$ 1,829
Condensed statement of revenues, expenses, and changes in net assets:			
Operating revenues:			
Interest and investment income	$ 50,937	$ 14,015	$ 658
Net increase in fair value	30,184	5,297	189
Other operating revenues	2,457	923	37
Operating expenses	(45,786)	(17,927)	(569)
Depreciation and amortization	(499)	(214)	(4)
Operating income	37,293	2,094	311
Non-operating revenues (expenses) — other non-operating revenues (expenses):		4,922	
Special and extraordinary items			
Transfers in (out)	(1,371)	(195)	4
Change in net assets	35,922	6,821	315
Net assets — September 1, 2009	65,447	24,470	1,514
Net assets — August 31, 2010	$ 101,369	$ 31,291	$ 1,829
Condensed statement of cash flows:			
Net cash provided by (used in):			
Operating activities	$ 1,996	$ (2,424)	$ (3)
Noncapital financing activities	(242,372)	203,737	(1,666)
Investing activities	186,555	62,374	1,691
Cash and cash equivalents — September 1, 2009	118,034	93,785	175
Cash and cash equivalents — August 31, 2010	$ 64,213	$357,472	$ 197

10. BONDED INDEBTEDNESS

The Department has 123 bond issues outstanding at August 31, 2010. 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 presented in Schedules 3–7.)

Interest on bonds and collateralized mortgage obligations is payable periodically on which interest is compounded semiannually and payable at maturity or upon redemption.

Changes in Bonds Payable — Changes in bonds payable for the year ended August 31, 2010, is as follows (amounts in thousands):

Description	Bonds Outstanding September 1, 2009	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2010	Amounts Due Within One Year
Single family	$ 1,087,675	$ -	$ 14,035	$177,560	$ 896,080	$ 12,794
RMRB	337,570	300,000	4,610	73,595	559,365	3,793
CHMRB	9,100			1,100	8,000	11
Multifamily	1,224,002		7,822	15,825	1,200,355	9,649
Total principal	2,658,347	$300,000	$ 26,467	$268,080	2,663,800	$ 26,247
Unamortized premium	13,809				9,657	
Unamortized refunding (loss)	(3,296)				(2,407)	
Total	$ 2,668,860				$ 2,671,050	

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 five 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 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.

Summary

The fair value balances and notional amounts of derivative instruments outstanding as of 08/31/2010, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the 2010 financial statements are as follows.

Business Type Activities Cash Flow Hedges	Bond Issue	Change in Fair Value in Fiscal 2010		Fair Value at August 31, 2010		
		Classification	Amount	Classification	Amount	Notional
Pay-fixed, receive-variable interest rate swap	2004B	Deferred outflow of resources	$ (2,873,456)	Debt	$ (7,519,433)	$ 53,000,000
Pay-fixed, receive-variable interest rate swap	2004D	Deferred outflow of resources	(1,699,135)	Debt	(4,434,426)	35,000,000
Pay-fixed, receive-variable interest rate swap	2005A	Deferred outflow of resources	(3,175,979)	Debt	(8,205,581)	77,290,000
Pay-fixed, receive-variable interest rate swap	2006H	Deferred outflow of resources	(1,516,806)	Debt	(4,609,496)	36,000,000
Pay-fixed, receive-variable interest rate swap	2007A	Deferred outflow of resources	(4,852,636)	Debt	(12,197,218)	120,775,000
			$(14,118,012)		$(36,966,154)	$322,065,000

Terms and Fair Value — The terms, including the fair value of the outstanding swaps as of August 31, 2010, 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
UBS AG	$ 53,000,000	$ (7,519,433)	September 1, 2004	3.84 %	63% of LIBOR + 0.30%	9/1/2034 (a)
Goldman Sachs Capital Markets, LP	35,000,000	(4,434,426)	January 1, 2005	3.64	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + 0.45%) and LIBOR	3/1/2035 (b)
JP Morgan Chase & Company	77,290,000	(8,205,581)	August 1, 2005	4.01	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + 0.45%) and LIBOR	9/1/2036 (c)
UBS AG	36,000,000	(4,609,496)	November 15, 2006	3.86	63% of LIBOR + 0.30%	9/1/2025 (d)
JP Morgan Chase & Company	120,775,000	(12,197,218)	June 5, 2007	4.01	Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + 0.45%) and LIBOR	9/1/2038 (c)
Total	$322,065,000	$(36,966,154)				

a. Swap agreement has an optional early termination date of March 1, 2014, and every March and September thereafter. The maximum notional amount subject to early termination is equal to 60% of the current notional amount.
b. Swap agreement has an optional early termination date of September 1, 2014, and every March and September thereafter.
c. Swap agreement is subject to an early termination date at any time with a 10 business day notice.
d. Swap agreement has an optional early termination date of March 1, 2016, and every March and September thereafter. The maximum notional amount subject to early termination is current notional amount per the amortization schedule.

Credit Risk — As of August 31, 2010, the Department is not exposed to credit risk on any of its outstanding swaps because the swaps have negative fair values. 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 and insurance policies with the counterparties. The credit ratings for the counterparties are as follows:

Counterparty	Standard & Poor's	Moody's
UBS AG	A+	Aa3
Goldman Sachs Capital Markets, LP*	Not Rated	Aa3
JP Morgan Chase & Company	AA-	Aa1

*Goldman Sachs Group is the guarantor and is rated A by Standard & Poor's and A1 by Moody's.

Basis Risk — The Department's variable-rate bond coupon payments are equivalent to the Bond Market Association Municipal Swap Index (BMA) 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 BMA converge. The swap agreements provide an option to terminate as stated above.

Interest Rate Risk— The Department has entered into its swap agreements to minimize its exposure to interest rate risk. On the pay-fixed, received-variable interest rate swaps, as the LIBOR swap index decreases the Department's net payments on the swaps increase. For the related hedged variable rate debt, as the SIFMA index decreases the Department's interest payments on the bonds decrease.

Rollover Risk — Rollover 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 which mature or may be terminated prior to the maturity of the associated debt. 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 optional termination rights which are listed below. They are intended to allow the Department to keep the notional amount in line with bonds outstanding to the extent the Department experiences prepayments.

Associated Debt Issuance	Debt Maturity Date	Swap Termination Date
2004B Single Family	September 2034	60% may be terminate as early as March 2014
2004D Single Family	March 2035	60% may be terminate as early as September 2014 100% may terminate after September 2033
2005A Single Family	September 2036	May terminate at anytime giving 10-day notice
2006H Single Family	September 2037	100% may terminate as early as March 2016
2007A Single Family	September 2038	May terminate at anytime giving 10-day notice

Swap Payments and Associated Debt — Using rates as of August 31, 2010, 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 Years Ending August 31	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps — Net	Total
2011	$ -	$ 985,398	$ 11,329,354	$ 12,314,752
2012		985,398	11,329,354	12,314,752
2013		985,398	11,329,354	12,314,752
2014		985,398	11,329,354	12,314,752
2015	2,020,000	984,565	11,319,985	14,324,550
2016–2020	46,630,000	4,631,685	53,237,697	104,499,382
2021–2025	68,540,000	3,714,555	42,704,558	114,959,113
2026–2030	82,810,000	2,541,560	29,225,502	114,577,062
2031–2035	88,325,000	1,206,890	13,969,158	103,501,048
2036–2040	33,740,000	156,693	1,854,882	35,751,575
Total	$322,065,000	$17,177,540	$197,629,198	$536,871,738

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, 2010, the Department has an aggregate liability related to the interest rate swaps in the amount of $5,758,569 payable September 1, 2010.

Demand Bonds — The Department currently holds seven single family bond series in the amount $331,720,000 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	Liquidity Provider	Commitment Fee Rate	Outstanding Variable Rate Demand Bonds as of August 31, 2010	Liquidity Facility Expiration Date
2007A	Comptroller of Public Accounts	0.12 %	$ 120,775,000	2/28/2011
2006H	Comptroller of Public Accounts	0.12 %	36,000,000	2/28/2011
2005A	Comptroller of Public Accounts	0.12 %	77,290,000	2/28/2011
2004D	Comptroller of Public Accounts	0.12 %	35,000,000	2/28/2011
2004B	Comptroller of Public Accounts	0.12 %	53,000,000	2/28/2011
2005C	Comptroller of Public Accounts	0.12 %	5,800,000	2/28/2011
2004A Jr. Lien	Comptroller of Public Accounts	0.12 %	3,855,000	2/28/2011
Total demand bonds			$331,720,000	

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 every ninety days on an ongoing basis. The Department shall use its best effort to cause the bonds to be purchased from the liquidity facility as soon possible. The purchased bonds are not subject to term out provisions.

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 for the year ended August 31, 2010, 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 (amounts in thousands).

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service			
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Debt Service	
Description of Issue			**Principal**	**Interest**
Total Single Family Bonds	$226,991	$1,737	$14,035	$ 45,023
Total Residential Mtg Revenue Bonds	88,530	955	4,610	16,716
Total 1992 CHMRB	1,795	7		591
Total Multifamily Bonds	71,423	10	7,822	55,587
Total	$388,739	$2,709	$26,467	$117,917

11. COMMITMENTS AND CONTINGENCIES

The Department is a defendant in legal actions arising from transactions and activities conducted in the ordinary course of business. Management, after consultation with legal counsel, believes that the aggregate liabilities, if any will not be material to the financial statements.

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
2004B (1)	None	A3/A- or below for FSA and TDHCA	After downgrade of FSA and TDHCA, 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
2006H	None	Baa1/BBB+ or below	After downgrade, 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) FSA Swap Insurance still in effect. Collateral posting only required if FSA is downgraded to A3/A- or below AND TDHCA is downgraded to A3/A- or below.

As of August 31, 2010 the Department's credit rating related to the Single Family Indenture was AAA 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 ($36,966,154). If the collateral posting requirements had been triggered at August 31, 2010, the Department would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments.

Warehousing Agreement — The Department has entered into a Warehousing Agreement on April 8, 2010 with both Plains Capital Bank and First Southwest Company. The agreement allows for the temporary warehousing of mortgage backed securities by the provider until the Department purchases them with expected issued bond proceeds. The maximum dollar volume of mortgage backed securities to be held by the providers should not exceed $100,000,000 ($50,000,000 per provider) at any time with a cumulative purchased maximum of $500,000,000 ($250,000,000 per provider). The Department has agreed to purchase the warehoused mortgage backed securities from the providers before December 31, 2010 or at a later date with the written consent of the warehouse providers at a price equal to the current par value of the securities. As of August 31, 2010, Plains Capital Bank and First Southwest Company have warehoused $2,710,022 in mortgage backed securities.

12. RISK FINANCING AND RELATED INSURANCE ISSUES

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. Currently there is no purchase of commercial insurance, nor is the Department involved in any risk pools with other government entities. The Department carries Public Official Liabilities Insurance coverage in the amount of $10,000,000; automobile liability insurance in the amount of $1,000,000, errors and omissions insurance of $300,000 related to loan servicing for others and a $350,000 Public Employee Fidelity Bond.

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 year. The Department incurred no claims liability during fiscal year 2010 related to these policies.

13. SUBSEQUENT EVENTS

On December 16, 2010, the Sunset Advisory Commission, a legislative oversight commission, unanimously voted to recommend the continued existence of the Department, in its existing form, for an additional twelve years. A bill will be introduced in the next legislative session reflective of this decision.

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SUPPLEMENTAL SCHEDULES

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

SCHEDULE 1

SUPPLEMENTAL SCHEDULE — STATEMENT OF NET ASSETS (DEFICIT) INFORMATION BY INDIVIDUAL ACTIVITY (UNAUDITED) AS OF AUGUST 31, 2010

ASSETS	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	Commercial Paper Program	Operating Fund	Total
CURRENT ASSETS:							
Cash and cash equivalents:							
Cash in bank	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash equivalents						6,428,797	6,428,797
Restricted assets:							
Cash and cash equivalents:							
Cash in bank	130,739	15,829,000		394,277			16,354,016
Cash equivalents	64,082,609	341,642,896	197,195	26,880,739		5,000,000	437,803,439
Short-term investments				11,675,198			11,675,198
Loans and contracts	2,408,890	306,500		9,648,602			12,363,992
Interest receivable	3,796,875	1,401,829	57,730	9,305,333			14,561,767
Receivable:							
Interest receivable						839	839
Accounts receivable						408,854	408,854
Loans and contracts						719,293	719,293
Other current assets	69,892	106				162,992	232,990
Total current assets	70,489,005	359,180,331	254,925	57,904,149	-	12,720,775	500,549,185
NONCURRENT ASSETS:							
Loans and contracts						605,230	605,230
Restricted assets:							
Investments	930,982,654	232,080,488	9,953,700	54,795,248			1,227,812,090
Loans, contracts, and notes receivable	29,009,161	2,509,947		1,190,026,494			1,221,545,602
Deferred outflow of resources	36,966,154						36,966,154
Other noncurrent assets:							
Deferred issuance cost — net	5,872,854	3,391,084	51,308	462,854			9,778,100
Real estate owned — net	200,415						200,415
Total noncurrent assets	1,003,031,238	237,981,519	10,005,008	1,245,284,596	-	605,230	2,496,907,591
TOTAL ASSETS	$1,073,520,243	$597,161,850	$10,259,933	$1,303,188,745	$ -	$13,326,005	$2,997,456,776

(Continued)

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

SCHEDULE 1

SUPPLEMENTAL SCHEDULE — STATEMENT OF NET ASSETS (DEFICIT) INFORMATION BY INDIVIDUAL ACTIVITY (UNAUDITED) AS OF AUGUST 31, 2010

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	Commercial Paper Program	Operating Fund	Total
LIABILITIES							
CURRENT LIABILITIES:							
Payables:							
Accounts payable	$ 2,243	$ 287	$ -	$ -	$ -	$ -	$ 2,530
Accrued bond interest payable	20,375,972	2,501,603	30,240	9,557,777			32,465,592
Deferred revenues	7,651,054	2,184,706	253,352				10,089,112
Revenue bonds payable	12,794,161	3,793,341	10,633	9,648,602			26,246,737
Other current liabilities	4,543,687	1,011,652				225	5,555,564
Total current liabilities	45,367,117	9,491,589	294,225	19,206,379	-	225	74,359,535
NONCURRENT LIABILITIES:							
Notes and loans payable							-
Revenue bonds payable	889,794,301	556,379,097	8,136,541	1,190,492,693			2,644,802,632
Derivative hedging instrument	36,966,154						36,966,154
Other noncurrent liabilities	23,205			93,891,292			93,914,497
Total noncurrent liabilities	926,783,660	556,379,097	8,136,541	1,284,383,985	-	-	2,775,683,283
TOTAL LIABILITIES	$972,150,777	$565,870,686	$8,430,766	$1,303,590,364	$ -	$ 225	$2,850,042,818
NET ASSETS (DEFICIT)							
INVESTED IN CAPITAL ASSETS	$ -	$ -	$ -	$ -	$ -	$ -	$ -
RESTRICTED	101,369,468	31,291,163	1,829,167			5,000,000	139,489,798
UNRESTRICTED				(401,619)		8,325,779	7,924,160
TOTAL NET ASSETS (DEFICIT)	$101,369,468	$ 31,291,163	$1,829,167	$ (401,619)	$ -	$13,325,779	$ 147,413,958

(Concluded)

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

SCHEDULE 2

SUPPLEMENTAL SCHEDULE — STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION BY INDIVIDUAL ACTIVITY (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2010

	Single-Family Program	RMRB Program	CHMRB Program	Multifamily Program	Commercial Paper Program	Operating Fund	Total
OPERATING REVENUES:							
Interest and investment income	$ 50,937,065	$14,014,959	$ 658,150	$55,587,935	$ 21	$ 90,227	$121,288,357
Net increase in fair value	30,183,748	5,297,288	189,199				35,670,235
Other operating revenues	2,457,259	923,183	36,844	11,212		2,530,835	5,959,333
Total operating revenues	83,578,072	20,235,430	884,193	55,599,147	21	2,621,062	162,917,925
OPERATING EXPENSES:							
Professional fees and services	935,522	254,940	1,000			526,345	1,717,807
Depreciation and amortization	499,320	214,520	3,984	9,533	1		727,358
Interest	42,861,951	17,177,565	566,413	55,865,570			116,471,499
Bad debt expense	272,010	(1,200)					270,810
Down payment assistance	1,213,949	387,259					1,601,208
Other operating expenses	502,276	108,158	1,629	205	114	169,803	782,185
Total operating expenses	46,285,028	18,141,242	573,026	55,875,308	115	696,148	121,570,867
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS	37,293,044	2,094,188	311,167	(276,161)	(94)	1,924,914	41,347,058
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS -		4,922,551					4,922,551
TRANSFERS IN (OUT)	(1,370,634)	(195,153)	3,635	204	(26,331)	(2,032,333)	(3,620,612)
CHANGE IN NET ASSETS	35,922,410	6,821,586	314,802	(275,957)	(26,425)	(107,419)	42,648,997
NET ASSETS (DEFICIT) — September 1, 2009	65,447,058	24,469,577	1,514,365	(125,662)	26,425	13,433,198	104,764,961
NET ASSETS (DEFICIT) — August 31, 2010	$101,369,468	$31,291,163	$1,829,167	$ (401,619)	$ -	$13,325,779	$147,413,958

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2010
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
2002 Single Family Series A (Jr. Lien)	$ 10,000	7.01 %	7.01 %	2025	2026	09/01/2012	
2002 Single Family Series A	38,750	5.45	5.55	2023	2034	03/01/2012	
2002 Single Family Series B	52,695	5.35	5.55	2033	2033	03/01/2012	
2002 Single Family Series C	12,950	2.80	5.20	2004	2017	03/01/2012	
2002 Single Family Series D	13,605	2.00	4.50	2003	2012	03/01/2012	
2004 Single Family Series A	123,610	2.00	4.70	2006	2035	03/01/2013	
2004 Single Family Series B	53,000	VAR — Weekly		2015	2034	03/01/2015	(f)
2004 Single Family Series A (Jr. Lien)	4,140	VAR — Weekly		2036	2036	09/01/2036	(f)
2004 Single Family Series C	41,245	4.30	4.80	2019	2036	09/01/2014	
2004 Single Family Series D	35,000	VAR — Weekly		2035	2035	(g)	
2004 Single Family Series E	10,825	2.45	4.30	2006	2013	09/01/2014	
2005 Single Family Series A	100,000	VAR — Weekly		2007	2036	03/01/2006	
2005 Single Family Series B	25,495	4.38	4.38	2006	2026	03/01/2006	
2005 Single Family Series C	8,970	VAR — Weekly		2017	2017	03/01/2006	
2005 Single Family Series D	3,730	5.00	5.00	2025	2035	03/01/2006	
2006 Single Family Series A	59,555	5.00	5.00	2008	2037	09/01/2006	
2006 Single Family Series B	70,485	5.00	5.00	2008	2034	09/02/2006	
2006 Single Family Series C	105,410	5.13	5.13	2008	2037	09/03/2006	
2006 Single Family Series D	29,685	4.50	4.50	2018	2028	09/04/2006	
2006 Single Family Series E	17,295	4.06	4.06	2007	2017	09/05/2006	
2006 Single Family Series F	81,195	4.65	5.75	2008	2038	03/01/2016	
2006 Single Family Series G	15,000	3.75	4.60	2012	2019	03/01/2016	
2006 Single Family Series H	36,000	VAR — Weekly		2016	2037	03/01/2016	(f)
2007 Single Family Series A	143,005	VAR — Weekly		2008	2038	03/01/2008	(f)
2007 Single Family Series B	157,060	3.90	5.63	2008	2039	03/01/2008	
1998 RMRB Series A	102,055	4.05	5.35	2002	2031	01/01/2009	
1998 RMRB Series B	14,300	5.30	5.30	2022	2022	01/01/2009	
1999 RMRB Series A	25,615	4.80	5.50	2018	2021	01/01/2009	
2000 RMRB Series A	50,000	5.10	6.30	2003	2031	07/01/2010	
2000 RMRB Series B	82,975	5.70	5.70	2005	2033	07/01/2010	
2000 RMRB Series C	13,675	5.82	5.85	2011	2025	07/01/2010	
2000 RMRB Series D	18,265	4.55	5.85	2003	2020	07/01/2010	
2001 RMRB Series A	52,715	3.15	5.70	2004	2033	07/01/2011	
2001 RMRB Series B	15,585	5.00	5.25	2011	2022	07/01/2011	
2001 RMRB Series C	32,225	2.55	4.63	2003	2015	07/01/2011	
2002 RMRB Series A	42,310	2.25	5.35	2004	2034	07/01/2012	
2003 RMRB Series A	73,630	1.70	5.00	2005	2034	01/01/2013	
2009 RMRB Series A	80,000	5.13	5.13	2011	2039	01/01/2019	
2009 RMRB Series B	22,605	4.72	4.72	2010	2022	01/01/2019	
2009 RMRB Series C	300,000	VAR — Weekly		2010	2041	12/31/2011	
1992 Coll Home Mtg Rev Bonds, Series C	72,700	3.48	10.27	2024	2024	05/04/1995	
TOTAL SINGLE FAMILY, RMRB & CHMRB BONDS	$2,247,360						

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2010
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
1996 MF Series A/B (Brighton's Mark)	$ 10,174	6.13 %	6.13 %	2026	2026	01/01/2003	
1996 MF Series A/B (Braxton's Mark)	14,867	5.81	5.81	2026	2026	01/01/2003	
1998 MF Series A (Pebble Brook)	10,900	4.95	5.60	2001	2030	06/01/2001	
1998 MF Series A-C (Residence Oaks)	8,200	5.98	7.18	2001	2030	05/01/2001	
1998 MF Series A/B (Greens of Hickory Trial)	13,500	5.20	6.03	2001	2030	09/01/2008	
1999 MF Series A-C (Mayfield)	11,445	5.70	7.25	2001	2031	05/01/2002	
2000 MF Series A (Timber Point Apts)	8,100	VAR —	Weekly	2003	2032	07/01/2000	(a)
2000 MF Series A/B (Oaks at Hampton)	10,060	7.20	9.00	2002	2040	03/01/2017	(a)
2000 MF Series A (Deerwood Apts)	6,435	5.25	6.40	2003	2032	06/01/2010	
2000 MF Series A (Creek Point Apts)	7,200	VAR —	Weekly	2004	2032	07/01/2000	(a)
2000 MF Series A/B (Parks @ Westmoreland)	9,990	7.20	9.00	2002	2040	07/01/2017	(a)
2000 MF Series A-C (Highland Meadow Apts)	13,500	6.75	8.00	2004	2033	05/01/2019	
2000 MF Series A/B (Greenbridge)	20,085	7.40	10.00	2003	2040	03/01/2014	
2000 MF Series A-C (Collingham Park)	13,500	6.72	7.72	2004	2033	05/01/2019	
2000 MF Series A/B (Williams Run)	12,850	7.65	9.25	2002	2040	01/01/2011	
2001 MF Series A (Bluffview Senior Apts)	10,700	7.65	7.65	2003	2041	05/01/2018	
2001 MF Series A (Knollwood Villas Apts)	13,750	7.65	7.65	2003	2041	05/01/2018	
2001 MF Series A (Skyway Villas)	13,250	6.00	6.50	2005	2034	12/01/2011	
2001 MF Series A/B (Cobb Park)	7,785	6.77	6.77	2003	2041	07/01/2018	
2001 MF Series A (Greens Road Apts.)	8,375	5.30	5.40	2004	2034	12/01/2011	
2001 MF Series A/B (Meridian Apts.)	14,310	5.45	6.85	2004	2034	12/01/2011	
2001 MF Series A/B (Wildwood Apts.)	14,365	5.45	6.75	2004	2034	12/01/2011	
2001 MF Series A-C (Fallbrook Apts.)	14,700	6.06	6.78	2005	2034	01/01/2012	
2001 MF Series A (Oak Hollow Apts.)	8,625	7.00	7.90	2003	2041	11/01/2018	
2001 MF Series A/B (Hillside Apts.)	12,900	7.00	9.25	2003	2041	11/01/2018	
2002 MF Series A (Millstone Apts.)	12,700	5.35	5.86	2005	2035	06/01/2012	
2002 MF Series A (Sugar Creek Apts.)	11,950	6.00	6.00	2004	2042	01/01/2016	
2002 MF Series A (West Oaks Apts.)	10,150	7.15	7.50	2004	2042	12/01/2018	
2002 MF Series A (Park Meadows Apts)	4,600	6.53	6.53	2004	2034	05/01/2012	
2002 MF Series A (Clarkridge Villas Apts)	14,600	7.00	7.00	2004	2042	08/01/2019	
2002 MF Series A (Hickory Trace Apts)	11,920	7.00	7.00	2004	2042	12/01/2019	
2002 MF Series A (Green Crest Apts)	12,500	7.00	7.00	2004	2042	11/01/2019	
2002 MF Series A/B (Ironwood Crossing)	16,970	5.50	8.75	2005	2042	10/01/2027	
2002 MF Series A (Woodway Village Apts)	9,100	4.95	5.20	2006	2023	01/01/2013	
2003 MF Series A/B (Reading Road)	12,200	VAR —	Weekly	2007	2036	01/01/2004	(a)
2003 MF Series A/B (North Vista Apts)	14,000	4.10	5.41	2006	2036	06/01/2013	
2003 MF Series A/B (West Virginia Apts)	9,450	4.15	5.41	2006	2036	06/01/2013	
2003 MF Series A/B (Sphinx @ Murdeaux)	15,085	3.55	5.00	2005	2042	06/20/2013	
2003 MF Series A/B (Primrose Houston School)	16,900	5.50	8.00	2006	2036	07/01/2003	(a)
2003 MF Series A/B (Timber Oaks Apts)	13,200	6.75	8.75	2005	2043	06/01/2020	
2003 MF Series A/B (Ash Creek Apts)	16,375	5.60	15.00	2006	2036	10/01/2003	(a)
2003 MF Series A/B (Peninsula Apts)	12,400	4.25	5.30	2007	2024	10/01/2013	
2003 MF Series A (Evergreen @ Mesquite)	11,000	6.60	8.00	2006	2043	09/01/2020	
2003 MF Series A/B (Arlington Villas)	17,100	6.75	8.00	2007	2036	01/01/2007	(a)
2003 MF Series A/B (Parkview Twnhms)	16,600	6.60	8.50	2006	2043	12/01/2020	
2003 MF Series A (NHP-Asmara) Refunding	31,500	VAR —	Weekly	2007	2033	07/01/2007	(a)
2004 MF Series A/B (Timber Ridge)	7,500	5.75	8.00	2007	2037	03/01/2007	(a)

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2010
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date	
2004 MF Series A/B (Century Park)	$ 13,000	5.75 %	5.75 %	2007	2037	05/01/2007	(a)
2004 MF Series A/B (Veterans Memorial)	16,300	6.60	8.50	2006	2044	03/01/2006	(a)
2004 MF Series A (Rush Creek)	10,000	5.38	6.70	2006	2044	03/01/2021	
2004 MF Series A (Humble Park)	11,700	6.60	6.60	2007	2041	07/01/2021	
2004 MF Series A (Chisholm Trail)	12,000	VAR — Weekly (b)		2006	2037	10/15/2006	(a)
2004 MF Series A (Evergreen @ Plano)	14,750	5.25	6.55	2007	2044	06/01/2021	
2004 MF Series A (Montgomery Pines)	12,300	VAR — Weekly		2006	2037	12/15/2006	(a)
2004 MF Series A (Bristol)	12,625	VAR — Weekly		2007	2037	06/15/2007	(a)
2004 MF Series A (Pinnacle)	14,500	VAR — Weekly		2007	2044	09/01/2007	(a)
2004 MF Series A (Tranquility Bay)	14,350	VAR — Weekly		2007	2044	06/01/2021	(e)
2004 MF Series A (Sphinx @ Delafield)	11,380	5.05	5.35	2006	2044	07/20/2014	
2004 MF Series A (Churchill @ Pinnacle)	10,750	5.25	6.55	2007	2044	09/01/2021	(e)
2004 MF Series A/B (Post Oak East)	13,600	VAR — Weekly		(d)	2037	(d)	
2004 MF Series A (Village Fair)	14,100	5.00	6.50	2007	2044	12/01/2021	
2005 MF Series A (Pecan Grove)	14,030	5.00	6.50	2007	2045	01/01/2022	
2005 MF Series A (Prairie Oaks)	11,050	4.75	6.50	2007	2045	01/01/2022	
2005 MF Series A (Port Royal)	12,200	5.00	6.50	2007	2045	02/01/2022	
2005 MF Series A (Del Rio)	11,490	5.00	6.50	2007	2045	02/01/2022	
2005 MF Series A (Atascocita Pines)	11,900	VAR — Weekly		2007	2037	(f)	
2005 MF Series A (Tower Ridge)	15,000	VAR — Weekly		2009	2038	(f)	
2005 MF Series A (Prairie Ranch)	12,200	4.85	4.85	2007	2045	12/20/2015	
2005 MF Series A (St Augustine)	7,650	VAR — Weekly		2009	2038	n/a	
2005 MF Series A (Park Manor)	10,400	5.00	6.40	2008	2045	09/01/2022	
2005 MF Series A (Mockingbird)	14,360	6.40	6.40	2007	2045	08/01/2022	
2005 MF Series A (Chase Oaks)	14,250	5.05	5.05	2007	2035	(h)	
2005 MF Series A/B (Canal Place)	16,100	3.45	8.00	2019	2039	(i)	
2005 MF Series A (Coral Hills)	5,320	5.05	5.05	2038	2038	08/01/2015	
2006 MF Series A (Harris Branch)	15,000	VAR — Weekly		2009	2039	(j)	
2006 MF Series A (Bella Vista)	6,800	6.15	6.15	2008	2046	04/01/2016	
2006 MF Series A (Village Park)	13,660	4.75	5.13	2009	2026	06/01/2021	
2006 MF Series A (Oakmoor)	14,635	5.50	6.00	2008	2046	03/01/2023	
2006 MF Series A (Sunset Pointe)	15,000	VAR — Weekly		2039	2039	(i)	
2006 MF Series A (Hillcrest)	12,435	5.25	5.25	2009	2039	04/01/2021	
2006 MF Series A (Pleasant Village)	6,000	6.00	6.00	2008	2023	(k)	
2006 MF Series A (Grove Village)	6,180	6.00	6.00	2008	2023	(k)	
2006 MF Series A (Red Hills Villas)	5,015	VAR — Weekly		2036	2036	(j)	
2006 MF Series A (Champion Crossing)	5,125	VAR — Weekly		2036	2036	(j)	
2006 MF Series A (Stonehaven)	11,300	5.80	5.80	2008	2026	(h)	
2006 MF Series A (Center Ridge)	8,325	5.00	5.00	2009	2039	05/01/2021	
2006 MF Series A (Meadowlands)	13,500	6.00	6.00	2009	2046	09/01/2023	
2006 MF Series A (East Tex Pines)	13,500	4.95	4.95	2010	2046	(l)	
2006 MF Series A (Villas at Henderson)	7,200	VAR — Weekly		2010	2039	(m)	
2006 MF Series A (Aspen Park Apts)	9,800	5.00	5.00	2010	2039	07/01/2021	
2006 MF Series A (Idlewilde Apts)	14,250	VAR — Weekly		2010	2040	(j)	
2007 MF Series A (Lancaster Apts)	14,250	VAR — Weekly		2010	2040	(j)	
2007 MF Series A (Park Place)	15,000	5.80	5.80	2010	2047	03/01/2024	
2007 MF Series A (Terrace at Cibolo)	8,000	VAR — Weekly		2010	2040	(m)	

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 3

MISCELLANEOUS BOND INFORMATION
AS OF AUGUST 31, 2010
(Amounts in thousands)

Description of Issue	Original Principal Bonds Issued to Date	Range of Interest	Rates	Schedule Maturities First Year	Last Year	First Call Date
2007 MF Series A (Santora Villas)	$ 13,072	5.80 %	5.80 %	2010	2047	06/01/2024
2007 MF Series A (Villas @ Mesquite Creek)	16,860	5.00	5.81	2010	2047	01/20/2017
2007 MF Series A (Summit Point)	11,700	4.80	5.25	2009	2047	06/20/2017
2007 MF Series A (Costa Rialto)	12,385	5.35	5.35	2010	2047	08/01/2025
2007 MF Series A (Windshire)	14,000	VAR —	Weekly	2010	2041	(j)
2007 MF Series A (Residences @ Onion Creek)	15,000	VAR —	Weekly	2011	2040	(j)
2008 MF Series A (West Oaks)	13,125	VAR —	Weekly	2011	2041	(n)
2008 MF Series A (Costa Ibiza)	13,900	VAR —	Weekly	2011	2041	(f)
2008 MF Series A (Addison Park)	14,000	VAR —	Weekly	2008	2044	(n)
2008 MF Series A (Alta Cullen Apartments)	14,000	VAR —	Weekly	2011	2045	(n)
2009 MF Series A (Costa Mariposa Apartments)	13,690	VAR —	Weekly	2012	2042	(n)
2009 MF Series A (Woodmont Apartments)	15,000	VAR —	Weekly	2012	2042	(n)
Total multifamily bonds	1,306,378					
TOTAL BONDS ISSUED	$3,553,738					

(Concluded)

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) No set amortization, per trustee, amortization will occur in $100,000 denominations when the amount in the principal reserve fund exceeds 20% of the issue.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) The bonds are subject to optional redemption in whole or in part upon optional prepayment of the loan by the borrower as permitted by the loan documents.

(k) 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 indenture plus accrued and unpaid interest, if any, to the redemption 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.

(l) 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.

(m) 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 consent of the Bank, in whole or in part, at a redemption price equals to the principal amount, without premium, plus accrued interest to the date of redemption.

(n) 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.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 4

CHANGES IN BOND INDEBTEDNESS AS OF AUGUST 31, 2010

Description of Issue	Bonds Outstanding September 1, 2009	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2010	Amounts Due Within One Year
2002 SERIES A (Jr Lien)	$ 3,995,000	$ -	$ -	$ 3,995,000	$ -	$ -
2002 SERIES A	35,920,000			4,415,000	31,505,000	
2002 SERIES B	29,090,000			7,385,000	21,705,000	7,217
2002 SERIES C	9,735,000		530,000	1,125,000	8,080,000	486,174
2002 SERIES D	3,585,000		840,000	105,000	2,640,000	829,689
2004 SERIES A	92,365,000		2,845,000	23,335,000	66,185,000	2,153,339
2004 SERIES B	53,000,000				53,000,000	
2004 SERIES A (Jr Lien)	3,855,000				3,855,000	
2004 SERIES C	27,195,000		165,000	7,455,000	19,575,000	
2004 SERIES D	35,000,000				35,000,000	
2004 SERIES E	6,615,000		1,085,000	655,000	4,875,000	968,581
2005 SERIES A	90,825,000			13,535,000	77,290,000	
2005 SERIES B	15,420,000		630,000	2,390,000	12,400,000	504,967
2005 SERIES C	6,610,000			810,000	5,800,000	
2005 SERIES D	3,040,000				3,040,000	
2006 SERIES A	55,475,000		485,000	11,620,000	43,370,000	457,499
2006 SERIES B	64,335,000		1,450,000	13,380,000	49,505,000	1,252,740
2006 SERIES C	97,165,000		1,530,000	20,285,000	75,350,000	1,480,062
2006 SERIES D	21,685,000			4,550,000	17,135,000	(46,148)
2006 SERIES E	13,995,000		1,315,000		12,680,000	1,289,273
2006 SERIES F	77,265,000		510,000	22,005,000	54,750,000	507,969
2006 SERIES G	13,070,000		1,210,000	3,675,000	8,185,000	895,000
2006 SERIES H	36,000,000				36,000,000	
2007 SERIES A	136,815,000			16,040,000	120,775,000	(27,856)
2007 SERIES B	155,620,000		1,440,000	20,800,000	133,380,000	2,035,654
1998 SERIES A	32,135,000		1,025,000	3,390,000	27,720,000	
1998 SERIES B	5,800,000			625,000	5,175,000	
1999 SERIES A	4,045,000			390,000	3,655,000	(8,735)
2000 SERIES A	13,965,000			13,965,000	-	
2000 SERIES B	39,770,000			27,770,000	12,000,000	2,517
2000 SERIES C	8,385,000			4,710,000	3,675,000	
2000 SERIES D	5,385,000		605,000	4,780,000	-	
2001 SERIES A	26,100,000		330,000	3,775,000	21,995,000	10,999
2001 SERIES B	11,360,000			760,000	10,600,000	650,000
2001 SERIES C	6,225,000		1,005,000	450,000	4,770,000	920,375
2002 SERIES A	26,655,000		340,000	3,615,000	22,700,000	379,704
2003 SERIES A	55,140,000		745,000	6,860,000	47,535,000	645,212
2009 SERIES A	80,000,000			10,000	79,990,000	415,722
2009 SERIES B	22,605,000		560,000	2,495,000	19,550,000	777,545
2009 SERIES C		300,000,000			300,000,000	10,633
1992 SERIES A-C	9,100,000			1,100,000	8,000,000	
Total Single Family Bonds	1,434,345,000	300,000,000	18,645,000	252,255,000	1,463,445,000	16,598,135
1996 SERIES A&B (BRIGHTON'S MARK)	8,075,000				8,075,000	
1996 SERIES A&B (BRAXTON'S MARK)	14,273,700				14,273,700	
1998 SERIES (PEBBLE BROOK)	9,465,000		105,000	110,000	9,250,000	225,000
1998 SERIES A-C (RESIDENCE OAKS)	7,098,000		169,000		6,929,000	180,000
1998 SERIES (GREENS-HICKORY TRAIL)	11,835,000		270,000		11,565,000	290,000
1999 SERIES (MAYFIELD)	9,976,000		235,000		9,741,000	248,000
2000 SERIES (TIMBER POINT APTS)	7,470,000			100,000	7,370,000	
2000 SERIES A/B (OAKS at HAMPTON)	9,597,547		89,260		9,508,287	96,379
2000 SERIES (DEERWOOD APTS)	5,885,000		105,000		5,780,000	115,000
2000 SERIES (CREEK POINT APTS)	6,365,000			105,000	6,260,000	
2000 SERIES A/B (PARKS at WESTMORELAND)	9,551,242		87,074		9,464,168	93,604
2000 SERIES A-C (HIGHLAND MEADOW APTS)	8,314,000		139,000		8,175,000	149,000

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 4

CHANGES IN BOND INDEBTEDNESS AS OF AUGUST 31, 2010

Description of Issue	Bonds Outstanding September 1, 2009	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2010	Amounts Due Within One Year
2000 SERIES A/B (GREENBRIDGE @ BUCKINGHM	$ 19,474,075	$ -	$ -	$ -	$ 19,474,075	$ 339,089
2000 SERIES A-C (COLLINGHAM PARK APTS)	12,553,000		230,000		12,323,000	244,000
2000 SERIES A/B (WILLIAMS RUN APTS)	12,417,289				12,417,289	410,665
2001 SERIES (BLUFF SENIOR APTS)	10,365,641		69,051		10,296,591	74,485
2001 SERIES (KNOLLWOOD VILLAS APTS)	13,320,333		88,733		13,231,600	95,717
2001 SERIES A (SKYWAY VILLAS)	7,320,000		130,000		7,190,000	135,000
2001 SERIES A/B (COBB PARK APTS)	7,584,303				7,584,303	130,156
2001 SERIES A (GREENS ROAD APTS)	7,810,000		135,000		7,675,000	145,000
2001 SERIES A/B (MERIDIAN APARTMENTS)	8,485,000		72,000		8,413,000	75,000
2001 SERIES A/B (WILDWOOD BRANCH	6,572,000		60,000		6,512,000	60,000
2001 SERIES A-C (FALLBROOK APTS)	13,815,000		235,000		13,580,000	251,000
2001 SERIES (OAK HOLLOW APTS)	6,298,072		45,899		6,252,173	49,217
2001 SERIES A/B (HILLSIDE APTS)	12,508,343		51,666		12,456,677	55,426
2001 SERIES A (MILLSTONE APTS)	10,235,000		185,000		10,050,000	195,000
2002 SERIES (SUGARCREEK APTS)	11,550,000		45,000	11,505,000	-	
2002 SERIES (WEST OAKS APTS)	9,453,913		66,151		9,387,762	71,039
2002 SERIES (PARK MEADOWS APTS)	4,205,000		65,000		4,140,000	80,000
2002 SERIES (CLARKRIDGE VILLAS APTS)	13,622,465		93,138		13,529,328	99,871
2002 SERIES A (HICKORY TRACE APTS)	11,263,077		76,518		11,186,559	82,049
2002 SERIES A (GREEN CREST APTS)	11,214,042		76,185		11,137,858	81,692
2002 SERIES A/B (IRON WOOD CROSSING)	16,699,569		86,716		16,612,853	94,616
2002 SERIES A (WOODWAY VILLAGE)	7,420,000		120,000		7,300,000	130,000
2003 SERIES A/B (READING ROAD)	11,840,000		30,000	200,000	11,610,000	30,000
2003 SERIES A/B (NORTH VISTA)	12,500,000		210,000		12,290,000	230,000
2003 SERIES A/B (WEST VIRGINIA)	9,020,000		155,000		8,865,000	165,000
2003 SERIES A/B (SPHINX @ MURDEAUX)	14,380,000		180,000		14,200,000	185,000
2003 SERIES A/B (PRIMROSE HOUSTON)	16,387,166		92,690		16,294,476	100,503
2003 SERIES A/B (TIMBER OAKS)	12,980,191		66,852		12,913,340	72,941
2003 SERIES A/B (ASH CREEK APTS)	16,112,424		93,571		16,018,853	101,439
2003 SERIES A/B (PENINSULA APTS)	11,780,000		150,000	25,000	11,605,000	180,000
2003 SERIES A (EVERGREEN @ MESQUITE)	10,629,280		124,696		10,504,584	132,918
2003 SERIES A/B (ARLINGTON VILLAS)	16,898,908		87,217		16,811,691	94,502
2003 SERIES A/B (PARKVIEW TWNHMS)	16,315,780		94,102		16,221,678	102,420
2003 SERIES (NHP-ASMARA)REFUNDING	20,550,000		400,000	115,000	20,035,000	420,657
2004 SERIES A/B (TIMBER RIDGE)	6,597,263		39,289		6,557,974	42,119
2004 SERIES A/B (CENTURY PARK)	12,285,000		185,000		12,100,000	190,000
2004 SERIES A/B (VETERANS MEMORIAL)	16,027,900		93,749		15,934,152	102,036
2004 SERIES (RUSH CREEK)	8,718,821		55,877		8,662,944	59,734
2004 SERIES (HUMBLE PARK)	11,400,000		110,000		11,290,000	120,000
2004 SERIES (CHISHOLM TRAIL)	11,700,000			200,000	11,500,000	
2004 SERIES (EVERGREEN @ PLANO)	14,572,560		90,760		14,481,800	96,886
2004 SERIES (MONTGOMERY PINES)	12,300,000			200,000	12,100,000	
2004 SERIES (BRISTOL)	12,200,000			100,000	12,100,000	
2004 SERIES (PINNACLE)	14,165,000			100,000	14,065,000	
2004 SERIES (TRANQUILITY BAY)	14,077,936		95,915		13,982,022	102,338
2004 SERIES (SPHINX @ DELAFIELD)	11,025,000		110,000		10,915,000	120,000
2004 SERIES (CHURCHILL @ PINNACLE)	9,955,805		76,501		9,879,304	81,665
2004 SERIES A/B (POST OAK EAST)	13,600,000				13,600,000	
2004 SERIES (VILLAGE FAIR)	13,884,895		90,747		13,794,149	96,824
2005 SERIES (PECAN GROVE)	13,823,227		89,810		13,733,417	95,824
2005 SERIES (PRAIRIE OAKS)	10,887,147		70,733		10,816,414	75,470
2005 SERIES (PORT ROYAL)	12,026,481		77,675		11,948,806	82,876
2005 SERIES (MISSION DEL RIO)	11,326,579		73,155		11,253,424	78,053
2005 SERIES (ATASCOCITA)	11,700,000			100,000	11,600,000	
2005 SERIES (TOWER RIDGE)	15,000,000				15,000,000	
2005 SERIES (PRAIRIE RANCH)	11,935,000		125,000		11,810,000	125,000
2005 SERIES (ST. AUGUSTINE)	7,150,000			770,000	6,380,000	

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 4

CHANGES IN BOND INDEBTEDNESS AS OF AUGUST 31, 2010

Description of Issue	Bonds Outstanding September 1, 2009	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding August 31, 2010	Amounts Due Within One Year
2005 SERIES (PARK MANOR)	$ 10,400,000	$ -	$ -	$ -	$ 10,400,000	$ -
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	14,194,965		90,762		14,104,203	96,745
2005 SERIES (PLAZA CHASE OAKS)	13,896,799		226,606		13,670,193	238,319
2005 SERIES (CANAL PLACE)	16,100,000		56,423		16,043,577	80,804
2006 SERIES (CORAL HILLS)	4,995,000		70,000	25,000	4,900,000	45,000
2006 SERIES (HARRIS BRANCH)	14,900,000			200,000	14,700,000	
2006 SERIES (BELLA VISTA)	6,740,000		45,000		6,695,000	45,000
2006 SERIES (VILLAGE PARK)	10,565,000		150,000		10,415,000	150,000
2006 SERIES (OAKMOOR)	14,420,556		94,376		14,326,180	100,196
2006 SERIES (SUNSET POINTE)	15,000,000				15,000,000	
2006 SERIES (HILLCREST)	12,435,000		230,000	1,215,000	10,990,000	150,000
2006 SERIES (PLEASANT VILLAGE)	5,896,900		78,983		5,817,917	83,924
2006 SERIES (GROVE VILLAGE)	6,073,807		81,352		5,992,455	86,441
2006 SERIES (RED HILLS)	4,915,000				4,915,000	
2006 SERIES (CHAMPION'S CROSSING)	5,025,000			100,000	4,925,000	
2006 SERIES (STONEHAVEN)	11,238,793		77,453		11,161,340	82,069
2006 SERIES (CENTER RIDGE)	8,325,000				8,325,000	
2006 SERIES (MEADOWLANDS)	12,403,768		77,254		12,326,515	82,018
2006 SERIES (EAST TEXAS PINES)	13,500,000				13,500,000	80,000
2006 SERIES (VILLAS @ HENDERSON)	7,200,000				7,200,000	145,273
2006 SERIES (ASPEN PARKS)	9,800,000		105,000		9,695,000	95,000
2006 SERIES (IDLEWILDE)	14,250,000			210,000	14,040,000	
2007 SERIES (LANDCASTER)	14,250,000			210,000	14,040,000	
2007 SERIES (PARK PLACE AT LOYOLA)	15,000,000				15,000,000	97,983
2007 SERIES (TERRACE AT CIBOLO)	8,000,000				8,000,000	
2007 SERIES (SANTORA VILLAS)	13,072,000				13,072,000	63,576
2007 SERIES (A/B VILLAS @ MESQUITE)	16,860,000		75,000	135,000	16,650,000	155,000
2007 SERIES (SUMMIT POINT)	11,700,000		165,000		11,535,000	100,000
2007 SERIES (COSTA RIALTO)	12,385,000				12,385,000	91,043
2007 SERIES (WINDSHIRE)	14,000,000				14,000,000	
2007 SERIES (RESIDENCES @ ONION CREEK)	15,000,000				15,000,000	
2008 SERIES (WEST OAKS APTS)	13,125,000				13,125,000	
2008 SERIES (COSTA IBIZA APTS)	13,900,000				13,900,000	
2008 SERIES (ADDISON PARKS APTS)	13,900,000			100,000	13,800,000	
2008 SERIES (ALTA CULLEN)	14,000,000				14,000,000	
2009 SERIES (COSTA MARIPOSA)	13,690,000				13,690,000	
2009 SERIES (WOODMONT APTS)	15,000,000				15,000,000	
Total Multifamily Bonds	1,224,001,567	-	7,821,935	15,825,000	1,200,354,632	9,648,602
	$2,658,346,567	$ 300,000,000	$26,466,935	$268,080,000	$2,663,799,632	$26,246,737

FOOTNOTES:

(a) Bonds outstanding balance at 8/31/10 does not include unamortized premium or discounts.

Bonds outstanding per schedule	$2,663,799,632
Unamortized (discount)/premium:	
Single Family	8,342,734
RMRB	1,380,236
CHMRB	147,174
Multi-Family	(213,337)
Unamortized deferred gain/(loss) on refunding:	
Single Family	(1,834,272)
RMRB	(572,798)
Bonds outstanding	$2,671,049,369

(Concluded)

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2002 SINGLE FAMILY, SERIES A	Principal	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,510	$ 6,335	$ 13,660	$ -	$ -	$ -	$ 31,505
2002 SINGLE FAMILY, SERIES A	Interest	1,734	1,734	1,734	1,734	1,734	8,669	7,618	4,095	2,829				31,880
2002 SINGLE FAMILY, SERIES B	Principal								6,465	15,240				21,705
2002 SINGLE FAMILY, SERIES B	Interest	1,190	1,190	1,190	1,190	1,190	5,952	5,952	5,352	2,152				25,359
2002 SINGLE FAMILY, SERIES C	Principal	500	530	1,130	1,200	1,280	3,440							8,080
2002 SINGLE FAMILY, SERIES C	Interest	401	377	351	293	229	271							1,921
2002 SINGLE FAMILY, SERIES D	Principal	835	880	925										2,640
2002 SINGLE FAMILY, SERIES D	Interest	98	61	21										180
2004 SINGLE FAMILY, SERIES A	Principal	2,145	2,220	2,425	3,460	2,085	8,935	10,740	13,110	16,920	4,145			66,185
2004 SINGLE FAMILY, SERIES A	Interest	2,942	2,865	2,779	2,683	2,558	11,645	9,439	6,704	3,342	97			45,054
2004 SINGLE FAMILY, SERIES A (JUNIOR LIEN)	Principal										3,855			3,855
2004 SINGLE FAMILY, SERIES A (JUNIOR LIEN)	Interest	15	15	15	15	15	77	77	77	77	23			408
2004 SINGLE FAMILY, SERIES B	Principal					895	9,925	11,965	14,510	15,705				53,000
2004 SINGLE FAMILY, SERIES B	Interest	154	159	159	159	159	717	555	359	121				2,541
2004 SINGLE FAMILY, SERIES C	Principal					525	3,130	4,560	4,445	5,855	1,060			19,575
2004 SINGLE FAMILY, SERIES C	Interest	908	908	908	908	902	4,149	3,293	2,257	1,059	36			15,328
2004 SINGLE FAMILY, SERIES D	Principal					1,125	6,590	8,380	8,165	10,740				35,000
2004 SINGLE FAMILY, SERIES D	Interest	103	105	105	105	104	466	354	231	92				1,666
2004 SINGLE FAMILY, SERIES E	Principal	995	1,050	1,095	1,150	110	475							4,875
2004 SINGLE FAMILY, SERIES E	Interest	187	149	107	62	24	46							575
2005 SINGLE FAMILY, SERIES A	Principal						8,440	16,405	19,940	24,255	8,250			77,290
2005 SINGLE FAMILY, SERIES A	Interest	244	271	270	271	271	1,317	1,080	767	385	29			4,903
2005 SINGLE FAMILY, SERIES B	Principal	570	600	620	625	655	3,810	4,735	785					12,400
2005 SINGLE FAMILY, SERIES B	Interest	557	533	508	482	454	1,780	805	29					5,148
2005 SINGLE FAMILY, SERIES C	Principal						5,800							5,800
2005 SINGLE FAMILY, SERIES C	Interest	17	17	17	17	17	42							126
2005 SINGLE FAMILY, SERIES D	Principal								2,110	840	90			3,040
2005 SINGLE FAMILY, SERIES D	Interest	152	152	152	152	152	760	760	451	141	2			2,874
2006 SINGLE FAMILY, SERIES A	Principal	430	465	500	525	555	3,345	4,570	6,010	12,450	14,520			43,370
2006 SINGLE FAMILY, SERIES A	Interest	2,163	2,141	2,118	2,092	2,066	9,870	8,901	7,603	5,767	1,106			43,828
2006 SINGLE FAMILY, SERIES B	Principal	1,210	1,265	1,320	1,385	1,455	8,205	10,145	12,840	11,680				49,505
2006 SINGLE FAMILY, SERIES B	Interest	2,460	2,399	2,335	2,268	2,198	9,826	7,575	4,746	1,308				35,117

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 5

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST) AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2006 SINGLE FAMILY, SERIES C	Principal	$ 1,295	$ 1,355	$ 1,440	$ 1,515	$ 1,580	$ 9,205	$ 11,915	$ 15,340	$ 19,805	$ 11,900	$ -	$ -	$ 75,350
2006 SINGLE FAMILY, SERIES C	Interest	3,845	3,778	3,708	3,633	3,554	16,455	13,798	10,368	5,945	930			66,015
2006 SINGLE FAMILY, SERIES D	Principal						3,085	7,280	6,770					17,135
2006 SINGLE FAMILY, SERIES D	Interest	782	782	782	782	782	3,776	2,509	694					10,891
2006 SINGLE FAMILY, SERIES E	Principal	1,370	1,420	1,480	1,545	1,605	5,260							12,680
2006 SINGLE FAMILY, SERIES E	Interest	498	444	386	325	260	350							2,264
2006 SINGLE FAMILY, SERIES F	Principal	415	435	460	485	520	3,850	9,000	12,035	16,100	11,450			54,750
2006 SINGLE FAMILY, SERIES F	Interest	2,882	2,858	2,833	2,806	2,777	13,384	11,720	9,025	5,402	1,010			54,696
2006 SINGLE FAMILY, SERIES G	Principal	895	950	1,005	1,060	1,130	3,145							8,185
2006 SINGLE FAMILY, SERIES G	Interest	344	308	268	225	179	318							1,643
2006 SINGLE FAMILY, SERIES H	Principal						4,170	6,125	8,190	10,955	6,560			36,000
2006 SINGLE FAMILY, SERIES H	Interest	104	108	108	108	108	516	438	333	193	29			2,047
2007 SINGLE FAMILY, SERIES A	Principal						17,505	25,665	32,005	26,670	18,930			120,775
2007 SINGLE FAMILY, SERIES A	Interest	350	363	361	362	362	1,715	1,384	950	514	99			6,460
2007 SINGLE FAMILY, SERIES B	Principal	1,915	2,000	2,090	2,175	2,285	14,350	17,530	22,780	30,930	37,325			133,380
2007 SINGLE FAMILY, SERIES B	Interest	6,953	6,865	6,772	6,673	6,568	30,936	26,911	21,669	14,717	5,137			133,202
TOTAL SINGLE FAMILY BONDS		41,660	41,754	42,476	42,470	42,470	245,704	263,694	267,544	275,849	126,585			1,390,207
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal						6,190		9,345	12,185				27,720
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,465	1,465	1,465	1,465	1,465	6,673	5,698	5,506	320				25,520
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal							5,175						5,175
1998 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	274	274	274	274	274	1,371	460						3,202
1999 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	-					665	2,990						3,655
1999 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	196	196	196	196	196	918	82						1,982
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal							12,000						12,000
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	698	698	698	698	698	3,492	3,492						10,476
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal							3,675						3,675
2000 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	214	214	214	214	214	1,069	962						3,101
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	10	10	10	10	10	50	4,615	9,640	7,640				21,995
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,178	1,177	1,177	1,176	1,176	5,869	5,559	3,525	760				21,596

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 5

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST) AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal	$ 650	$ 685	$ 710	$ 730	$ 755	$ 4,750	$ 2,320	$ -	$ -	$ -	$ -	$ -	$ 10,600
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	538	505	470	434	398	1,327	154						3,826
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal	950	995	1,070	1,115	640								4,770
2001 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	195	153	118	68	17								551
2002 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	370	360	425	430	455	2,385	3,325	7,965	6,985				22,700
2002 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	1,199	1,182	1,164	1,141	1,119	5,226	4,549	3,083	769				19,432
2003 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	660	675	675	790	820	4,690	7,485	15,885	15,855				47,535
2003 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	2,328	2,302	2,275	2,252	2,213	10,426	9,128	6,229	1,835				38,990
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Principal	360	715	695	680	680	2,840	9,370	19,595	18,490	26,565			79,990
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES A	Interest	4,105	4,097	4,083	4,066	4,047	19,874	19,052	15,085	9,977	4,101			88,486
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Principal	800	1,120	1,210	1,305	1,400	8,865	4,850						19,550
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES B	Interest	937	899	852	799	739	2,579	320						7,124
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Principal		300,000											300,000
2009 RESIDENTIAL MTG REVENUE BONDS, SERIES C	Interest	548	183											730,032
TOTAL RESIDENTIAL MTG REVENUE BONDS		17,675	317,905	17,782	17,844	17,315	89,260	105,262	95,859	74,816	30,666			784,382
1992 COLL HOME MTG REV BONDS, SERIES C	Principal							8,000						8,000
1992 COLL HOME MTG REV BONDS, SERIES C	Interest	529	582	529	582	529	2,752	2,166						7,670
TOTAL COLL HOME MTG REV BONDS		529	582	529	582	529	2,752	10,166						15,670
1996 MF SERIES A&B (BRAXTON'S MARK)	Principal								14,274					14,274
1996 MF SERIES A&B (BRAXTON'S MARK)	Interest	829	829	829	829	829	4,147	4,147	829					13,269
1996 MF SERIES A&B (BRIGHTON'S MARK)	Principal								8,075					8,075
1996 MF SERIES A&B (BRIGHTON'S MARK)	Interest	495	495	495	495	495	2,475	2,475	495					7,920
1998 MF SERIES (PEBBLE BROOK APARTMENTS)	Principal	225	245	255	275	295	1,775	2,430	3,355	395				9,250
1998 MF SERIES (PEBBLE BROOK APARTMENTS)	Interest	511	498	485	471	455	2,007	1,438	651	11				6,527
1998 MF SERIES A&B (GREENS OF HICKORY TRAIL)	Principal	290	310	335	355	370	2,260	3,055	4,110	480				11,565
1998 MF SERIES A&B (GREENS OF HICKORY TRAIL)	Interest	608	590	571	553	534	2,347	1,666	746	13				7,625
1998 MF SERIES A-C (RESIDENCE AT THE OAKS)	Principal	180	189	202						6,358				6,929
1998 MF SERIES A-C (RESIDENCE AT THE OAKS)	Interest	412	401	389	381	381	1,906	1,906	1,906	95				7,776
1999 MF SERIES A-C (MAYFIELD)	Principal	248	263	279	294	312	1,852	2,458	3,264	771				9,741
1999 MF SERIES A-C (MAYFIELD)	Interest	552	537	522	506	489	2,151	1,552	753	33				7,096

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DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2000 MF SERIES (CREEK POINT APTS)	Principal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,260	$ -	$ -	$ -	$ 6,260
2000 MF SERIES (CREEK POINT APTS)	Interest	21	21	21	21	21	106	106	106	46				472
2000 MF SERIES (DEERWOOD APTS)	Principal	115	120				1,305			4,240				5,780
2000 MF SERIES (DEERWOOD APTS)	Interest	365	359	354	354	354	1,768	1,357	1,357	678				6,945
2000 MF SERIES A&B (OAKS AT HAMPTON)	Principal	96	104	111	120	128	801	1,146	1,641	2,350	3,011			9,508
2000 MF SERIES A&B (OAKS AT HAMPTON)	Interest	681	674	667	658	649	3,089	2,743	2,248	1,539	529			13,478
2000 MF SERIES (TIMBER POINT APTS)	Principal									7,370				7,370
2000 MF SERIES (TIMBER POINT APTS)	Interest	25	25	25	25	25	125	125	125	52				553
2000 A&B MF SERIES (GREENBRIDGE)	Principal	339	159	171	184	198	1,244	1,799	2,602	3,763	5,441	3,573		19,474
2000 A&B MF SERIES (GREENBRIDGE)	Interest	1,719	1,411	1,398	1,385	1,371	6,604	6,049	5,246	4,086	2,407	43		31,720
2000 MF SERIES PARKS AT (WESTMORELAND)	Principal	94	101	108	116	125	778	1,113	1,594	2,281	3,155			9,464
2000 MF SERIES PARKS AT (WESTMORELAND)	Interest	678	671	664	656	647	3,082	2,747	2,266	1,578	593			13,582
2000 A&B MF SERIES (WILLIAMS RUN)	Principal	411	115	124	133	144	910	1,333	1,952	2,858	4,184	254		12,417
2000 A&B MF SERIES (WILLIAMS RUN)	Interest	1,077	915	905	896	885	4,235	3,813	3,194	2,288	961	3		19,172
2000 A/C MF SERIES (COLLINGHAM PARK)	Principal	244	259	274	291	308	1,854	2,519	3,444	3,130				12,323
2000 A/C MF SERIES (COLLINGHAM PARK)	Interest	824	807	790	771	751	3,413	2,696	1,718	432				12,204
2000 A/C MF SERIES (HIGHLAND MEADOWS)	Principal	149	159	170	182	194	1,189	1,664	2,320	2,148				8,175
2000 A/C MF SERIES (HIGHLAND MEADOWS)	Interest	549	539	528	517	504	2,301	1,832	1,177	300				8,247
2001A MF SERIES (BLUFFVIEW SR. APTS.)	Principal	74	80	87	93	101	637	930	1,358	1,983	2,897	2,057		10,297
2001A MF SERIES (BLUFFVIEW SR. APTS.)	Interest	883	876	869	861	853	4,114	3,782	3,298	2,590	1,557	117		19,800
2001 MF SERIES (GREENS ROAD APTS.)	Principal	145	155	165	175	185	1,110	1,505	2,060	2,175				7,675
2001 MF SERIES (GREENS ROAD APTS.)	Interest	410	402	393	385	375	1,714	1,374	907	274				6,234
2001A MF SERIES (KNOLLWOOD VILLAS APTS)	Principal	96	103	111	120	130	818	1,195	1,745	2,549	3,722	2,643		13,232
2001A MF SERIES (KNOLLWOOD VILLAS APTS)	Interest	1,002	995	987	978	968	4,672	4,295	3,745	2,942	1,768	133		22,486
2001 MF SERIES (OAK HOLLOW APTS.)	Principal	49	53	57	61	65	403	571	810	1,148	1,628	1,407		6,252
2001 MF SERIES (OAK HOLLOW APTS.)	Interest	436	433	429	425	420	2,023	1,855	1,617	1,278	799	108		9,822
2001A MF SERIES (SKYWAY VILLAS)	Principal	135	145	150	160	170	1,020	1,370	1,840	2,200				7,190
2001A MF SERIES (SKYWAY VILLAS)	Interest	401	394	385	377	368	1,683	1,359	918	322				6,207
2001A MF SERIES (COBB PARK)	Principal	130	60	64	69	75	469	678	980	1,417	2,048	1,595		7,584
2001A MF SERIES (COBB PARK)	Interest	1,445	550	545	540	535	2,579	2,370	2,068	1,631	999	94		13,354
2001 A/B MF SERIES (HILLSIDE APTS.)	Principal	55	59	64	68	73	454	643	912	1,293	1,833	7,000		12,457
2001 A/B MF SERIES (HILLSIDE APTS.)	Interest	870	866	862	857	852	4,174	3,985	3,716	3,335	2,795	627		22,940

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST) AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2001 MF SERIES (MERIDIAN APTS.)	Principal	$ 75	$ 84	$ 84	$ 94	$ 96	$ 587	$ 846	$ 6,537	$ 10	$ -	$ -	$ -	$ 8,413
2001 MF SERIES (MERIDIAN APTS.)	Interest	503	498	493	488	482	2,312	2,100	1,751	3				8,629
2001 MF SERIES (WILDWOOD APTS.)	Principal	60	67	72	72	81	477	642	5,036	5				6,512
2001 MF SERIES (WILDWOOD APTS.)	Interest	389	385	381	377	372	1,781	1,615	1,090	1				6,392
2001 A/C MF SERIES (FALLBROOK APTS.)	Principal	251	268	283	302	320	1,919	2,587	3,487	4,163				13,580
2001 A/C MF SERIES (FALLBROOK APTS.)	Interest	819	804	787	770	751	3,436	2,768	1,868	656				12,660
2002 SERIES (CLARKRIDGE VILLAS APTS)	Principal	100	107	115	123	132	818	1,159	1,644	2,330	3,303	3,698		13,529
2002 SERIES (CLARKRIDGE VILLAS APTS)	Interest	944	937	929	921	912	4,401	4,059	3,575	2,889	1,915	419		21,901
2002 SERIES A (GREEN CREST APTS)	Principal	82	88	94	101	108	669	948	1,345	1,906	2,702	3,096		11,138
2002 SERIES A (GREEN CREST APTS)	Interest	777	771	765	758	751	3,625	3,345	2,949	2,388	1,592	373		18,093
2002 SERIES A (HICKORY TRACE APTS)	Principal	82	88	94	101	108	672	953	1,350	1,914	2,714	3,109		11,187
2002 SERIES A (HICKORY TRACE APTS)	Interest	780	775	768	761	754	3,641	3,360	2,962	2,398	1,599	374		18,172
2002 MF SERIES (MILLSTONE APTS.)	Principal	195	215	215	230	240	1,425	1,865	2,450	3,215				10,050
2002 MF SERIES (MILLSTONE APTS.)	Interest	551	540	528	516	504	2,301	1,861	1,277	510				8,587
2002 MF SERIES (PARK MEADOWS APTS.)	Principal	80	80	85	90	95	590	810	1,120	1,190				4,140
2002 MF SERIES (PARK MEADOWS APTS.)	Interest	269	264	259	253	247	1,130	907	599	181				4,109
2002 MF SERIES (WEST OAKS APTS.)	Principal	71	76	82	88	94	588	840	1,199	1,713	2,447	2,189		9,388
2002 MF SERIES (WEST OAKS APTS.)	Interest	669	664	658	652	645	3,112	2,860	2,500	1,987	1,253	181		15,181
2002 SERIES A (WOODWAY VILLAGE)	Principal	130	135	145	155	160	965	5,610						7,300
2002 SERIES A (WOODWAY VILLAGE)	Interest	375	369	362	355	347	1,602	829						4,239
2002 SERIES A/B (IRON WOOD CROSSING)	Principal	95	103	113	123	134	878	1,312	1,862	2,640	3,742	5,611		16,613
2002 SERIES A/B (IRON WOOD CROSSING)	Interest	1,187	1,179	1,169	1,159	1,148	5,532	5,098	4,548	3,770	2,668	724		28,183
2003 SERIES (EVERGREEN @ MESQUITE)	Principal	133	142	151	161	172	1,043	1,435	1,974	2,717	1,349	1,228		10,505
2003 SERIES (EVERGREEN @ MESQUITE)	Interest	697	688	679	669	659	3,107	2,715	2,176	1,434	694	190		13,709
2003 SERIES A/B (ASH CREEK APTS)	Principal	101	110	119	129	140	891	1,258	1,760	2,463	9,046			16,019
2003 SERIES A/B (ASH CREEK APTS)	Interest	1,068	1,059	1,050	1,040	1,030	4,961	4,602	4,110	3,421	390			22,732
2003 SERIES A/B (NORTH VISTA)	Principal	230	240	250	260	275	1,625	2,125	2,775	3,650	860			12,290
2003 SERIES A/B (NORTH VISTA)	Interest	616	606	595	584	571	2,627	2,160	1,549	749	33			10,091
2003 SERIES A/B (PENINSULA APTS)	Principal	180	190	205	215	230	120	955	1,735	7,775				11,605
2003 SERIES A/B (PENINSULA APTS)	Interest	53	44	35	25	14	2,221	2,700	2,323	206				7,622
2003 SERIES A/B (PRIMROSE HOUSTON)	Principal	101	109	118	128	139	891	1,274	1,774	2,470	9,292			16,294
2003 SERIES A/B (PRIMROSE HOUSTON)	Interest	1,075	1,067	1,058	1,048	1,037	4,993	4,621	4,131	3,450	539			23,018

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DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2003 SERIES A/B (READING ROAD)	Principal	$ 30	$ 30	$ 30	$ 30	$ 40	$ 220	$ 305	$ 430	$ 600	$ 9,895	$ -	$ -	$ 11,610
2003 SERIES A/B (READING ROAD)	Interest	154	151	149	147	145	684	598	477	307	33			2,845
2003 SERIES A/B (SPHINX @ MURDEAUX)	Principal	185	195	205	215	225	1,300	1,655	2,090	2,670	3,410	2,050		14,200
2003 SERIES A/B (SPHINX @ MURDEAUX)	Interest	697	688	678	668	658	3,114	2,764	2,316	1,742	999	156		14,478
2003 SERIES A/B (TIMBER OAKS)	Principal	73	80	87	95	103	677	1,045	1,518	2,125	2,976	4,135		12,913
2003 SERIES A/B (TIMBER OAKS)	Interest	909	902	895	887	879	4,233	3,864	3,392	2,785	1,934	605		21,286
2003 SERIES A/B (WEST VIRGINIA)	Principal	165	165	180	190	195	1,155	1,535	2,015	2,640	625			8,865
2003 SERIES A/B (WEST VIRGINIA)	Interest	444	437	430	422	412	1,899	1,565	1,123	542	24			7,299
2004 SERIES (BRISTOL)	Principal										12,100			12,100
2004 SERIES (BRISTOL)	Interest	34	34	34	34	34	169	169	169	169	62			909
2004 SERIES (CHISHOLM TRAIL)	Principal										11,500			11,500
2004 SERIES (CHISHOLM TRAIL)	Interest	32	32	32	32	32	161	161	161	161	54			859
2004 SERIES (CHURCHILL @ PINNACLE)	Principal	82	87	93	99	106	648	898	1,245	1,726	2,392	2,503		9,879
2004 SERIES (CHURCHILL @ PINNACLE)	Interest	645	639	633	627	620	2,984	2,734	2,387	1,906	1,239	342		14,756
2004 SERIES (EVERGREEN @ PLANO)	Principal	97	103	110	118	126	769	1,065	1,477	2,047	2,838	5,731		14,482
2004 SERIES (EVERGREEN @ PLANO)	Interest	946	939	932	925	917	4,444	4,147	3,736	3,165	2,375	1,082		23,609
2004 SERIES (HUMBLE PARK)	Principal	120	130	135	145	155	955	1,335	1,840	2,540	3,505	430		11,290
2004 SERIES (HUMBLE PARK)	Interest	743	735	726	717	708	3,366	2,999	2,486	1,783	809	14		15,087
2004 SERIES (MONTGOMERY PINES)	Principal										12,100			12,100
2004 SERIES (MONTGOMERY PINES)	Interest	34	34	34	34	34	169	169	169	169	62			909
2004 SERIES (PINNACLE)	Principal										14,065			14,065
2004 SERIES (PINNACLE)	Interest	38	38	38	38	38	190	190	190	190	70			1,019
2004 SERIES (RUSH CREEK)	Principal	60	64	68	73	78	479	669	934	1,305	1,822	3,111		8,663
2004 SERIES (RUSH CREEK)	Interest	579	574	570	565	560	2,713	2,523	2,258	1,887	1,369	536		14,134
2004 SERIES (SPHINX @ DELAFIELD)	Principal	120	125	135	140	150	880	1,155	1,510	1,995	2,510	2,195		10,915
2004 SERIES (SPHINX @ DELAFIELD)	Interest	572	566	559	552	545	2,602	2,350	2,011	1,561	971	241		12,531
2004 SERIES (TRANQUILITY BAY)	Principal	102	109	117	124	133	809	1,119	1,547	2,139	2,958	4,826		13,982
2004 SERIES (TRANQUILITY BAY)	Interest	906	899	892	884	876	4,232	3,922	3,494	2,902	2,083	851		21,939
2004 SERIES A/B (CENTURY PARK)	Principal	190	200	210	230	245	1,450	1,925	2,570	3,415	1,665			12,100
2004 SERIES A/B (CENTURY PARK)	Interest	650	639	628	617	604	2,805	2,360	1,766	976	114			11,159
2004 SERIES A/B (POST OAK EAST)	Principal										13,600			13,600
2004 SERIES A/B (POST OAK EAST)	Interest	41	41	41	41	41	205	205	205	205	82			1,105

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 5

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST) AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2004 SERIES A/B (TIMBER RIDGE)	Principal	$ 42	$ 45	$ 48	$ 52	$ 56	$ 344	$ 487	$ 690	$ 976	$ 3,818	$ -	$ -	$ 6,558
2004 SERIES A/B (TIMBER RIDGE)	Interest	441	438	435	432	428	2,077	1,939	1,743	1,465	250			9,651
2004 SERIES A/B (VETERANS MEMORIAL)	Principal	102	111	121	132	143	913	1,277	1,775	2,466	3,428	5,467		15,934
2004 SERIES A/B (VETERANS MEMORIAL)	Interest	1,065	1,056	1,047	1,036	1,024	4,925	4,561	4,063	3,371	2,410	907		25,465
2003 SERIES A/B (PARKVIEW TWNHMS)	Principal	102	111	121	132	144	929	1,319	1,833	2,547	3,539	5,444		16,222
2003 SERIES A/B (PARKVIEW TWNHMS)	Interest	1,090	1,081	1,071	1,060	1,049	5,033	4,643	4,129	3,415	2,422	878		25,871
2003 SERIES A/B (ARLINGTON VILLAS)	Principal	95	102	111	120	130	834	1,232	1,744	2,461	9,983			16,812
2003 SERIES A/B (ARLINGTON VILLAS)	Interest	1,154	1,146	1,138	1,128	1,118	5,411	5,018	4,516	3,815	865			25,309
2003 SERIES (NHP-ASMARA)REFUNDING	Principal	430	450	480	510	540	3,230	4,325	5,795	4,275				20,035
2003 SERIES (NHP-ASMARA)REFUNDING	Interest	54	53	52	50	49	221	171	105	22				777
2004 SERIES (VILLAGE FAIR)	Principal	97	103	110	118	125	765	1,058	1,463	2,024	2,798	5,132		13,794
2004 SERIES (VILLAGE FAIR)	Interest	894	887	880	873	865	4,188	3,895	3,490	2,929	2,155	1,014		22,069
2005 SERIES (PECAN GROVE)	Principal	96	102	109	116	124	757	1,047	1,448	2,003	2,769	5,160		13,733
2005 SERIES (PECAN GROVE)	Interest	890	883	877	869	861	4,171	3,881	3,480	2,926	2,159	1,037		22,034
2005 SERIES (PRAIRIE OAKS)	Principal	75	81	86	92	98	597	825	1,141	1,577	2,181	4,064		10,816
2005 SERIES (PRAIRIE OAKS)	Interest	701	696	690	685	679	3,285	3,057	2,741	2,304	1,700	817		17,354
2005 SERIES (PORT ROYAL)	Principal	83	88	94	101	107	655	906	1,253	1,732	2,395	4,534		11,949
2005 SERIES (PORT ROYAL)	Interest	774	769	763	756	750	3,630	3,380	3,033	2,553	1,890	926		19,225
2005 SERIES (MISSION DEL RIO)	Principal	78	83	89	95	101	617	853	1,180	1,631	2,256	4,270		11,253
2005 SERIES (MISSION DEL RIO)	Interest	729	724	718	712	706	3,419	3,183	2,856	2,405	1,780	872		18,106
2005 SERIES (ATASCOCITA)	Principal										11,600			11,600
2005 SERIES (ATASCOCITA)	Interest	33	33	32	32	32	162	162	162	162	87			899
2005 SERIES (TOWER RIDGE)	Principal										15,000			15,000
2005 SERIES (TOWER RIDGE)	Interest	55	56	55	56	56	278	277	278	278	146			1,533
2005 SERIES (PRAIRIE RANCH)	Principal	125	135	140	150	160	915	1,195	1,545	1,920	2,440	3,085		11,810
2005 SERIES (PRAIRIE RANCH)	Interest	571	565	558	552	544	2,596	2,346	2,019	1,605	1,085	426		12,867
2005 SERIES (ST. AUGUSTINE)	Principal										6,380			6,380
2005 SERIES (ST. AUGUSTINE)	Interest	19	19	18	19	19	93	92	93	93	57			520
2005 SERIES (PARK MANOR)	Principal											10,400		10,400
2005 SERIES (PARK MANOR)	Interest	666	666	666	666	666	3,328	3,328	3,328	3,328	3,328	3,273		23,241
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	Principal	97	103	110	117	125	759	1,045	1,438	1,978	2,722	5,611		14,104
2005 SERIES (PROVIDENCE @ MOCKINGBIRD)	Interest	900	893	887	879	872	4,224	3,938	3,546	3,005	2,261	1,238		22,643

(Continued)

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2005 SERIES (PLAZA CHASE OAKS)	Principal	$ 238	$ 251	$ 264	$ 277	$ 292	$ 1,700	$ 2,187	$ 2,814	$ 3,620	$ 2,028	$ -	$ -	$ 13,670
2005 SERIES (PLAZA CHASE OAKS)	Interest	685	673	660	646	632	2,916	2,429	1,802	996	126			11,564
2005 SERIES (CANAL PLACE APTS)	Principal	81	88	95	103	112	719	1,021	1,404	1,932	10,489			16,044
2005 SERIES (CANAL PLACE APTS)	Interest	1,018	1,011	1,004	996	988	4,783	4,491	4,116	3,601	2,248			24,256
2005 SERIES (CORAL HILLS)	Principal	45	80	85	90	90	525	710	3,275					4,900
2005 SERIES (CORAL HILLS)	Interest	247	244	240	236	231	1,081	930	163					3,373
2006 SERIES (HARRIS BRANCH APTS)	Principal										14,700			14,700
2006 SERIES (HARRIS BRANCH APTS)	Interest	44	44	44	44	44	221	220	221	221	158			1,261
2006 SERIES (BELLA VISTA APTS)	Principal	45	50	55	55	60	365	495	670	915	1,240	1,685	1,060	6,695
2006 SERIES (BELLA VISTA APTS)	Interest	412	409	406	403	399	1,935	1,808	1,635	1,401	1,083	650	65	10,605
2006 SERIES (VILLAGE PARK)	Principal	150	155	170	175	185	1,100	1,475	7,005					10,415
2006 SERIES (VILLAGE PARK)	Interest	524	517	509	501	493	2,318	2,012	525					7,398
2006 SERIES (OAKMOOR)	Principal	100	106	113	120	127	764	1,031	1,391	1,876	2,530	3,413	2,754	14,326
2006 SERIES (OAKMOOR)	Interest	857	851	844	837	830	4,021	3,754	3,394	2,909	2,255	1,372	89	22,014
2006 SERIES (SUNSET POINTE)	Principal										15,000			15,000
2006 SERIES (SUNSET POINTE)	Interest	51	51	51	51	51	255	255	255	255	200			1,475
2006 SERIES (HILLCREST)	Principal	150	150	160	170	185	1,105	1,520	7,550					10,990
2006 SERIES (HILLCREST)	Interest	575	567	559	551	542	2,547	2,212	764					8,317
2006 SERIES (PLEASANT VILLAGE)	Principal	84	88	95	101	107	642	4,702						5,818
2006 SERIES (PLEASANT VILLAGE)	Interest	352	347	341	335	329	1,536	707						3,947
2006 SERIES (GROVE VILLAGE)	Principal	86	91	98	104	110	661	4,843						5,992
2006 SERIES (GROVE VILLAGE)	Interest	362	358	351	345	338	1,582	728						4,065
2006 SERIES (RED HILLS VILLAS)	Principal							500	900	1,200	2,315			4,915
2006 SERIES (RED HILLS VILLAS)	Interest	18	18	18	18	18	88	83	71	52	8			391
2006 SERIES (CHAMPIONS CROSSING)	Principal						400	500	900	1,200	1,925			4,925
2006 SERIES (CHAMPIONS CROSSING)	Interest	18	18	18	18	18	85	76	64	45	6			365
2006 SERIES (STONEHAVEN)	Principal	82	87	92	98	103	617	824	9,257					11,161
2006 SERIES (STONEHAVEN)	Interest	645	640	635	630	624	3,019	2,812	619					9,624
2006 SERIES (CENTER RIDGE)	Principal										8,325			8,325
2006 SERIES (CENTER RIDGE)	Interest	416	416	416	416	416	2,081	2,081	2,081	2,081	1,665			12,071
2006 SERIES (MEADOWLANDS)	Principal	82	87	92	98	104	626	844	1,138	1,536	2,071	2,794	2,854	12,327
2006 SERIES (MEADOWLANDS)	Interest	737	732	727	721	715	3,471	3,253	2,958	2,561	2,026	1,303	164	19,369
2006 SERIES (EAST TEX PINES)	Principal	80	95	105	110	110	685	900	1,195	1,585	2,105	2,785	3,745	13,500
2006 SERIES (EAST TEX PINES)	Interest	781	776	770	764	757	3,675	3,447	3,145	2,744	2,213	1,508	288	20,865
2006 SERIES (VILLAS @ HENDERSON)	Principal	145	104	110	116	123	727	961	1,270	1,678	1,966			7,200
2006 SERIES (VILLAS @ HENDERSON)	Interest	21	20	20	20	19	91	79	63	41	14			387
2006 SERIES (ASPEN PARK)	Principal	95	100	110	110	120	710	950	460		7,040			9,695
2006 SERIES (ASPEN PARK)	Interest	484	479	474	468	462	2,214	2,012	1,789	1,760	1,408			11,550
2006 SERIES (IDLEWILDE)	Principal										14,040			14,040
2006 SERIES (IDLEWILDE)	Interest	40	39	39	39	39	197	197	197	197	190			1,173

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 5

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST)
AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2007 SERIES (LANCASTER)	Principal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,040	$ -	$ -	$ 14,040
2007 SERIES (LANCASTER)	Interest	40	39	39	39	39	197	197	197	197	193			1,176
2007 SERIES (PARK PLACE AT LOYOLA)	Principal	98	104	110	117	123	737	984	1,314	1,755	2,344	3,131	4,181	15,000
2007 SERIES (PARK PLACE AT LOYOLA)	Interest	867	862	855	849	842	4,090	3,843	3,513	3,072	2,483	1,696	318	23,289
2007 SERIES (TERRACES AT CIBOLO)	Principal										8,000			8,000
2007 SERIES (TERRACES AT CIBOLO)	Interest	23	23	23	23	23	116	116	116	116	110			690
2007 SERIES (SANTORA VILLAS)	Principal	64	89	94	100	106	633	845	1,129	1,508	2,014	2,689	3,800	13,072
2007 SERIES (SANTORA VILLAS)	Interest	757	752	747	741	735	3,574	3,361	3,078	2,699	2,193	1,517	332	20,485
2007 SERIES (A/B VILLAS @ MESQUITE CREEK)	Principal	155	165	175	185	195	1,170	1,515	1,935	2,480	3,180	4,065	1,430	16,650
2007 SERIES (A/B VILLAS @ MESQUITE CREEK)	Interest	844	835	825	814	804	3,831	3,489	3,064	2,522	1,827	938	72	19,864
2007 SERIES (SUMMIT POINT)	Principal	100	105	120	120	130	740	955	1,245	1,635	2,165	2,845	1,375	11,535
2007 SERIES (SUMMIT POINT)	Interest	594	589	583	578	572	2,760	2,553	2,282	1,919	1,433	788	91	14,741
2007 SERIES (COSTA RIALTO)	Principal	91	96	101	107	113	663	866	1,131	1,477	1,929	2,519	3,290	12,385
2007 SERIES (COSTA RIALTO)	Interest	660	655	650	645	639	3,094	2,891	2,626	2,280	1,828	1,238	282	17,487
2007 SERIES (WINDSHIRE)	Principal											14,000		14,000
2007 SERIES (WINDSHIRE)	Interest	39	39	39	39	39	196	196	196	196	196	16		1,193
2007 SERIES (RESIDENCE @ ONION CREEK)	Principal											15,000		15,000
2007 SERIES (RESIDENCE @ ONION CREEK)	Interest	51	51	51	51	51	255	255	255	255	255	17		1,547
2008 SERIES (ADDISON PARK APTS)	Principal											13,800		13,800
2008 SERIES (ADDISON PARK APTS)	Interest	45	44	44	44	44	221	221	221	221	221	151		1,476
2008 SERIES (COSTA IBIZA APTS)	Principal											13,900		13,900
2008 SERIES (COSTA IBIZA APTS)	Interest	41	42	42	42	42	209	208	208	208	209	42		1,292
2008 SERIES (WEST OAKS APTS)	Principal											13,125		13,125
2008 SERIES (WEST OAKS APTS)	Interest	36	35	35	35	35	177	177	177	177	177	32		1,096

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 5

DEBT SERVICE REQUIREMENTS (PRINCIPAL AND INTEREST) AS OF AUGUST 31, 2010

DESCRIPTION		2011	2012	2013	2014	2015	2016-20	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	TOTAL REQUIRED
2009 SERIES (COSTA MARIPOSA)	Principal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,690	$ -	$ 13,690
2009 SERIES (COSTA MARIPOSA)	Interest	44	44	44	44	44	219	219	219	219	219	77		1,391
2009 SERIES (WOODMONT APTS)	Principal											15,000		15,000
2009 SERIES (WOODMONT APTS)	Interest	45	45	45	45	45	225	225	225	225	225	82		1,432
2008 SERIES (ALTA CULLEN)	Principal											14,000		14,000
2008 SERIES (ALTA CULLEN)	Interest	47	48	48	48	48	238	238	238	238	238	218		1,646
TOTAL MULTI-FAMILY BONDS		$ 65,103	$ 63,239	$ 63,172	$ 63,004	$ 63,056	$ 319,009	$ 331,570	$ 359,741	$ 301,619	$ 435,463	$ 284,299	$ 26,190	$ 2,375,464
Total		$ 124,967	$ 423,480	$ 123,959	$ 123,900	$ 123,371	$ 656,725	$ 710,691	$ 723,144	$ 652,284	$ 592,714	$ 284,299	$ 26,190	$ 4,565,723
Less Interest		98,934	96,075	94,488	93,097	91,503	434,644	380,427	292,030	192,804	95,972	30,249	1,700	1,901,923
Total Principal		$ 26,033	$ 327,405	$ 29,471	$ 30,803	$ 31,868	$ 222,081	$ 330,264	$ 431,113	$ 459,480	$ 496,742	$ 254,050	$ 24,489	$ 2,663,800

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - SCHEDULE 6
REVENUE BOND PROGRAM

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2002 Single Family Series A	$ 6,066	$ 44	$	$ 1,829
2002 Single Family Series A (Jr. Lien)	4,378	5		154
2002 Single Family Series B	8,531	31		1,352
2002 Single Family Series C	1,563	12	530	435
2002 Single Family Series D	240	4	840	118
2004 Single Family Series A	26,886	159	2,845	3,508
2004 Single Family Series A (Jr. Lien)		8		13
2004 Single Family Series B	2,790	125		1,938
2004 Single Family Series C	8,451	58	165	1,069
2004 Single Family Series D	1,780	103		1,278
2004 Single Family Series E	896	14	1,085	220
2005 Single Family Series A	17,290	224		3,314
2005 Single Family Series B	3,088	55	630	617
2005 Single Family Series C	1,129	25		17
2005 Single Family Series D	166	13		152
2006 Single Family Series A	14,434	43	485	2,454
2006 Single Family Series B	16,577	49	1,450	2,815
2006 Single Family Series C	25,145	74	1,530	4,382
2006 Single Family Series D	5,701	18		882
2006 Single Family Series E	767	12	1,315	525
2006 Single Family Series F	25,545	96	510	3,470
2006 Single Family Series G	4,181	14	1,210	454
2006 Single Family Series H	2,276	61		1,321
2007 Single Family Series A	21,756	366		5,119
2007 Single Family Series B	27,356	127	1,440	7,587
Total Single Family Bonds	226,991	1,737	14,035	45,023
1998 RMRB Series A	5,420	27	1,025	1,593
1998 RMRB Series B	1,012	5		293
1999 RMRB Series A	707	394		209
2000 RMRB Series A	14,926	13		681
2000 RMRB Series B	30,004	219		1,920
2000 RMRB Series C	5,377	65		441
2000 RMRB Series D	4,780		605	233
2001 RMRB Series A	4,991	23	330	1,294
2001 RMRB Series B	1,337	11		568
2001 RMRB Series C	718	5	1,005	239
2001 RMRB Series D				
2002 RMRB Series A	4,934	22	340	1,323
2003 RMRB Series A	9,289	46	745	2,540
2009 RMRB Series A	1,814	99		4,105
2009 RMRB Series B	2,946	25	560	1,003
2009 RMRB Series C	275			272
Total Residential Mtg Revenue Bonds	88,530	955	4,610	16,716
1992 CHMRB Series C	1,795	7		591
Total 1992 CHMRB	1,795	7		591

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - SCHEDULE 6
REVENUE BOND PROGRAM

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
1996 MF Series A/B (Brighton's Mark)	$ 508	$ 6	$	$ 502
1996 MF Series A/B (Braxton's Mark)	845	3		841
1998 MF Series A (Pebble Brook)	629		105	519
1998 MF Series A-C (Residence Oaks)	420		169	420
1998 MF Series A/B (Greens of Hickory Trial)	616		270	616
1999 MF Series A-C (Mayfield)	561		235	561
2000 MF Series A (Creek Point Apts)	124			19
2000 MF Series A (Deerwood Apts)	370		105	370
2000 MF Series A (Timber Point Apts)	123			23
2000 MF Series A/B (Greenbridge)	1,441			1,441
2000 MF Series A/B (Oaks at Hampton)	688		89	688
2000 MF Series A/B (Parks @ Westmoreland)	684		87	684
2000 MF Series A/B (Williams Run)	950			950
2000 MF Series A-C (Collingham Park)	835		230	835
2000 MF Series A-C (Highland Meadow Apts)	556		139	556
2001 MF Series A (Bluffview Senior Apts)	785		69	785
2001 MF Series A (Knollwood Villas Apts)	1,009		89	1,009
2001 MF Series A (Oak Hollow Apts.)	439		46	439
2001 MF Series A (Greens Road Apts.)	415		135	415
2001 MF Series A (Skyway Villas)	406		130	406
2001 MF Series A/B (Cobb Park)	563			563
2001 MF Series A/B (Hillside Apts.)	874		52	874
2001 MF Series A/B (Meridian Apts.)	507		72	507
2001 MF Series A/B (Wildwood Apts.)	392		60	392
2001 MF Series A-C (Fallbrook Apts.)	832		235	832
2002 MF Series A (Clarkridge Villas Apts)	950		93	950
2002 MF Series A (Park Meadows Apts)	272		65	272
2002 MF Series A (Sugar Creek Apts.)	12,017		45	512
2002 MF Series A (West Oaks Apts.)	673		66	673
2002 MF Series A (Green Crest Apts)	782		76	782
2002 MF Series A (Hickory Trace Apts)	786		77	786
2002 MF Series A (Millstone Apts.)	558		185	558
2002 MF Series A (Woodway Village Apts)	380		120	380
2002 MF Series A/B (Ironwood Crossing)	1,195		87	1,195
2003 MF Series A (NHP-Asmara) Refunding	171		400	56
2003 MF Series A (Evergreen @ Mesquite)	715		125	715
2003 MF Series A/B (Reading Road)	358		30	158
2003 MF Series A/B (Arlington Villas)	1,161		87	1,161
2003 MF Series A/B (Ash Creek Apts)	1,075		94	1,075
2003 MF Series A/B (North Vista Apts)	623		210	623
2003 MF Series A/B (Parkview Twnhms)	1,098		94	1,098
2003 MF Series A/B (Peninsula Apts)	638		150	613
2003 MF Series A/B (Primrose Houston School)	1,082		93	1,082
2003 MF Series A/B (Sphinx @ Murdeaux)	703		180	703
2003 MF Series A/B (Timber Oaks Apts)	915		67	915
2003 MF Series A/B (West Virginia Apts)	450		155	450
2004 MF Series A (Bristol)	137			37

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — SCHEDULE 6
REVENUE BOND PROGRAM

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2004 MF Series A (Chisholm Trail)	$ 236	$	$	$ 36
2004 MF Series A (Churchill @ Pinnacle)	649		77	649
2004 MF Series A (Evergreen @ Plano)	951		91	951
2004 MF Series A (Humble Park)	749		110	749
2004 MF Series A (Montgomery Pines)	238			38
2004 MF Series A (Pinnacle)	142			42
2004 MF Series A (Rush Creek)	582		56	582
2004 MF Series A (Sphinx @ Delafield)	577		110	577
2004 MF Series A (Tranquility Bay)	912		96	912
2004 MF Series A (Village Fair)	899		91	899
2004 MF Series A/B (Century Park)	657		185	657
2004 MF Series A/B (Post Oak East)	43			43
2004 MF Series A/B (Timber Ridge)	444		39	444
2004 MF Series A/B (Veterans Memorial)	1,073		94	1,073
2005 MF Series A (Atascocita Pines)	136			36
2005 MF Series A/B (Canal Place)	1,024		56	1,024
2005 MF Series A (Del Rio)	734		73	734
2005 MF Series A (Park Manor)	666			666
2005 MF Series A (Pecan Grove)	895		90	895
2005 MF Series A (Chase Oaks)	696		227	696
2005 MF Series A (Port Royal)	779		78	779
2005 MF Series A (Prairie Oaks)	705		71	705
2005 MF Series A (Prairie Ranch)	576		125	576
2005 MF Series A (Mockingbird)	905		91	905
2005 MF Series A (St Augustine)	792			22
2005 MF Series A (Tower Ridge)	54			54
2006 MF Series A (Aspen Park Apts)	488		105	488
2006 MF Series A (Bella Vista)	413		45	413
2006 MF Series A (Center Ridge)	416			416
2006 MF Series A (Champion Crossing)	117			17
2005 MF Series A (Coral Hills)	276		70	251
2006 MF Series A (East Tex Pines)	783			783
2006 MF Series A (Grove Village)	367		81	367
2006 MF Series A (Harris Branch)	254			54
2006 MF Series A (Hillcrest)	1,795		230	580
2006 MF Series A (Idlewilde Apts)	254			44
2006 MF Series A (Meadowlands)	742		77	742
2006 MF Series A (Oakmoor)	862		94	862
2006 MF Series A (Pleasant Village)	356		79	356
2006 MF Series A (Red Hills Villas)	17			17
2006 MF Series A (Stonehaven)	649		77	649
2006 MF Series A (Sunset Pointe)	54			54
2006 MF Series A (Village Park)	529		150	529
2006 MF Series A (Villas at Henderson)	22			22
2007 MF Series A (Villas @ Mesquite Creek)	990		75	855
2007 MF Series A (Costa Rialto)	663			663
2007 MF Series A (Lancaster Apts)	254			44

(Continued)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - SCHEDULE 6
REVENUE BOND PROGRAM

ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE - REVENUE BONDS
For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	Pledged and Other Sources and Related Expenditures for FY 2010			
	Net Available for Debt Service		Debt Service	
Description of Issue	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
2007 MF Series A (Park Place @ Loyola)	$ 870	$	$	$ 870
2007 MF Series A (Santora Villas)	758			758
2007 MF Series A (Summit Point)	598		165	598
2007 MF Series A (Terraces at Cibolo)	24			24
2007 MF Series A (Windshire)	43			43
2007 MF Series A (Residences @ Onion Creek)	58			58
2008 MF Series A (West Oaks Apts)	39			39
2008 MF Series A (Costa Ibiza Apts)	35			35
2008 MF Series A(Addison Park)	150			50
2008 MF Series A (Alta Cullen)	42			42
2009 MF Series A (Costa Mariposa)	38			38
2009 MF Series A (Woodmont Apts)	41			41
Total Multifamily Bonds	71,423	9	7,822	55,587
Total	$ 388,740	$ 2,709	$ 26,467	$ 117,917

(Concluded)

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS — REVENUE BOND PROGRAM

SCHEDULE 7

MISCELLANEOUS BOND INFORMATION — EARLY EXTINGUISHMENT AND REFUNDING AS OF AUGUST 31, 2010

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:					
2002 Single Family Series A (Jr. Lien)	Early Extinguishment	$ 3,995,000	$ -	$ -	$ -
2002 Single Family Series A	Early Extinguishment	4,415,000			
2002 Single Family Series B	Early Extinguishment	7,385,000			
2002 Single Family Series C	Early Extinguishment	1,125,000			
2002 Single Family Series D	Early Extinguishment	105,000			
2004 Single Family Series A	Early Extinguishment	23,335,000			
2004 Single Family Series C	Early Extinguishment	7,455,000			
2004 Single Family Series E	Early Extinguishment	655,000			
2005 Single Family Series A	Early Extinguishment	13,535,000			
2005 Single Family Series B	Early Extinguishment	2,390,000			
2005 Single Family Series C	Early Extinguishment	810,000			
2006 Single Family Series A	Early Extinguishment	11,620,000			
2006 Single Family Series B	Early Extinguishment	13,380,000			
2006 Single Family Series C	Early Extinguishment	20,285,000			
2006 Single Family Series D	Early Extinguishment	4,550,000			
2006 Single Family Series F	Early Extinguishment	22,005,000			
2006 Single Family Series G	Early Extinguishment	3,675,000			
2007 Single Family Series A	Early Extinguishment	16,040,000			
2007 Single Family Series B	Early Extinguishment	20,800,000			
1998 RMRB Series A	Early Extinguishment	3,390,000			
1998 RMRB Series B	Early Extinguishment	625,000			
1999 RMRB Series A	Early Extinguishment	390,000			
2000 RMRB Series A	Early Extinguishment	13,965,000			
2000 RMRB Series B	Early Extinguishment	27,770,000			
2000 RMRB Series C	Early Extinguishment	4,710,000			
2000 RMRB Series D	Early Extinguishment	4,780,000			
2001 RMRB Series A	Early Extinguishment	3,775,000			
2001 RMRB Series B	Early Extinguishment	760,000			
2001 RMRB Series C	Early Extinguishment	450,000			
2002 RMRB Series A	Early Extinguishment	3,615,000			
2003 RMRB Series A	Early Extinguishment	6,860,000			
2009 RMRB Series A	Early Extinguishment	10,000			
2009 RMRB Series B	Early Extinguishment	2,495,000			
1992 Coll Home Mtg Rev Bonds, Series C	Early Extinguishment	1,100,000			
1998 Series (Pebble Brook)	Early Extinguishment	110,000			
2000 Series (Timber Point Apts)	Early Extinguishment	100,000			
2000 Series (Creek Point Apts)	Early Extinguishment	105,000			
2002 Series (Sugar Creek)	Early Extinguishment	11,505,000			
2003 Series A/B (Reading Road)	Early Extinguishment	200,000			
2003 Series (Peninsula)	Early Extinguishment	25,000			
2003 Series (NHP-Asmara- Refunding)	Early Extinguishment	115,000			
2004 Series A (Chisholm Trail)	Early Extinguishment	200,000			
2004 Series (Montgomery Pines)	Early Extinguishment	200,000			
2004 Series (Bristol)	Early Extinguishment	100,000			
2004 Series (Pinnacle)	Early Extinguishment	100,000			
2005 Series (Atascocita Pines)	Early Extinguishment	100,000			
2005 Series (St Augustine)	Early Extinguishment	770,000			
2006 Series (Corral Hills)	Early Extinguishment	25,000			
2006 Series (Harris Branch)	Early Extinguishment	200,000			
2006 Series (Hillcrest)	Early Extinguishment	1,215,000			
2006 Series (Champion's Crossing)	Early Extinguishment	100,000			
2006 Series (Idlewilde)	Early Extinguishment	210,000			
2007 Series (Landcaster)	Early Extinguishment	210,000			
2007 Series (Villas @ Mesquite Creek)	Early Extinguishment	135,000			
2008 Series (Addison Park)	Early Extinguishment	100,000			
Total Business-Type Activities		$ 268,080,000	$ -	$ -	$ -

Texas Department of Housing and Community Affairs — Housing Finance Division

Computation of Unencumbered
Fund Balances as of August 31, 2010, and
Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of the
Texas Department of Housing and Community
Affairs — Housing Finance Division:

We have audited the accompanying Computation of Unencumbered Fund Balances (the "Computation") of the Texas Department of Housing and Community Affairs — Housing Finance Division (the "Division") as of August 31, 2010. The Computation is the responsibility of Division management. Our responsibility is to express an opinion based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Computation is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Computation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Computation. We believe that our audit provides a reasonable basis for our opinion.

The Computation is presented on the basis of criteria described in Note 2 to the Computation for compliance with the provisions of Chapter 2306, Texas Government Code, Sections 2306.204 and 2306.205. The Computation is not intended to present unencumbered fund balances in accordance with accounting principles generally accepted in the United States of America. Unencumbered fund balances determined under the basis of presentation described in Note 2 may materially differ from those determined under accounting principles generally accepted in the United States of America.

In our opinion, the aforementioned Computation presents fairly, in all material respects, the unencumbered fund balances of the Division as of August 31, 2010, in conformity with the criteria specified by management of the Division for compliance with the computations described in the Texas Government Code, Sections 2306.204 and 2306.205, as set forth in Note 2 to the Computation.

This report is intended solely for the information and use of the Division's management and the Governing Board in accordance with the Texas Government Code, Sections 2306.204 and 2306.205, and is not intended to be, and should not be, used by anyone other than these specific parties.

Deloitte & Touche LLP

December 20, 2010

COMPUTATION OF UNENCUMBERED FUND BALANCES
AS OF AUGUST 31, 2010
(Amounts in thousands)

	SFMRB Program	RMRB Program	CHMRB Program	M/F Program	Operating Fund
BOND LIABILITIES:					
Bonds payable/commercial paper notes payable	$ 896,080	$559,365	$ 8,000	$1,200,355	$
Accrued interest payable on bonds	20,376	2,502		9,558	
TOTAL	$ 916,456	$561,867	$ 8,030	$1,209,913	$
ASSET TEST RATIO REQUIREMENT	102 %	102 %	102 %	100 %	%
QUALIFYING ASSETS:					
Cash and temporary investments	$ 64,213	$357,472 30	$ 197	$ 27,275	$11,429
Investments — at fair value	12,864	5,155	250	962	
Mortgage-backed securities — at fair value	918,119	226,925	9,704	65,509	
Less fair value adjustment	(70,062)	(18,978)	(1,131)		
Unamortized premium/discount	5,458	1,277	32		
Whole Loans receivable, — net(re-ins SIF & DCF)	9,011	775			
Loans/notes receivable — net	23,205	2,053		1,200,355	1,324
Real estate owned — net	200				
Accrued interest receivable	3,797	1,402		9,305	1
Total Qualifying Assets	966,805	576,081		1,303,406	12,754
LESS RESTRICTIONS:					
Self-insurance fund	40	16			
Operating reserve fund	1,288	338	1	330	174
Debt service fund	14,435	58 42		1,403	
Rebate payable	1,746	9,110 229			
Due to lenders/other departments	23			93,891	29
Housing assistance programs	1,903	6,770			
Board/department restrictions					11,270
Amounts reserved for special redemptions subsequent to August 31, 2010	5,350				
Total Restrictions	24,785	7,395		95,624	11,473
Total qualifying assets less restrictions	942,020	568,686	9,109	1,207,782	1,281
LESS ASSET TEST REQUIREMENT	934,785	573,104	8,191	1,209,913	
AMOUNT NEEDED TO MEET ASSET TEST REQUIREMENT		4,418		2,131	
UNENCUMBERED FUND BALANCES	$ 7,235	$ 1 (0)	$	$	$ 1,281

See accompanying independent auditors' 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, 2010
(Amounts in thousands)

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

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 (subsequently codified as Chapter 2306, Texas Government Code) (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 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 (the "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 therein, 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 (the "Agency"), a predecessor to the Department, through August 31, 2010, the Agency or the Department has issued 30 series of Residential Mortgage Revenue Bonds, 51 series of Single-Family Mortgage Revenue Bonds, 4 series of Junior Lien Single-Family Mortgage Revenue Refunding 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, 2010, the outstanding principal amount of bonded indebtedness of the Department for single-family housing purposes was $1,463,445.

General — Multifamily (M/F) — The Department and the Agency have issued 213 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, 2010, 136 series were outstanding, with an aggregate outstanding principal amount of $1,200,355.

Single-Family Mortgage Revenue Bonds (SFMRBs) — The Department has issued 51 series of SFMRBs under a SFMRB Trust Indenture, dated as of October 1, 1980, and 51 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, 2010, 23 series were outstanding, with an aggregate outstanding principal amount totaling $892,225.

Junior Lien Bonds — The Department has issued four series of its Junior Lien SFMRBS (the "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, 2010, 1 series was outstanding, with an aggregate outstanding principal of $3,855.

Residential Mortgage Revenue Bonds (RMRBs) — As of August 31, 2010, the Department has issued 30 series of RMRBs pursuant to the RMRB Trust Indenture and 27 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, 2010, 13 series were outstanding, with an aggregate outstanding principal amount of $559,365.

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, 2010, 2 series of CHMRBs was outstanding, with an aggregate outstanding principal amount of $8,000.

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. 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.

2. 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, Sections 2306.204 and 2306.205. These criteria and definitions were determined based on the requirements of the bond trust indentures, the Board's designated purposes, and financial advisors' recommendations for credit rating purposes:

Definition of Unencumbered Fund Balance — The bond trust indentures of the Department include certain restrictions and encumbrances on Department assets for the benefit, protection, and security of the owners of the outstanding Department bonds. 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.

The unencumbered fund balances of the Department represent qualifying assets less restrictions in excess of a percentage (the "Asset Test Ratio") of the total bond liabilities specified in the respective bond trust indentures.

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.

Total Bond Liabilities — The following represents the amounts included in determination of total bond liabilities:

- The bonds and commercial paper notes payable represent the contractual balance of bonds and commercial paper notes outstanding at August 31, 2010. Where the bonds are concerned, the amount excludes unamortized bond premiums or discounts.

- Accrued interest on bonds and commercial paper notes payable represents contractual interest due on outstanding balances at August 31, 2010.

Asset Test Ratio — This represents the ratio in excess of total bond liabilities considered necessary by the respective bond trust indentures.

Asset Test Requirement — This represents the encumbered qualifying assets considered necessary by the respective bond trust indentures. These amounts are calculated by multiplying the total bond liabilities by the Asset Test Ratio for the related programs.

Qualifying Assets — Qualifying assets exclude deferred issuance costs, deferred commitment fees, 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.
- Mortgage-backed securities are included at fair value. Deferred commitment fees are excluded.
- 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.
- Whole loans are fully amortizing 1st lien loans and are included at their current contractual balances outstanding, net of the estimated allowance for estimated loan losses. Deferred commitment fees are excluded.
- Loans receivable includes loans related to the multifamily program and special loans. Special loans are primarily 2nd and 3rd lien zero percent loans and are included at their contractual balances outstanding, net of the estimated allowance for estimated loan losses. They include non-amortizing downpayment assistance loans, home improvement, preservation and bootstrap loans.
- 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.

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, or recommendations by the Department's financial advisors in the determination of unencumbered fund balance. The restrictions consist of the following:

- Self-insurance fund represents a required fund within the single-family and RMRB programs that is restricted for losses on self-insured loan pool programs.
- Operating reserve fund represents a restriction of approximately six months' operating expenses of the related bond programs.
- Debt service fund represents qualifying assets restricted for debt service requirements by the respective bond trust indentures.
- Rebate payable represents a restriction for amounts calculated to be payable under the rebate rules of the U.S. Treasury.

(Amounts in thousands)

- Amounts due to lenders/other departments represent qualifying assets that are due to lenders under the bond trust indentures, as well as due to other Department funds, and are not available for any other purposes.

- Amounts reserved for Housing Assistance Programs represent amounts that are restricted for certain Department programs as designated by the Governing Board and respective bond trust indentures and, therefore, are not available for any other purpose as of August 31, 2010.

- Board/Department restrictions represent funds designated for a specific purpose by either Board action or management decision.

- Amounts reserved for special redemptions subsequent to August 31, 2010, represent amounts calculated for the redemption of bonds (debt service) according to provisions stipulated in each bond series' respective supplemental indenture.

A summary of the restrictions within the Housing Assistance Programs is as follows:

	Single-Family Program
Mortgage/housing development:	
Down Payment Assistance Program (designated for P70)	$ 1,352
2002 A-C Special Mortgage Loan Fund (designated for future Buydown/0% loans)	
2004 CDE Special Mortgage Loan Fund (designated for future Buydown/0% loans)	
2006 ABC Special Mortgage Fund Fund (designated for future Buydown/0% loans)	21
2006 FGH Special Mortgage Fund Fund (designated for future Buydown/0% loans)	29
2007 A Special Mortgage Fund Fund (designated for future Buydown/0% loans)	297
2007 B Down Payment Assistance Fund	204
	$ 1,903

	RMRB Program
1998 A/B RMRB Special Mortgage Loan Fund (designated for P74)	$ 636
2009A/B Down Payment Assistance Fund	1,210
1999 BCD Residual Revenue Fund (designated for P77)	1,983
2000A Residual Revenue Fund (designated for P77)	1,965
2000 BCD Residual Revenue Fund (desginated for P77)	238
2001 ABC Residual Revenue Fund (designated for P77)	738
	$ 6,770

(Amounts in thousands)

As of August 31, 2010, the following additional restrictions existed:

	Operating Fund
Supplemental Bond Contingency Reserve:	$ 1,444
	1,444
Single Family & Multifamily Asset Preservation & Workout:	
Arkansas Development Finance Authority/Below Market Interest Rate Program	226
Multi-Family Housing Preservation	428
Below Market Interest Rate Program/Asset Management	502
Single Family & Multi-Family Asset Workout	345
	1,501
Bond/MCC Program:	
Bond Programs/COI	737
2003 Mortgage Credit Certificate Program (Designated for Mortgage Advantage Program)	22
Bond Programs/Marketing	199
2008 Mortgage Credit Certificate Program	
2009 Mortgage Credit Certificate Program	1
2010 Mortgage Credit Certificate Program	156
Warehousing Agreement - Escrow Fund	5,000
Bond Programs/Maintenance	714
M/F bond issuance fees reserved for HTF and/or other program use	1,496
	8,325
	$ 11,270

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.

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.

* * * * * *

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December 20, 2010

To the Audit Committee of the Governing Board of
Texas Department of Housing and Community Affairs
P.O. Box 13941
Austin, TX 78711-3941

Dear Members of the Audit Committee of the Governing Board:

We have performed an audit of the financial statements of the Texas Department of Housing and Community Affairs (the "Department") as of and for the year ended August 31, 2010, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated December 20, 2010.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Department is responsible.

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated March 12, 2010. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Department's financial statements for the year ended August 31, 2010, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee of the Governing Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit Committee of the Governing Board of their responsibilities.

We considered the Department's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Department's 2010 financial statements include allowance for doubtful accounts, accumulated depreciation, and fair market value of investments.

During the year ended August 31, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements except for the $2.9 million net understatement of governmental fund loan expenditure and government-wide loan expense. These net uncorrected misstatements were aggregated by us during the current engagement and pertain to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Material Corrected Misstatements

The following material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period:

The fiscal year 2010 net activity of certain long term loan programs was improperly reported in deferred revenue as part of the year-end financial close and reporting process. This was not consistent with the Department's selected accounting policy related to long term loan programs. The Department recorded adjustments to correct the error. As a result of the recording of the adjustments, the following accounts were impacted in the governmental fund and the governmental activities financial statements: increase of $37 million in loans and contracts receivable, decrease of $69 million in deferred revenues, and an increase in revenues and change in fund balance/net assets of $106 million.

Significant Accounting Policies

The Department's significant accounting policies are set forth in Note 1 to the Department's 2010 financial statements. During the year ended August 31, 2010, there were no significant changes in previously adopted accounting policies or their application except for the implementation of Government Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Instrument* ("GASB 53"). GASB 53 requires that derivatives be measured and reported at fair value in the financial statements of the Department.

Disagreements With Management

We have not had any disagreements with management related to matters that are material to the Department's 2010 financial statements.

Consultation With Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2010.

Significant Issues Discussed, or Subject of Correspondence, With Management Prior to Our Retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Other Significant Issues Discussed, or Subject of Correspondence, With Management

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Audit Committee of the Governing Board.

Significant Difficulties Encountered In Performing the Audit

In our judgment, we received the full cooperation of the Department's management and staff and had unrestricted access to the Department's senior management in the performance of our audit.

Management's Representations

We have made specific inquiries of the Department's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Department is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, those representations we will request from management.

Control-Related Matters

We have identified, and included in Appendix B, a certain matter involving the Department's internal control over financial reporting that we consider to be a material weakness under standards established by the American Institute of Certified Public Accountants.

The definitions of a deficiency and a material weakness are also set forth in Appendix B.

Although we have included the views of responsible Department officials and the planned corrective action plan to our comment in Appendix B, such response has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

* * * * * *

This report is intended solely for the information and use of management, the Audit Committee of the Governing Board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

cc: The Management of the Texas Department of Housing and Community Affairs

December 20, 2010

Deloitte & Touche LLP
400 West 15th Street, Suite 1700
Austin, Texas 78701

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Department of Housing and Community Affairs (the "Department"), as of and for the year ended August 31, 2010, which collectively comprise the Department's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Department in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, in conformity with accounting principles generally accepted in the United States of America

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and the other supplementary information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards

d. Establishing and maintaining effective internal control over financial reporting.

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

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

    b. The financial statements properly classify all funds and activities, including special and extraordinary items.

c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements — and Management's Discussion and Analysis —for State and Local Governments*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

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

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

g. Interfund, internal, and intra-Department activity and balances have been appropriately classified and reported.

h. Deposits and investment securities are properly classified in the category of custodial credit risk.

i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

j. Required supplementary information is measured and presented within prescribed guidelines.

k. Applicable laws and regulations are followed in adopting, approving and amending budgets.

l. Costs to federal and state awards have been charged in accordance with applicable cost principles.

2. The Department has made available to you all:

   a. Summaries of actions of the Governing Board.

   b. Financial records and related data for all financial transactions of the Department and for all funds administered by the Department. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Department and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal and state agencies.

3. There has been no:

   a. Action taken by Department management that contravenes the provisions of federal laws and Texas laws and regulations, or of contracts and grants applicable to the Department

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. The Department has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud affecting the Department involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

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

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Department received in communications from employees, former employees, analysts, regulators, short sellers, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

8. The Schedule of Expenditures of Federal Awards was prepared for inclusion in the state-wide Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal and state agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.

9. We are responsible for compliance with local, state, and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Department's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Department is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.

11. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

12. We have:

    a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2010.

b. Complied, in all material respects, with the requirements identified above in connection with federal awards

c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations

d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through Department, as applicable

e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133

f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements

g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records

h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit

i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through Entities

j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

13. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.

14. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

15. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

16. No organizations were identified that meet the criteria established in GASB Statement No. 39.

17. We are responsible for the fair presentation of the supplementary bond schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.

18. Tax-exempt bonds issued have retained their tax-exempt status.

19. We agree with the findings of the specialist in evaluating arbitrage rebate liability and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matter that have affected the independence or objectivity of the specialist.

20. We agree with the findings of the specialist in evaluating the effectiveness of the hedging derivative instruments and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matter that have affected the independence or objectivity of the specialist.

21. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

Except where otherwise stated below, matters less than $100,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

22. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements except for the $2.9 million net understatement related to cutoff of governmental fund loan expenditures.

23. The Department has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

24. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)

    b. Guarantees, whether written or oral, under which the Department is contingently liable.

25. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

b. The effect of the change would be material to the financial statements.

26. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

a. The concentration exists at the date of the financial statements

b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact

c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

27. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

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

29. The Department has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

30. No department or agency of the Department has reported a material instance of noncompliance to us.

31. The Department has identified all intangible assets as defined by GASB Statement No. 51, *Accounting for Intangible Assets*, and has appropriately recorded and disclosed such intangibles in accordance with GASB Statement No. 51.

32. The Department has identified all derivative instruments as defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and has appropriately recorded and disclosed such derivatives in accordance with GASB Statement No. 53.

33. We have identified the significant assumptions and factors influencing the measurement of fair value as follows:

a) Fair value measurements are based on market conditions as of August 31, 2010.

b) Fair values have been obtained directly from the counterparties to the transactions (except for UBS) and separately verified and calculated by an independent third party utilizing market data provided by Bloomberg LP.

c) Valuations are based on mid-market levels and may not reflect the amount that a counterparty would have required in the event of an early termination of the swap transaction on that date.

d) The two swap agreements with JPMorgan do not have pre-defined notional amortization schedules. The valuation of those swap agreements is based on an assumed notional amortization derived using prepayment speeds of mortgage pools with similar characteristics..

34. No events have occurred after August 31, 2010 but before December 20, 2010, the date the financial statements were issued that require consideration as adjustments to or disclosures in the financial statements.

35. Management has disclosed whether, subsequent to August 31, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

36. We have disclosed to you any change in the Department's internal control over financial reporting that occurred during the Department's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Department's internal control over reporting.

37. Management has disclosed all contracts or other agreements with the Department's service organizations.

38. Management has disclosed all communications from the Department's third-party service organizations relating to noncompliance with the Department's operations at that service organization.

39. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments and derivative hedging instruments, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America

    c. No events have occurred subsequent to August 31, 2010 but before December 20, 2010, the date the financial statements were issued that require adjustment to the fair value measurements and disclosures included in the financial statements.

40. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

41. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

42. We believe that all expenditures that have been deferred to future periods are recoverable.

43. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

44. The Department has determined that no capital assets have been impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In making this determination, the Department considered the following factors:

a. The magnitude of the declining in service utility is significant

b. The decline in service utility is unexpected.

45. All impaired loans receivables have been properly recorded and disclosed in the financial statements.

46. We believe that we are in compliance with the covenants of Department's indentures.

47. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Department and do not include any items consigned to it or any items billed to customers.

Michael Gerber, Executive Director

Bill Dally, Deputy Director for Administration

David Cervantes, Director of Financial Administration

Ernie Palacios, Manager of Budget, Payroll & Travel

Joe Guevara, Assistant Manager of Financial Services

Esther Ku, Manager of Accounting Operations

December 20, 2010

Deloitte & Touche LLP
400 West 15th Street, Suite 1700
Austin, Texas 78701

We are providing this letter in connection with your audit of the financial statements of the Revenue Bond Program Enterprise Fund (the "Bond Program") of the Texas Department of Housing and Community Affairs (the "Department"), as of and for the year ended August 31, 2010, which comprise the Department's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Bond Program in conformity with accounting principles generally accepted in the United States of America and whether Schedules 3-8 are presented in accordance with the guidelines issued by the Texas Comptroller of Public Accounts. We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements in conformity with accounting principles generally accepted in the United States of America

b. The fair presentation of supplementary schedules 3-7 in conformity with guidelines issued by the Texas Comptroller of Public Accounts

c. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and supplementary bond schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements

d. The design and implementation of programs and controls to prevent and detect fraud

e. Establishing and maintaining effective internal control over financial reporting.

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

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. The financial statements properly classify all funds and activities, including special and extraordinary items.

    b. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

c. Interfund, internal, and intra-Department activity and balances have been appropriately classified and reported.

d. Deposits and investment securities are properly classified in the category of custodial credit risk.

e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

f. Required supplementary information is measured and presented within prescribed guidelines.

g. Applicable laws and regulations are followed in adopting, approving and amending budgets.

h. Costs to federal awards have been charged in accordance with applicable cost principles.

2. The Department has made available to you all:

   a. Summaries of actions of the Governing Board.

   b. Financial records and related data for all financial transactions of the Department and for all funds administered by the Department. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Department and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal and state agencies.

3. There has been no:

   a. Action taken by Department management that contravenes the provisions of federal laws and Texas laws and regulations, or of contracts and grants applicable to the Department

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. The Department has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud affecting the Department involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

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

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Department received in communications from employees, former employees, analysts, regulators, short sellers, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, Contingencies (formerly FASB Statement No. 5, Accounting for Contingencies).

8. We are responsible for compliance with local, state, and federal laws, rules and regulations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Department is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

9. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

10. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

11. No organizations were identified that meet the criteria established in GASB Statement No. 39.

12. Tax-exempt bonds issued have retained their tax-exempt status.

13. We agree with the findings of the specialist in evaluating arbitrage rebate liability and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matter that have affected the independence or objectivity of the specialist.

14. We agree with the findings of the specialist in evaluating the effectiveness of the hedging derivative instruments and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matter that have affected the independence or objectivity of the specialist.

15. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

Except where otherwise stated below, matters less than $100,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

16. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

17. The Department has no plans or intentions that may affect the carrying value or classification of

assets and liabilities.

18. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)

    b. Guarantees, whether written or oral, under which the Department is contingently liable.

19. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

20. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

21. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

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

23. The Department has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

24. No department or agency of the Department has reported a material instance of noncompliance to us.

25. The Department has identified all derivative instruments as defined by GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, and appropriately recorded and disclosed such derivatives in accordance with GASB Statement No. 53.

26. The Department has identified all intangible assets as defined by GASB Statement No. 51, Intangibles Assets, and appropriately recorded and disclosed such intangibles in accordance with GASB Statement No. 51.

27. We have identified the significant assumptions and factors influencing the measurement of fair value as follows:

    a) Fair value measurements are based on market conditions as of 8/31/2010.

    b) Fair values have been obtained directly from the counterparties to the transactions (except for UBS) and separately verified and calculated by an independent third party utilizing market data provided by Bloomberg LP.

    c) Valuations are based on mid-market levels and may not reflect the amount that a counterparty would have required in the event of an early termination of the swap transaction on that date.

    d) The two swap agreements with JPMorgan do not have pre-defined notional amortization schedules. The valuation of those swap agreements is based on an assumed notional amortization derived using prepayment speeds of mortgage pools with similar characteristics.

28. The significant assumptions used in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the financial statements. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with the Department's plans and past experience.

29. No events have occurred after August 31, 2010 but before December 20, 2010, the date the financial statements were issued that require consideration as adjustments to or disclosures in the financial statements.

30. Management has disclosed whether, subsequent to August 31, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

31. We have disclosed to you any change in the Department's internal control over financial reporting that occurred during the Department's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Department's internal control over reporting.

32. Management has disclosed all contracts or other agreements with the Department's service organizations.

33. Management has disclosed all communications from the Department's third-party service organizations relating to noncompliance with the Department's operations at that service organization.

34. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments and derivative hedging instruments, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America

c. No events have occurred subsequent to August 31, 2010 but before December 20, 2010, the date the financial statements were issued that require adjustment to the fair value measurements and disclosures included in the financial statements.

35. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

36. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

37. We believe that all expenditures that have been deferred to future periods are recoverable.

38. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

39. The Department has determined that no capital asset have been impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In making this determination, the Department considered the following factors:

    a. The magnitude of the declining in service utility is significant

    b. The decline in service utility is unexpected.

40. All impaired loans receivables have been properly recorded and disclosed in the financial statements.

41. We believe that we are in compliance with the covenants of Bond Program's indentures.

42. As described in footnote 5, for loans collateralizing four series of bonds, the Department has entered into Mortgage Pool Self-Insurance Fund Agreements ("Agreements") with the trustee. The funding requirements of these Agreements have been met as of August 31, 2010.

Michael Gerber, Executive Director

Bill Dally, Deputy Director for Administration

David Cervantes, Director of Financial Administration

Ernie Palacios, Manager of Budget, Payroll & Travel

Joe Guevara, Assistant Manager of Financial Services

Tim Nelson, Director of Bond Finance

December 20, 2010

Deloitte & Touche LLP
400 West 15th Street, Suite 1700
Austin, Texas 78701

We are providing this letter in connection with your audit of the Computation of Unencumbered Fund Balances (the "Computation") of the Texas Department of Housing and Community Affairs ("TDHCA"), as of August 31, 2010, for the purpose of expressing an opinion as to whether the amount of unencumbered fund balances is greater than the amount required for the reserve fund, in accordance with Texas Senate Bill 322, Chapter 2306, Texas Government Code, Sections 2306.204 and 2306.205 ("the Bill").

1. We are responsible for the accuracy and fair presentation in accordance with requirements included in the Bill of the Computation provided to you. We are not aware of any additional requirements which should be considered in preparing the computation of unencumbered fund balances included in the Computation.

2. We have made available to you all the financial records, minutes of the meetings of the Governing Board of TDHCA and related data with respect to the computation.

3. We believe the amounts included in the computation are in compliance with the Bill.

4. There have been no violations of laws, regulations or bond covenants, the effect of which should be considered for full disclosure in the Computation or in your report thereon.

5. We have complied with all aspects of contractual agreements that would have a material effect on the Computation.

6. All significant events requiring disclosure, which have occurred after August 31, 2010, have been fully disclosed in the accompanying notes to the Computation.

7. The distribution of your report will be limited to use by the management and the Governing Board of TDHCA, who have agreed to the basis and criteria described in the notes to the Computation and will not be used or distributed for any other purpose without your approval.

Michael Gerber, Executive Director

Bill Dally, Deputy Director of Administration

David Cervantes, Director of Financial Administration

Joe Guevara, Assistant Manager of Financial Services

Tim Nelson, Director of Bond Finance

SECTION I — MATERIAL WEAKNESS

We consider the following deficiency in the Department's internal control over financial reporting to be a material weakness as of August 31, 2010:

FINDING 2010-01 *ACCOUNTING FOR LONG TERM LOAN PROGRAMS*

CRITERIA OR SPECIFIC REQUIREMENT

The Department should consistently apply the significant accounting policies it has selected and disclosed to readers of its financial statements.

CONDITION AND CONTEXT

In the prior fiscal year, the Department changed its accounting for federal long term loans and related revenue recognition to a more preferable accounting treatment. This change resulted in certain reclassifications in the 2009 financial statements of deferred revenue balances and beginning fund balance/net assets that were shown as a cumulative effect of a change in accounting principle in the Statement of Activities, the Statement of Revenues, Expenditures and Changes in Fund Balance, and the Statement of Revenues, Expenses and Changes in Net Assets. The deferred revenue balances were related to HOME / CDBG revolving loans and Housing Trust Fund mortgage loans. With this change in accounting, the net activity of these loan programs should be reported as a component of the change in net assets and not deferred to a subsequent period.

The fiscal year 2010 net activity of HOME / CDBG and TCAP (a new program in fiscal year 2010) revolving loans were improperly reported in deferred revenue as part of the year-end financial close and reporting process. As noted above, this is not consistent with the Department's selected accounting policy.

CAUSE

Accounting Operations did not properly account for the activity of revolving loan programs at year end based on its adopted accounting policies. The error was not identified timely during the Financial Administration review of the fiscal year end financial closing and reporting entries.

EFFECT

The Department corrected the error prior to the issuance of the financial statements, and the resulting adjustment had a material impact on the fiscal year 2010 financial statements.

RECOMMENDATION

The Department should implement appropriate review processes for timely review of year end financial closing entries to ensure consistent application of significant accounting policies. The Department should further incorporate reconciliations between Loan Servicing and Accounting Operations to ensure accuracy of the reported balances of the related loan programs. The Department should coordinate with other program specific Program Services departments (e.g. HOME / CDBG) that might also provide specific loan program activity data that would aid in the recording of proper period end closing entries and financial statement reporting.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

In State Fiscal Year (SFY) 2009, the Department at the recommendation of the State Comptroller adopted a different policy for the recording of federal long term revolving loans and related revenue recognition. The policy is intended to record revenue upon receipt from the federal government and to record the associated loans as assets of the Department. However, in a Governmental Fund disbursements are originally recorded as expenditures. This step then requires that expenditures be identified as either "grants" or "loans" and that the loan portion then be reclassified to Loans Receivable. In 2010, the Financial Administration (FA) Division established year-end procedures to accomplish this objective. During the course of following those procedures steps were performed to ensure identification (loans vs. grants) and reclassification. However, during the final phases of the procedure the Department inadvertently reverted to 2008 policy by classifying Loans on the Balance Sheet but recording current year loan activity as Deferred Revenue instead of Fund Balance/Net Assets. It was during auditor field work and prior to the issuance of unaudited financial statements that the auditor observed an inconsistency in policy. While both methods are acceptable in accordance with Generally Accepted Accounting Principles (GAAP), Management agreed with the observation and posted the adjustment. Financial Administration continued with its year procedures and published its unaudited financial statements on November 20, 2010.

In order to prevent a reoccurrence of this matter the FA Division will enhance its policies and procedures. Future procedures will include a separate accounting, code structure tailored to identify disbursements as either "loans" or "grants" during the normal course of business. This enhancement will allow the Department to clearly identify current year loans throughout the year. Procedures will also be enhanced to ensure that periodic reconciliations are performed between servicing and accounting records. This reconciliation will ensure accuracy and identify outstanding items. FA will also reach out to Program Services areas (HOME, CDBG, TCAP) to ensure that draws can be clearly earmarked as loans or grants. This process will provide management with a tool to identify loan activity in the pipeline so as to ensure timely recording of loan documentation and prompt servicing to customers. The procedures will also include an accounting of non-cash items such as deferred forgivable, principal reductions that could affect the balance and accuracy of loans on the books. A final year-end check will be established to review Deferred Revenues and Fund Balance/Net Assets accounts to ensure that potential inconsistencies are timely detected and addressed. FA has already begun its evaluation and adoption of these measures. A full implementation will occur in SFY 2011.

SECTION II — DEFINITIONS

The definitions of a deficiency and a material weakness that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or

(b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

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Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Presentation and discussion of the status of internal audit's FY 2011 work plan. No action needed.

Background

Internal audit completed the following work since the last audit committee meeting:

- An audit of IT Governance
- The Quality Assurance Program self-assessment
- Review of the internal audit charter and board resolutions for compliance with auditing standards

Status of other work:

- We anticipate the release of the audit of the Neighborhood Stabilization Program in mid-February.
- The start of the Weatherization Program audit was delayed from December to January to allow staff to complete work on the NSP audit. The Weatherization Program audit and the audit of the Tax Credit Assistance Program are both underway.
- The timeline for the Hurricane Ike audit and the Tax Credit Exchange Program audit need to be switched in order to accommodate the time demand of the Multifamily Division staff.
- The TeamMate software reconfiguration has been delayed, possibly until March. The new version is in testing now.

Department of Housing and Community Affairs
Internal Audit Division – Fiscal Year 2011
Status of Internal Audit Plan (as of January 2011)

Program Area/Division	Audit	Status	Comments
NSP	Neighborhood Stabilization Program	Reporting	Report Release Planned for Mid-February
Information Systems	An Audit of Information Technology Governance	Completed	Report Released in November 2010
Community Affairs	Weatherization Program	January 2011	Delayed from December 2010, In Planning Phase
Disaster Recovery	Hurricane Ike	April 2011	Moved from July to April
Multi-Family	Tax Credit Exchange Program	July 2011	Moved from April to July
HOME	Tax Credit Assistance Program	January 2011	In Planning Phase
Program Area/Division	**Management Assistance/ Special Projects**		**Comments**
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2011 Audit Plan	Completed	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Review and Revise Internal Audit Charter	Completed	Required by Audit Standards
Internal Audit	Quality Assurance Self-Assessment Review	Completed	Required by Audit Standards
Internal Audit	Review and Revise Internal Audit Policies and Procedures to Comply with New Auditing Standards	August 2011	The GAO Will Be Releasing A Revised Version of the Government Auditing Standards
Internal Audit	Configure Teammate Audit Software	March 2011	Changes to Teammate will Provide IA with increased Functionality and Efficiency
Internal Audit	Preparation and Submission of the Fiscal Year 2010 Annual Internal Audit Report	Completed	Required by the Texas Internal Auditing Act
Internal Audit	Coordinate with External Auditors	Ongoing	Ongoing Requirement
Internal Audit	Monitor ARRA Issues	Ongoing	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	Ongoing	Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	Ongoing	Required by Audit Standards
All Divisions	Tracking, Follow-up and Disposal of Fraud Hotline Calls	Ongoing	Internal Audit is Responsible for the Fraud Hotline

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Presentation and discussion of recent internal audit reports. No action needed.

Background

An Internal Audit of Information Technology 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. 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.

Report on the Internal Audit Division's Quality Assurance and Improvement Program –
The internal audit division is required by statute to comply with the standards set by the Institute of Internal Auditors. These standards require internal audit departments to perform a self-assessment on their audit working papers and to report to their governing board at least once a year on the status of their quality assurance program. The self-assessment process requires us to perform a detailed review of our charter, our audit working papers for the past year, and our policies and procedures. As a result of the self-assessment review, we believe that we are in full compliance with the definition of internal auditing, the required auditing standards and the code of ethics. This belief is further supported by the results of our most recent peer review.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

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

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

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

November 16, 2010

To: The Governing Board and Audit Committee Members of the Texas Department of Housing and Community Affairs

Re: Report on the Internal Audit Division's Quality Assurance and Improvement Program

The Institute of Internal Auditors' *International Professional Practices Framework* (Standards) requires that the director of internal audit develop and maintain a quality assurance and improvement program that includes both internal and external assessments of the Internal Audit Division. The objective of the internal and external assessments is to evaluate the internal audit activity's conformance with the definition of internal auditing, the Standards and the code of ethics.

Internal assessments must include ongoing monitoring of the performance of the internal audit activity as well as periodic reviews performed through self-assessment. The Standards require that the results of these periodic assessments are communicated to the governing board at least annually.

The Internal Audit Division at the Texas Department of Housing and Community Affairs (Department) maintains an ongoing quality assurance program and performs ongoing monitoring as required. In addition, the Internal Audit Division recently completed a self-assessment. The scope of this self-assessment included the audit projects with reports released in fiscal year 2010. The methodology consisted of performing a comprehensive review of the audit working papers for the projects released in fiscal year 2010, and included discussions with internal audit staff. The self-assessment was conducted by a senior project manager and a staff auditor; both are new to the Department and the Internal Audit Division and consequently had limited or no participation in the audits under review.

Based on the review of the audit working papers and the discussions with internal audit staff during this self-assessment, the Internal Audit Division fully complies with the definition of internal auditing, the Standards, and the code of ethics. This opinion, which is the highest possible rating, means that policies, procedures, and practices are in place to implement the Standards and that the requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function were met.

In addition, we noted that the two opportunities for self-improvement identified in the prior self-assessment dated May 22, 2009 have been fully implemented.

To satisfy the Standards, the quality assurance and improvement program must also include external assessments. The Texas Internal Auditing Act requires that an external peer review be performed once every three years. The last external peer review of the Internal Audit Division was completed in December 2009. The overall opinion of the external peer reviewers was that the Internal Audit Division "fully complies" with the Standards and the Texas Internal Auditing Act. This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

The external peer reviewers found that "...the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely."

If you have any questions regarding our quality assurance process or the recently completed self-assessment, please let me know.

Sincerely,

Sandra Q. Donoho

Sandra Q. Donoho, MPA, CISA, CIA, CFE, CICA
Director of Internal Audit

cc: Michael Gerber, Executive Director
Tim Irvine, Chief of Staff

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Presentation and discussion of the status of external audits. No action needed.

Background

There are nine audits external audits, reviews or monitoring visits for fiscal year 2011 that are either planned, underway or were recently completed.

In addition to the nine external audits, reviews or monitoring visits for fiscal year 2011, the Department has still not received reports for the following external audits from fiscal year 2010:

- HHS Review of the Low Income Home Energy Assistance Program (LIHEAP)
- HUD Review of Davis-Bacon compliance –the draft report was received in August and responses were submitted back to HUD on November 1st. HUD has not yet issued a final report.
- HUD Review of the CDBG Disaster Recovery Program – this was a July 2009 monitoring visit, the draft report was received in March 2010 and responses were submitted back to HUD in June. HUD has not yet issued a final report.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS
January 19, 2011

External Audits/Activities	Scope/Description	Stage	Comments
KPMG	The scope of the financial portion of the Statewide Single Audit includes an audit of the state's basic financial statements for fiscal year 2010 and a review of significant controls over financial reporting and compliance with applicable requirements.	Fieldwork	Report due in March 2011.
Deloitte and Touche	Annual opinion audits: • Basic Financial Statements for the FYE August 31, 2010. • Revenue Bond Program Audit for the FYE August 31, 2010. • FY 2010 Unencumbered Fund Balances.	Completed	Report released in December 2010.
HUD	A review of the disaster recovery program's fundability documentation, subrecipient management and policy controls for fraud, waste and mismanagement.	Reporting	HUD conducted this monitoring visit the week of October18, 2010.
HUD-OIG	To determine whether the Department monitored the program management firm (ACS) to ensure compliance with federal and state requirements and if ACS has properly supported costs submitted for reimbursement.	Reporting	HUD-OIG has issued a draft report and the Department's responses are due January 20, 2011.
Treasury	An on-site compliance review of the Section 1602 program (Housing Tax Credit Exchange Program).	Reporting	The Treasury conducted this monitoring visit September 8-9, 2010.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released in November 2010.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	DOE conducted this quarterly monitoring visit the week of November 15, 2010.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS
January 19, 2011

External Audits/Activities	Scope/Description	Stage	Comments
HUD	HUD provided technical assistance and reviewed files for rent reasonableness in the Section 8 program's SAFMR demonstration project.	Completed	No report is anticipated.
HUD	A review of the disaster recovery program's fundability documentation, subrecipient management and policy controls for fraud, waste and mismanagement.	Reporting	HUD conducted this monitoring visit the week of January 10-14th, 2011.

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Presentation and discussion of recent external audit reports. No action needed.

Background

Department of Energy On-Site Monitoring Report of the Weatherization Assistance Program (WAP)

DOE performed an on-site monitoring visit in November 2010. The monitoring visit included a review of the administrative, financial and programmatic aspects of the program as well as a visit to two sub-grantee agencies. DOE identified 2 findings in the report and 5 concerns.

There were no findings related to the Administrative review but there were three concerns noted:

- TDHCA must stop the significant number of agencies which are failing in the state. TDHCA staff needs to more closely follow the established process in their state plan or to develop a methodology for identifying agencies who are in trouble or potentially "at risk" of failing.
- DOE questioned how TDHCA will continue to provide weatherization services throughout the state for both the ARRA grant and the formula DOE grant if sub-grantee agencies continue to fail and there are no acceptable bidders to provide services. DOE requested that TDHCA submit a plan by the end of the 2010 program year for serving areas for in which funds have been de-obligated.
- DOE also questioned how TDHCA will achieve the projected production numbers and fully spend the DOE grant for 2010-2011 given the number of failing agencies.

DOE visited 13 properties during the on-site monitoring. They noted the following:

- There was no evidence in the files of a mold assessment being conducted or client notification for mold or other hazardous conditions.

- The NEAT audit was run improperly. (A prior concern that was elevated to a finding.)

- An HVAC unit was replaced with a 2 ton unit but the program was charged for a 2.5 ton unit. (A finding for inappropriate billing to the program.)

There were no findings or concerns related to the limited financial review.

HUD-OIG ACS Contract Issue Follow-Up

TDHCA recently responded to HUD regarding the ACS contract findings in the HUD-OIG's July 20, 2010 audit report.

- $210,000 was recaptured from ACS, and
- the contract between ACS and TDHCA was amended to increase clarity and address the rest of HUD-OIG's recommendations.

Department of Energy
Golden Field Office
1617 Cole Boulevard
Golden, Colorado 80401-3393

December 14, 2010

Mr. Michael Gerber
Executive Director,
Texas Department of Housing and Community Affairs
221 East 11th Street
P.O. Box 13941
Austin, Texas 78711-3941

Subject: DOE On-site Monitoring Report of Texas Weatherization Assistance Program

Dear Mr. Gerber,

On November 15th through November 19th, 2010, Paul Jiacoletti, and Jason Masters, Project Officers with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the State of Texas Weatherization Assistance Program. Attached is a report on the results of the visit.

The monitoring assessment included a review of administrative, financial and programmatic aspects of the Texas WAP, as well as a visit to two sub grantee agencies. Please find enclosed the DOE Monitoring Report, which summarizes findings, observations and recommendations and required follow-up actions as a result of the monitoring visit. Please submit a response within the next 15 days indicating what follow-up actions will be taken as a result of this vist and report. Please note that there are 2 findings cited during the visit.

Please contact Mr. Jiacoletti or Mr. Masters if you have any questions or concerns about this report. We may be reached at paul.jiacoletti@go.doe.gov (720-356-1632) and Jason.masters@go.doe.gov (720-356-1570) respectively.

We look forward to continued interaction with you and your staff in the effective implementation and operation of the Weatherization Assistance Program.

Thank you for the cooperation and assistance your staff provided during the visit.

Sincerely,

Robert L. DeSoto
Branch Chief

cc: Michael DeYoung, TDHCA
Kellyn Cassell, NETL
Georgeann St. Clair, NETL
Paul Jiacoletti, DOE
Holly Ravesloot, DOE

U.S. Department of Energy 2009 American Reinvestment and Recovery Act (ARRA)

Office of Energy Efficiency and Renewable Energy
Weatherization and Intergovernmental Program

To: Michael Gerber, Executive Director
Texas Department of Housing and Community Affairs

From: Paul Jiacoletti, Jason Masters
Weatherization, Golden Field Office
1617 Cole Boulevard
Golden, Colorado 80401

On-site Monitoring Report for State of Texas
Grant Award DE-EE0000094
Dates of Visit: November 15th through 19th, 2010

November 23, 2010

1 Participants

Participants from the Texas Department of Housing and Community Affairs (TDHCA), Austin, Texas

Brooke Boston – Deputy Director - TDHCA
David Cervantes, Director of Financial Administration
Esther Ku, Manager of Accounting
J.R. Mendoza, Senior Program Officer
Michael DeYoung, Director of Community Affairs
Sandy Donoho, Director of Internal Audit
Stephen Jung – Project Manager of Monitoring
Ann Miller, ARRA WAP Quality Analyst
David Johnson, Information Specialist/Recovery Act
Sharon Gamble, Manager of Energy Assistance
Marco Cruz, Project Manager of Training.

Participants from the Department of Energy, Golden, Colorado

Paul Jiacoletti, Project Officer – Golden Field Office
Jason Masters, Project Officer – Golden Field Office

2 Executive Summary

This visit is the fourth monitoring visit to the State of Texas to monitor the awards made under the DOE Weatherization Assistance Program. (WAP) which includes the "regular" annual WAP award, and the award under the American Recovery and Rehabilitation Act. The visit took place at the offices of the Texas Department of Housing and Community Affairs in Austin, Texas. There are several items which were discussed during the trip, some of which had been discussed during previous monitoring visits and required further investigation.

- The first item discussed was the submittal of audit packages for approval of those audits in Texas. The audits discussed specifically were NEAT for single family homes and small multi-family and TREAT for larger multi-family housing stock. Mr. Cruz stated that the TREAT audit was to be used by seven agencies in Texas for quality control purposes. The grantee believes this will provide a method for checking the efficacy of the engineering assessment and the quality of the weatherization effort. **DOE has previously requested and requests again, a schedule for submittal of these audits for review and approval.**
- The second discussion item was a further review of "at risk" agencies in Texas. These were reviewed during the previous monitoring visit and were re-visited in view of the investigations of the Webb County agency and the Hill Country agency. These are also driven by the results of the Meliora reports submitted to DOE for our review and the production/expense results on the ARRA spreadsheets. Meliora is an accounting firm from Iowa which Texas contracts with to perform program audits for its' sub-grantee network.
- The Project Officers requested a schedule for regular DOE production. Texas was told this is not a reporting requirement and should be done voluntarily by the Grantee. Texas has agreed to submit a schedule for production and expenditures for their Formula DOE grant. (#EE-000190)
- Texas was reminded that they need to submit a state plan modification proposal for their ARRA grant (#EE-000094) to DOE. The modification should outline the changes in sub-grantee agencies, funding and production for each agency and how they intend to address service requirements in the areas of Texas which have been vacated by agency de-obligations. This is the result of changes to the network providers driven by the de-funding of two agencies. (Institute of Rural Development in Kingsville, Texas and Community Action Program Inc. in Abilene, Texas) and the possibility of further de-obligation of agencies in the

state. The state plan needs to accurately reflect the provider network in the PAGE (Performance and Accountability for Grants in Energy) reporting system to ensure the transparency required by the Recovery Act legislation. **DOE is requesting submittal of a plan modification no later than December 31st of 2010.**

- The Project Officers participated in a conference call with TDHCA staff and Bob Adams at DOE Headquarters regarding the de-funding of agencies along the U.S. – Mexico border for violations of program regulations. TDHCA wanted direction on the potential for moving funding to producing agencies that could provide weatherization services for these areas. These are not adjacent agencies, but are instead agencies which have demonstrated the capability to provide effective weatherization measures to clients in their service areas. Mr. Adams indicated that a modification demonstrating the Grantee's strategy to provide services in those areas be compiled, along with a new budget, new agency providers, new sub-grantee weatherization contract amounts, etc. be submitted to the DOE Project Officers for their review. He stated that ultimate approval is contingent on the recommendation of the Project Officers. He also stressed the necessity to hold a public meeting to solicit input for these changes PRIOR to submittal of the plan to the Department of Energy.
- The Project Officers requested and were provided copies for review of invoice payments for the Grantee (TDHCA) and a sub-grantee (City of Austin – Austin Energy). The Project Officers reviewed this process with Esther Ku to understand the dual controls on the financial system and how payments are disbursed.
- The Project Officers reviewed Davis-Bacon certified payroll information and interviewed a technician (Julie Hartley) who provided responses about the procedures followed to ensure the accuracy of payrolls, the submittal system for payrolls, the correct wage determinations, data entry into the electronic system and notifications to sub-grantees of required corrections based on a review of their payroll information.
- The Project Officers visited two agencies in Austin to review client files, installation of weatherization measures, costs and the use of energy audits by these contractors. The agencies visited were Travis County Health and Human Services and the City of Austin whose program is administered by Austin Energy, a municipal utility.

3 Financial Review

There was not a full financial review performed on this monitoring trip. This segment of the program was reviewed in previous visits and there were no changes. The Project Officers reviewed invoice copies provided at our request for the Texas Department of Housing and Community Affairs and a sub-grantee agency, The City of Austin (Austin Energy). **There are no findings based on our review of these documents.** We reviewed the source documents, invoices and payment process with Esther Ku, the Accounting Manager for TDHCA. She outlined in detail the methods used including the input of data into the PeopleSoft financial tracking system for approval and the USAS (Unified Statewide Accounting System) which allows warrants for payment to be generated. The warrants can then be mailed or direct deposited to provide payment for approved invoices.

A more thorough review of the Grantee's financial management procedures falls under the purview of the Procurement Office of the National Energy Technology Laboratory (NETL). The Contracting Officer is responsible for monitoring DOE Weatherization Grantees for financial compliance against Federal Regulations and Grantees policies and procedures. This report will be shared with appropriate NETL personnel and a follow-up financial review may be conducted by NETL procurement personnel.

The financial review report by NETL dated October 25th of this year indicated there are no financial findings for the Department of Housing and Community Affairs in Texas.

4 Administrative Review – Award File and Personnel Review

A review of personnel who are on staff to administer this grant for the State of Texas confirms no new changes in key personnel. All personnel identified in the state plan are performing the functions stated in that plan. The Project Officers agree that Texas has identified non-performing sub-grantee agencies and is dealing with those issues as they arise. **There are no findings for our Administrative Review; however there are concerns as outlined below.** Our concerns stem from the inability of the Texas Department of Housing and Community Affairs to effectively identify administrative, managerial or programmatic concerns with their sub-grantee network earlier in time to effectively craft solutions to agency problems which may allow those agencies to succeed and remain a functioning part of the weatherization network in Texas. Far too many agencies are failing in Texas and the result is the application of greater pressure on performing agencies to do more with their own programs or assume responsibility for weatherization in adjacent areas due to the de-funding of an adjacent agency. Issues and Concerns

Issue/Concern
Concern #1: TCHCA staff needs to more closely follow the established process in their state plan or needs to craft a methodology for identifying agencies who are in trouble or potentially "at risk" of failing. This should be based on management data obtained by financial expenditures, audits, Meliora reports and monitoring reports. Narrative reports from the Project Monitors should be examined closely for opportunities to identify agencies in trouble and allow time to develop remedial strategies to bring these agencies back into compliance with program goals.
Concern #2: If agencies continue to fail and there are no acceptable bidders as a result of the RFA issued, how will Texas continue to provide weatherization services throughout the state for both the ARRA grant and the formula DOE grant?
Concern #3: Will the State of Texas achieve their identified production numbers and full spend out of the ARRA grant monies? Will Texas achieve their production numbers and full spend out of their formula DOE grant for 2010-2011?

5 Programmatic Review

During this monitoring visit, discussions were held with Grantee staff regarding the performance of the sub-grantee network in terms of production and costing. The intent of the discussion was first to identify those agencies who are underperforming in terms of production and costing and secondly to learn specifically the reasons why agencies are in danger of being de-funded. When the Project Officers fully understand the reasons for failure in these agencies, they can help the Grantee craft solutions to ensure the success of their Weatherization Program in Texas. The State of Texas has identified numerous agencies which have either been defunded for poor management and administrative practices and policies or have been or are being investigated for fraudulent activities. A listing of the agencies which have been defunded and those agencies which are presently being examined for poor performance are in the following table.

Name of Agency	Reason for "at risk" status	Result
Community Action Program Inc. (Abilene)	No program or financial controls (No longer a part of weatherization network in Texas)	Froze funding – RFP issued – Contract given to Rolling Plains Management Corp

Community Services Agency of South Texas (Carrizo Springs)	Poor Production - forecast 173 units to date – 145 are done - 84% completion rate – Poor management – cannot replace agency Director – lost critical staff – new coordinator has no weatherization experience	Agency is presently on cost reimbursement
Community Services Inc. (Corsicana)	Poor production – forecast 666 units to date – 435 are done – 65% completion rate – **finding from DOE in last monitoring report**	DOE needs response from Grantee on finding – intensive training and & technical assistance
Hill Country Community Action Agency (San Saba)	Poor production – forecast 300 units to date – 221 are done – 74% completion rate – under investigation for client eligibility changes and weatherization of fourplex by contractor – conflict of interest	Per TDHCA - investigation indicates client eligibility & multi-family weatherization are "isolated instances" – problem is not pervasive
Concho Valley Community Action Agency (San Angelo)	Poor production – forecast 236 units to date – 172 are done 73% completion rate	Corrective Action Plan for production
Travis County Health and Human Services Dept (Austin)	Poor production – forecast 205 units to date – 84 are done 41% completion rate reported completions are out 90 days due to county system – quality is poor in units	Poor audit training – DOE recommended more T&TA and more frequent monitoring of this program
Tri-County Community Action Agency (Center)	Poor production – forecast 127 units to date **– 9 completions (5%)** – Lack of organization controls	Based on Meliora and monitoring – placed on cost reimbursement
Webb County Community Action Agency (Laredo)	Poor Production – forecast 113 units to date 91 are done – 81% completion rate Under investigation for fraud – TDHCA has called in IG and FBI	Placed on cost reimbursement – awaiting results of investigation - may be de-funded
Institute of Rural Development (Kingsville)	No program or financial controls	Agency de-funded – RFA in place to find new agency – recovering disallowed costs
City of Houston (Houston)	Poor Production – 1113 units forecast to date 616 completions - 55% completion rate quality of weatherization is poor – lost their director – hired new director who is still learning program	Difficult to de-obligate – due to political clout – additionally adjacent provider (Sheltering Arms cannot take on more responsibility)
City of Dallas (Dallas)	Production poor – 600 units forecast to date 318 completions - 53% completion rate Dallas was asked to voluntarily relinquish $6 million – they refused – The funds could have been given to Dallas County Health & Human Services which is producing	TDHCA to monitor sub-grantee – may result in corrective action plan for production and costing

City of Austin (Austin)	Poor production – 290 units forecast to date 127 completions – 44% completion rate quality of weatherization effort is poor – requiring returns to correct measures	TDHCA needs to implement corrective action plan – also needs to provide more NEAT training and training for assessments
City of Brownsville (Brownsville)	They are suspended – They are re-building files to provide required documentation of costs (reviewing $1.7 million in expenditures to reconcile expenses	Presently on suspension until files are re-built and expenses are reconciled

Concern: Texas Department of Housing and Community Services must stop the flood of agencies which are failing in the state. Their state plan lists the steps they will take under 111.6.3 "Monitoring Approach". These steps as identified in their plan must lead to a proactive approach to identify problem agencies which can be provided technical assistance and training to ensure improvement. The Grantee has an obligation to identify agencies which are capable of providing a weatherization program in the state in order to ensure service to all areas of the state. (10 CFR 440.15)

Recommendation: The Department of Energy and the Project Officers strongly encourage the Grantee to utilize the data in the monitoring reports from their Program Officers and any on-site observations to identify problems which can be resolved early before they become so large that agency failure is imminent.

Concern: The lack of adjoining agencies which are capable of assuming additional workload for areas where other agencies have been de-funded is of concern to the Department of Energy. The potential lack of weatherization services available to eligible clients in these counties because there are no credible agencies to provide weatherization services is a critical area which needs to be addressed immediately. It is a fundamental tenet of this program that all areas of the state must be served.

Requirement: TDHCA must submit to the Department of Energy their plan(s) for serving areas where existing agencies have been de-funded and there are no available agencies in adjacent areas capable of assuming the additional workload. These plans should include whether funding will be moved to another agency outside of the contiguous service area, how production and costing will be re-directed and the amounts associated with each. TDHCA needs to demonstrate how they plan to serve eligible clients in those areas. DOE has an interest in seeing how monitoring will be done to effectively ensure that de-funding does not take place with the new agencies and to ensure that the network of providers in the adjacent areas is not adversely impacted by the loss of the de-funded agency. Two agencies have already been de-funded (CAP and IRD) and these changes should be reflected in the state plan which presently resides in the PAGE (Performance and Accountability for Grants in Energy) reporting system. TDHCA is reminded they must have a public hearing for these changes also. **The submittal of this plan is required no later than the end of program year 2010.**

As part of our programmatic review, the Project Officers monitored completed units at two sub-grantee agencies in Austin, Texas. We visited Travis County Health and Human Services which serves an area primarily east of US Highway I-35 on Wednesday, November 17th. We reviewed client files, met the office staff, toured the facility and interviewed Lance Pearson who is in charge of the program for this agency. On Thursday November 18th, we visited the City of Austin, specifically the office of Austin Energy which is a municipal electric utility which has contractual responsibility for the weatherization program on the west side of US Highway I-35. We performed file review, discussed the program with Steve Saenz who is charge of staff involved with the program and the engineering department. Additionally Jason Masters toured the facility prior to the field visits. The Project Officers divided into two groups and performed site visits of housing stock which had been reported as completed by this sub-grantee.

A table of the type of housing units we visited is listed below.

Table 1: Properties Visited During DOE On-Site Monitoring

Job No.	Dwelling Type	City/State	Weatherization Status
87167	Multi-family	Austin, Texas	Final Inspection
87150	Multi-family	Austin, Texas	Final Inspection
COA-0160	Multi-family	Austin, Texas	Final Inspection
COA-0169/1	Multi-family	Austin, Texas	Final Inspection
COA-0070	Multi-family	Austin, Texas	Final Inspection
87166	Multi-family	Austin, Texas	Final Inspection
86647	Multi-family	Austin, Texas	Final Inspection
86206	Single family	Austin, Texas	Final Inspection
87151	Multi-family	Austin, Texas	Final Inspection
59695-24308	Single family	Austin, Texas	Final Inspection
56128-23864	Single family	Austin, Texas	Final Inspection
COA -0234	Single family	Austin, Texas	Final Inspection
13504B-24454	Multi-family	Austin, Texas	Final Inspection

6 Observations and required Corrective Action regarding the site visits

Issue/Concern/Finding	Recommended Corrective Action
1) The Project Officers could find no evidence in the files of a mold assessment being conducted or client notification for mold or other hazardous conditions.	Consider implementing a client notification form which can be signed and documents that this is part of the assessment and the client was notified if hazardous conditions, including mold are present or not. (State plan – Section F in the Master File)
2) The NEAT audit was run improperly. Measures were ranked which would not ordinarily rank with proper, accurate input used in the audit. The replacement of HVAC units ranked because the electric "whip" and a concrete pad were moved to the Health and Safety portion of the audit. Clearly these are not H&S measures.	**This is a finding.** DOE is requesting a response containing their corrective action plan with their timeline for follow-up and correction of this misuse of the audit tool within 15 days of receipt of this report. (10 CFR 440.16(h)) and 10 CFR 440.14(6)(xi)
3) An HVAC unit was replaced at 2014 Berkett Drive #210 in Austin. (Work Order COA 0169/1) The existing unit was thought to be a 1.5 ton unit. It was replaced with a 2 ton unit but the program was charged $3,578.00 for a 2.5 ton unit.	**This is a finding for inappropriate billing to the program.** DOE requires a response from TDHCA containing their corrective action plan with their timeline for follow-up, correction of this action and reimbursement to the program within 15 days of receipt of this report. These costs should be disallowed.

7 Technical Assistance

It is the desire of the Department of Energy and both project officers to establish a connection with the Project Monitors and the Training staff. Our goal is to implement training and technical assistance to address sub-grantee program deficiencies where indicated by monitoring reports and improve the quality of the weatherization effort in the State of Texas. To accomplish this goal, DOE is suggesting the following actions be undertaken as soon as possible:

- Review the monitoring reports from your Program Officers to identify areas of improvement, quantify results and determine the quality of the weatherization effort based on their visits. Trend those results and identify where failures are occurring. Determine if it Is audits, poor installation of measures, lack of client notification, poor file documentation, poor management practices, poor procurement practices, etc. Once you have ascertained what the problems are based on this analysis, develop a schedule to provide classroom training and on-site technical training for administrative and management personnel, assessors, contractors and inspectors. Follow up and check the efficacy of your efforts. See who retained the concepts provided in the training and how they are applying it. This can be done by reviewing the ensuing monitoring reports, an unannounced visit to the agency by TDHCA staff and/or "shadowing" the assessors, installers and inspectors for agencies who are experiencing problems. If the agency management or staff need help, ensure that the Training and Technical Assistance funds are spent helping the agency staff become better stewards of the program. This is consistent with the language in 10 CFR 440.14 (6) (i) and your state plan Section III.6.4. We want you to spend all your grant funds, this is one area where they can be spent and really pay some dividends.

- Review the quality of the curriculum for training that is provided for the energy audit. This should be done in-house in conjunction with your instructors and Program Officers based on what they are seeing and with Oak Ridge National Laboratory (ORNL) to identify where improvements could be made. This is specifically about the NEAT audit; however this can and should be done for all approved audits and the priority list as well. The purpose of audits is to put the assessment in perspective, identify cost-effective measures and rank those measures to provide a "whole house" energy efficiency benefit. The audit captures the assessment information by identifying measures which can be installed to provide energy savings and client comfort without compromising indoor air quality or exacerbating health and safety issues. In order to accomplish this goal, it is necessary to run the audit properly. There has been a great deal of "training" done for individuals in the network. Based on the results we have seen on the audits to date, they are still not being run properly. The obvious evidence of moving certain costs to the Health and Safety area of the NEAT audit to get measures to rank is not only a **finding** for improper use of the audit, but provides no true energy efficiency benefits to the client. Measures which should have been identified during the assessment phase and entered in the audit are missed which compromises the whole house weatherization effect we are striving for. Oak Ridge National Laboratory provides training classes in the use of the NEAT/MHEA audits and DOE can assist in providing training for the TREAT audits. The use of the priority lists should be straight forward. The efficacy of the training provided in-house with APPLE is questionable and needs to be examined. Students need to understand that you do not move data around to "make measures rank" based on some pre-conceived notion. You input the assessment results to have the audit determine which measures are cost effective and rank them in priority order to achieve energy efficiencies, client comfort and a whole house effect. Investigate where problems exist and consider having ORNL provide help and guidance on the use of the audits so that teachers in these classes can ensure the message is accurate, consistent and can be applied in the real world by the students. The audit is a tool which allows the assessor to provide a blueprint for the required measures in a unit which ultimately lead to the goals established by the program. If you circumvent the tool you compromise the quality of the weatherization effort. This results in more costs e.g. the administrative costs of removing reported units which are complete to allow a return to the home to "correct' measures, the labor and materials costs for installing measures which should have been identified, listed and performed in a workmanlike manner in the unit, the costs associated with more Davis-Bacon review and the costs of having TDHCA staff oversee another inspection on a unit which was thought to be completed correctly previously.

- Review with your Program Officers, the training staff and management, the poor weatherization effort at various agencies. Emphasis should be placed specifically on the quality of the assessments and inspections being performed. The assessment effort must reflect a common sense approach to identify what needs to be done in a unit, what will compromise health and safety, identification of any hazards in the home and the documentation of those hazards in the client file with a signed acknowledgement by the client. The assessment "sets the tone" for what is done in the unit, should flow directly into the BWR and constitutes the metrics for the final inspection to determine the efficacy of the weatherization effort. The poor quality of the inspections in most units reflects two problems. The first is that the assessment did not identify all the measures which could have been done and listed on the audit results and the second is a preconceived notion that those measures were the only ones required. The inspectors are assuming the assessment was accurate and identified all required measures; therefore if they aren't listed on the BWR they aren't relevant. The other problem is that the inspectors should not only inspect the quality of the installation (10 CFR 60016(g)) they should also "catch" the failure of the assessor to list and record the measures which need to be done and as such fail the unit so that a return can be done PRIOR to reported completion. It also helps to document the quality of the weatherization effort from assessment through inspection which can be tracked and used as a management tool to provide additional training and technical assistance to ensure the quality of the weatherization effort. It is also an indication of which agencies are in trouble and allows TDHCA to address the failures before they become too severe to correct. Consider development of an assessment checklist for all assessors in your network and have them use them, sign and date them and include them in the client file for review by your Program Officers and DOE. The checklist should include all the relevant items the assessor needs to address. Examples of these are the weatherization measures for air sealing, base load measures, insulation (don't assume – tell us how you checked to confirm that insulation exists) combustion tests performed and their results, replacement of doors and window glass or windows IF THEY RANK according to the Savings-to-Investment Ratio (pictures would be of real benefit here) furnace/air conditioning assessments, including their basis for replacement units, rather than tune-ups or cleaning, client notification of lead-safe practices, hazardous conditions, mold and mildew, what work will be performed in the unit and why, what the expected results are, approximate time frames or a notification from the agency when weatherization crews will arrive to perform the work and completely answering any questions the client has. Then document the results with signatures and keep them in the client file. Remember, it's the clients' home, they have a right to know what work will be performed and why. The assessor may be the only individual the client sees in person. It is important to make a good impression. It is also critical to capture everything which needs to be done to provide a high quality weatherization effort the first time.

- Consider holding additional training classes in blower door use. The blower door results seen in Corsicana and Austin are strange at best and inaccurate at worst. They did not track with the blower door results obtained on our monitoring visits. The strange results in Travis County were attributed to bad gauges by the assessors when these were checked the following day by TDHCA. The use of a ring to obtain the 50pa required wasn't necessary when blower door tests were run on units weatherized by Austin Energy. The assessors and inspectors who are using blower doors should be proficient in their use. The assessors should realize that the use of a blower door as a diagnostic tool is invaluable in terms of air infiltration. DOE recommends that TDHCA develop a protocol and disseminate guidance for calibration on gauges for blower doors and the time frame in which they should be re-calibrated to ensure the accuracy of the readings the gauges are providing. DOE also strongly recommends additional classes in the use of blower doors to ensure that sub-grantees are following the protocols set forth in the state plan under III.3.2 under "Use of the Blower Door & Determination of Acceptable Air Changes per Hour at 50 Pascal (ACH50).
- DOE recommends the use of a client notification form for mold. The master file in the state plan for Texas indicates that assessments for mold & mildew (under "excess moisture") will be performed and when discovered the client will be notified. This is consistent with Weatherization Program Notice 02-5. The best method to determine if the assessment for mold or mildew was performed is to document the effort. In the event there is no mold or mildew found in the home, the client notification could state this and it would conclusively document this portion of the assessment was done. The use of a mold/mildew form in conjunction with other hazardous conditions is considered a best practice and would provide documentation to assist if there is a client complaint in the future. The potential liability due to lack of mold forms in client files during past monitoring trips would support the need to implement this as soon as possible.

8 Promising Practices

The Texas Department of Housing and Community Affairs has responded to recommendations by the Department of Energy for greater production in their network and increased and accelerated costing to ensure the full spend out of the grant monies for the ARRA Weatherization grant. The willingness to change embedded processes to accomplish these goals is a promising practice. The need for change in the administration of the program to ensure its success is paramount. It is the opinion of the Project Officers that TDHCA must change and institute remedial measures designed to address the failings in the Weatherization Program. The use of action plans which address the problems of "at risk" agencies in the state and provide corrective actions will ensure the success of these agencies rather than making it necessary to de-obligate them. If this is not done, the program requirement to serve all areas of the state is in jeopardy when existing agencies cannot be replaced. The Department of Housing and Community Affairs must utilize existing Training and Technical Assistance funding to provide agency personnel with the knowledge and skills required to successfully meet the demands of eligible clients in the areas they are contracted to serve. The use of monitoring reports, financial data and other metrics to identify agencies in trouble and demonstrate areas of needed improvement should be implemented as soon as possible. These agencies should be given every opportunity to identify and correct existing problems and address those problems to ensure the success of the program in that area of the state. The delay caused by de-obligating agencies and utilizing the procurement process to replace them leads to greater need for training agency personnel, lower production, delays in costing and potential failure of the replacement agency.

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9 Conclusion

In summary, our concerns regarding the failure of the sub grantees in Texas to date and the continued concerns which stem from ongoing investigations with existing sub-grantees, place the success of the program in Texas in jeopardy. The inability of the Grantee to attract and retain qualified agencies to provide weatherization services to clients in the southern area of the state, will ultimately lead to a lack of availability for that service to eligible clients. TDHCA must develop a process to identify potential problems with all the weatherization agencies in the state sooner, provide training and technical assistance where necessary and assist these agencies to ensure the successful completion of their mission to benefit its citizens. .

The Department of Energy and the Project Officers for the State of Texas weatherization program are committed to providing any help or assistance requested. It is our goal to ensure the success of the weatherization effort in the state and provide any training, direction, guidance or suggestions we can that ensure that success.

10 Certification

I have conducted this monitoring visit in accordance with DOE standard procedures using the appropriate monitoring checklists for the purpose of forming an opinion on the general administration of the grant. .

Report Prepared by:

12/14/2010

Paul Jiacoletti

Date

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

12/14/10

Jason Masters

Date

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

Report Reviewed by:

12/14/10

Robert DeSoto

Branch Chief

Date

Weatherization Assistance Program

Golden Field Office

December 20, 2010

Mr. Scott Davis
Director, Disaster Recovery Division
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, D.C. 20410-7000

Re: HUD Office of Inspector General Audit Report Number 2010-FW-1005

Dear Mr. Davis:

We are providing a follow up response to HUD Inspector General Audit Report Number 2010-FW-1005. Responses are provided for the finding recommendations, which include recovering proposal preparation costs, as well as the budget and general structure of reimbursements under the Master Services Agreement (MSA).

The Department issued a letter on October 26, 2010, wherein $210,000 was recaptured from our program management firm, ACS, from an administrative draw request, for ineligible proposal preparation costs identified in the report. Allowable pre-award costs are limited to the contract negotiation period, which is between the date the TDHCA Board approved negotiations with ACS (August 23, 2007) and the date prior to the contract execution date (12/31/2007). Under the MSA, ACS may dispute a recapture or resubmit eligible expenses. At this time, neither a dispute nor submission for eligible expenses has been received by the Department.

It is important to note that all funds expended to date have gone to develop more than 2,350 homes in the Hurricane Rita impacted areas – the largest housing recovery effort in Texas history. The Department has verified that even with all the houses already completed, no funds referred to in 1D were spent, and therefore no recapture was necessary. The Department agrees in general that modification of the contract type and Exhibit 4.1, which includes the budget and general structure of reimbursements, would increase clarity.

For recommendations 1D, 1E, and 1F, the response is combined because of the similar treatment in addressing the recommendations. The Department has negotiated and executed an amendment with our contractor to more accurately reflect services as they are currently being provided based on our operations. The original contract has been modified to address the cost increase from the RFP, and to comply with HUD regulations. We feel these actions address the concerns raised related to clarity, type of payment, and mischaracterization of administrative payments above the RFP amount. The contract amendment was executed December 7, 2010, and is attached to this letter.

If you have any questions about either the general approach or the specific responses, please do not hesitate to let me know.

Sincerely,

Michael Gerber
Executive Director

klc

Encl. (1)

Internal Audit Division

BOARD ACTION REQUEST

January 19, 2011

Presentation and discussion of the status of prior audit issues. No action needed.

Background

Of the 51 current prior audit issues:

- 3 issues previously reported as "implemented" were verified and closed by internal audit. 34 issues have been previously reported as "implemented" but have not been verified and closed. The three issues that were verified and closed are:
  - Community Affairs Community Services - Issue # 113
  - Information Systems - Issue # 111
  - Program Services - Issue # 120
- 8 issues were recently reported by management as "implemented" and are reflected on the attached list.
  - Community Affairs Community Services – Issue # 114
  - Community Affairs Energy Assistance – Issue # 139, 142, 145
  - Disaster Recovery – Issue # 152, 154
  - Information Systems - Issue # 156
  - Multifamily 9% Housing Tax Credit Program - Issue # 31
- 6 issues were reported as "in process of implementation". We will verify and close these issues when they are reported as "implemented".
  - Community Affairs Community Services – Issue # 46
  - Community Affairs Energy Assistance – Issue # 69, 143
  - Compliance and Asset Oversight – Issue # 116
  - Disaster Recovery – Issue # 155
  - Information Systems – Issue # 157

Texas Department of Housing and Community Affairs - Detailed Audit Findings

Issue #	Report Date / Auditors	Report Name / Audit Scope
10	1/7/2002 Internal Audit	Controls Over Single Family Loans; Report No.1.05 Review of controls over single family loans serviced by the Department.

Status		Target Date
Px	01/07/02	
Px	04/22/02	7/1/2002
Px	07/22/02	11/1/2002
Px	11/05/02	2/1/2003
Px	01/28/03	6/1/2003
Px	03/28/03	6/1/2003
Px	05/06/03	6/1/2003
Px	09/22/03	10/3/2003
Ix	11/21/03	
Ix	02/17/04	
Px	12/19/08	
Ix	06/12/09	

Division: HOME

Section: Not Selected

Issue: Improve Collection of Loan Documentation Procedures

Documentation supporting loans being serviced by the Department's Loan Administration Division was generally adequate to protect the Department's financial interests. However, an audit sample of 59 loans recorded on LSAM noted the following loan documentation exceptions (e.g., missing and/or unrecorded loan documents):

* Five occurrences of the original or certified documents (e.g., Transfer of Lien, Warranty Deeds) being on file, but no evidence of formal recording in the applicable county official property records.
* Three instances of required original or certified copies of documents (e.g., Transfer of Lien and Mechanic Lien Contracts) not on file, although photocopies were on file.
* One instance of a "Transfer of Lien," documented in the file by staff in 1996 as being needed, not on file.
* One instance of a warranty deed relating to the Office of Colonia initiative contract for deed conversion program was not on file.

Reasons for the documentation exceptions include the lack of formal policies and procedures, including supervisory review procedures, designed to ensure that the necessary loan documentation is obtained for all loans being serviced by the Department. Additionally, the use of the document control checklists by program staff to ensure complete loan documentation was lacking in several respects. Of the 59 sample files reviewed, twelve instances of the document control checklists not being completed or used were noted. In two other instances, the document control checklist was not completed but it was signed off as being reviewed by a supervisor; however, in these instances, the necessary loan documents were on file.

Recommendation - To improve quality control processes over the collection of loan documentation and to ensure that documentation is in place to protect the Department's financial interests, we recommend management develop and implement written formal standard operating procedures regarding required loan documentation. Procedures should include the use of the checklist, as intended by management, and the supervisory review process to ensure compliance with prescribed procedures.

Status:

06/12/09 - All involved divisions are now following the approved Standard Operating Procedure for the Single Family Special Loan Portfolio.

12/19/08 - After review of the Standard operating procedures provided to internal audit, it was determine the audit issue was not cleared. Write-off procedures have not been developed..

02/17/04 - Issue reported to the Board as implemented at the Dec. 2003 meeting.

11/21/03 - All involved divisions are now following the approved Standard Operating Procedure for the Single Family Special Loan Portfolio.

09/22/03 - Loan Servicing has trained Asset Management staff on utilization of the MITAS servicing system to generate delinquency reports and loan level detail of delinquent loans. Loan Servicing continues to coordinate efforts with OCI staff to work with delinquent Single Family Special Loan Portfolio Borrowers. Draft policies have been completed and will be finalized with OCI and Single Family Production by October 3, 2003.

05/06/03 - Management continues to expect issue resolution by 06/01/03.

03/28/03 - The Asset Management staff is being trained on the loan servicing system to generate delinquency reports and loan level detail of delinquent loans. The process of developing procedures outlining methods of delinquency management and foreclosure proceedings is being coordinated with Legal and OCI staff.

01/28/03 - Loan Servicing staff is working with staff in newly formed areas (Operations Divisions/Asset Management-Early Intervention and Real Estate Analysis/Workout), a product of the Agency-wide restructure, to identify all delinquent single family loans and formulate standard plans of action.

11/05/02 - Loan Administration has started to draft Standard Operating Procedures for the delinquent Single Family Loans. Due to the uniqueness of the programs funded under Single Family, we will continue to meet with the originating program area for guidance.

07/22/02 - Loan Administration has begun to prepare draft SOPs with regard to loan collections and resolutions that will fit all types of loans being serviced by the Department. This draft will be based on historical processes and industry standards. Program areas will then need to review the draft SOP to see how it might impact their applicants, borrowers, etc.

04/22/02 - In order to develop an SOP on loan collections and resolutions for all loans serviced by the Department, a group of Directors and Managers will meet to discuss how loan delinquencies and collections should be administered. Loan Administration will provide a basic template to start from based on historical processes and industry standards.

01/07/02 - Management will work on developing formal procedures for collection efforts, workouts, foreclosures and deed-in-lieu, real estate owned after foreclosure and write-offs. Some of these procedures will require policy directives from Executive Management as well as the opinions of other Directors affected so that the Department will be in agreement on the collection of Department debt.

Issue #	Report Date / Auditors	Report Name / Audit Scope
27	12/19/2007	Report to Management- year ending August 31, 2007
	Deloitte and Tou	Annual independent audit of the Department's general purpose financial statements

Status	Target Date
Px 12/19/07	
Ix 04/22/08	
Ixx 06/26/08	
Ix 09/17/09	
Ix 02/16/10	

Division: Information Systems

Section: Not Selected

Issue: Mitas Vendor Access / Change Management

The Mitas application is supported by a third party vendor, and a formal policy has been created for granting the vendor temporary access to the system. However, there is no formal documentation that can evidence management approval and successful testing within a test environment before a change is made by the vendor in the production environment.

Recommendation
Emails or other formal documentation should be retained to evidence testing and approvals for all production changes to the Mitas application.

Status:

02/16/10 - On February 29, 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19, 2008. These procedures are implemented.

09/17/09 - Auditors read issue to be partially verified as implemented by Deloitte and still need verification for the following:

"there is no formal documentation that can evidence management approval and successful testing within a test environment before a change is made by the vendor in the production environment."

06/26/08 - Reported to Board as Implemented per Management.

04/22/08 - On February 29 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19. 2008. These procedures are implemented.

12/19/07 - On December 18, 2007, the Information Systems Division (ISD) created a shared email folder to house correspondence related to Mitas system access, testing, and software changes. Mitas system users and ISD staff are able to copy email correspondence to this folder. By January 31, 2008, the Financial Administration Division and ISD will update the applicable written procedures to include the exact process for using the folder to document management approval and successful testing of vendor changes.

Issue #	Report Date / Auditors	Report Name / Audit Scope
31	12/11/2007	Multifamily 9% Housing Tax Credit Program - Application and Award Processes
	Internal Audit	Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio

Division: Multifamily

Section: 9% Housing Tax Credit Program

Status		Target Date
Px	12/11/07	2/29/2008
Nr	06/12/09	
Px	02/23/10	12/1/2010
Px	07/16/10	
Px	09/28/10	
Ix	01/03/11	

Issue: Chapter 1-B:
Individuals Under Indictment Were Recommended for Tax Credit Awards

As required by program rules, individuals involved with an application must certify that they are not subject to any pending criminal charges. However, two individuals were indicted after submitting an application and the required certification, but the development they were involved with was still recommended to receive an award.

The Department does not require the applicant to disclose any indictments the related parties of the application may be under from the time of their certification to the time awards are made by the Board.

In one instance, the charges brought against the individual were dropped, and the development was awarded a forward commitment from the 2008 credit ceiling. In the second case, the person under indictment was removed from the development and the development was awarded a forward commitment from the 2008 credit ceiling; however, the name of the individual under indictment still appeared on the forward commitment letter. This individual did not sign the forward commitment.

Recommendation
The Department should revise its certification requirement to include a requirement that the applicant should notify the Department if the applicant, development owner, developer, guarantor, or any of their related parties is subject to any criminal proceedings during the course of the tax credit cycle. The notification may not disqualify the development for an award; however, the information should be presented to the Board for their consideration prior to the issuing of awards. The Department should retain documentation of this information in the application file.

Status:

01/03/11 - This finding was resolved through the implementation of a certification in the uniform application that the applicant or related parties are not involved in any criminal proceeding and will inform the Department immediately should any arise prior to the issuance of a Carryover Allocation.

09/28/10 - This will be cleared with the certification in the application for 2011 that will be published this Fall.

07/16/10 - Notification was added to the applicant certification in the uniform application. Changes to the QAP to include this requirement are still pending.

02/23/10 - This notification was added to the applicant certification in the uniform application.

06/12/09 -

12/11/07 - Staff will implement the audit recommendation and include this requirement in the Uniform Application and the application review forms, and/or the QAP for the 2009 Tax Cycle.

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Issue #	Report Date / Auditors	Report Name / Audit Scope
35	12/11/2007 Internal Audit	Multifamily 9% Housing Tax Credit Program - Application and Award Processes Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio

Division: Multifamily

Section: 9% Housing Tax Credit Program

Status		Target Date
Px	12/11/07	7/31/2008
Nr	06/12/09	
Ix	02/23/10	

Issue: Chapter 3-B:
Application Log Does Not Meet All Statutory Requirements

While the Department posts most of the required application and award information on its website within various reports, there is no application log, as defined in statute, posted to the website. In addition, some of the information required by statute is not posted to the Department's website. Items required as part of the application log that are not posted to the website include: names of the related parties to the applicant, the score of the application in each scoring category adopted by the Department under the QAP, any decision made by the Department or Board regarding the application, the names of persons making these decisions, including the person scoring and underwriting the application, and a dated record and summary of any contact between the Department staff, the Board, and the applicant or related parties.

In addition, scoring sheets providing details of the application score are not posted as required by the Texas Government Code §2306.6717 (2). A log of all application scores is posted (application scoring log); however, this log only contains summary information, and does not contain details as required by statute. Texas Government Code §2306.6717 (a) (2) states, "Subject to §2306.67041, the department shall make the following items available on the department's website: before the 30th day preceding the date of the relevant board allocation decision, except as provided by Subdivision (3), the entire application, including all supporting documents and exhibits, the application log, a scoring sheet providing details of the application score, and any other document relating to the processing of the application." Subdivision (3) states, "not later than the third working day after the date of the relevant determination, the results of each stage of the application process, including the results of the application scoring and underwriting phases and the allocation phase."

In addition, the Texas Government Code §2306.6709 states, "APPLICATION LOG. (a)
In a form prescribed by the department, the department shall maintain for each application an application log that tracks the application from the date of its submission.
(b) The application log must contain at least the following information:
(1) the names of the applicant and related parties;
(2) the physical location of the development, including the relevant region of the state;
(3) the amount of housing tax credits requested for allocation by the department to the applicant;
(4) any set-aside category under which the application is filed;
(5) the score of the application in each scoring category adopted by the department under the qualified allocation plan;
(6) any decision made by the department or board regarding the application, including the department's decision regarding whether to underwrite the application and the board's decision regarding whether to allocate housing tax credits to the development;
(7) the names of persons making the decisions described by Subdivision (6), including the names of department staff scoring and underwriting the application, to be recorded next to the description of the applicable decision;
(8) the amount of housing tax credits allocated to the development; and
(9) a dated record and summary of any contact between the department staff, the board, and the applicant or any related parties."

Recommendation
The Department should post the application log information, or a map or spreadsheet that references the location of the information required by the Texas Government Code. If some of the information is not available by the statutory deadline, the Department should post the information available on the deadline, and amend the application log as needed when additional required information comes available. In addition, the Department should post the scoring sheets as required.

Status:

02/23/10 - All required information is published to the Department's website.

06/12/09 -

12/11/07 - Staff will implement the audit recommendations.

Issue #	Report Date / Auditors	Report Name / Audit Scope
39	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division’s

	Status	Target Date
Px	06/11/08	10/1/2008
Px	12/01/08	2/20/2009
Ix	06/15/09	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 2-A
The Contract System Should Track Budget Information for Subrecipients

The budgets that subrecipients submit at the beginning of the program year are not included in the automated contract system used to track the subrecipients’ expenditure reports. In addition, the percentage of actual funds expended is not calculated and compared to the budget. This causes a problem because once a budget is approved, subrecipients can spend money from any budgeted line item as long as they do not exceed the total amount they were awarded. As a result, there is less accountability for the accuracy of budget projections and for actual expenditures compared to budgeted amounts. In addition, the “other” category of expenses includes direct services and many other types of expenses that should be further separated into line items. The purpose of comparing budgeted amounts to actual expenditures is to help program staff assess the ongoing status of the subrecipient contracts, not to identify unallowable expenditures.

The Community Affairs Division’s Comprehensive Energy Assistance Program utilizes an expenditure report that includes budget information.

Recommendations
o Budgets should be entered into the contract system at the budget line item level in order to ensure that subrecipients are not exceeding their approved budget amounts for any of the budgeted line items.
o The percentage of actual funds expended should be calculated in the contract system and compared to the budgeted amount for each line item.
o Line items should be created to address the most common expenditures now included in the “other” category.

Status:

06/15/09 - CS staff currently enters the CSBG budget category information in the note section of the CSBG contract system. Documentation related to expenditures reviews, which may have excess cash issues, are filed in T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\2009\Expenditure Reviews. CSBG statute allows flexibility in the use of funds to support operations and has no restrictions or caps on specific budget categories.

12/01/08 - Community Services staff will enter the CSBG budget category information in the Community Affairs Contract System in the "Notes" section beginning in FY 2009. Documentation related to expenditures reviews, will be filed: T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\2008\Expenditure Reviews. The CSBG statute allows great flexibility in the use of funds to support operations and has no restrictions or caps on specific budget categories.

06/11/08 - Management agrees that the existing system and processes used to monitor CSBG expenditures needs to be altered to address these recommendations. It is important to note that the Department has limited ability to disapprove CSBG expenditures or deny requests to modify the CSBG budget if the activities are defined as allowable in the CSBG Act. Staff will expand the existing monitoring instrument to address this concern and provide training and technical assistance to subrecipients regarding budget preparation for those subrecipients that repeatedly change the CSBG budget.

Issue #	Report Date / Auditors	Report Name / Audit Scope
40	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

	Status	Target Date
Px	06/11/08	10/31/2008
Px	12/01/08	2/20/2009
Ix	06/15/09	

Issue: Chapter 2-B
Community Services Staff Should Ensure Subrecipients Do Not Receive More Than a 30-day Supply of Funds

The expenditure reports in the contract system track projected expenditures for the next month, the prior month's expenditures and the cumulative expenditures of each subrecipient. The contract system uses this information to calculate the subrecipients' cash on hand. However, from our review of a sample of seven expenditure reports and five monitoring files which contain information on subrecipients' bank accounts, it appears that some subrecipients are receiving or retaining more than a 30-day supply of funds. The State of Texas Plan and Consolidated Application and the CSBG contract limit subrecipients to a 30-day supply of cash on hand. The contract specialist is responsible for reviewing the monthly expenditure reports and alerting the program officers if a subrecipient appears to have requested more than a 30-day supply of cash.

However, as long as the funds requested do not exceed 1/12 of the total annual allocation, funding requests are approved. As a result, subrecipients may be able to maintain higher balances of cash on hand. This increases the risk that the excess cash could be converted to non-CSBG uses.

Recommendations
During the monthly review of expenditure reports, Community Services staff should review the prior month's advances for specific line items and compare them against the actual expenditures reported by line item to ensure that the most recent funding request is reasonable.

The funding requests should be compared to the budget to determine a percentage of the total budget and to determine the reasonableness of the request.

Status:

06/15/09 - CS staff reviews monthly expenditure reports to determine the reasonableness of the request. Documentation related to expenditures reviews, which may have excess cash issues, will be filed in T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\200 \Expenditure Reviews. Subrecipients with issues related to advanced payments will receive training and technical assistance.

12/01/08 - Community Services staff will continue to review monthly expenditure reports to determine the reasonableness of the request for advance payments. Documentation related to expenditures reviews will be filed in T:/ca/all ca scanned/cacs_scanned/Monitoring & Working\ Files/ CSBG/2008/Expenditure Reviews. Subrecipients with issues related to projections and excessive advanced payments will receive training and technical assistance from Department staff.

06/11/08 - Procedures will be instituted to thoroughly ensure that funding requests are reasonable as noted in the recommendation, and controls put in place to be sure that the procedures are followed. Staff will provide training and technical assistance to subrecipient staff, as needed, to improve the process to project expenditures and request advance payment.

*Status Codes: I - Implemented; T - Partially Implemented (no further action intended); P - In process of implementation;
D - Action delayed; N - No action intended; NR - No response to status update request during period solicited
x - Management's representation; xx - Independent assessment by audit

Issue #	Report Date / Auditors	Report Name / Audit Scope
41	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Status		Target Date
Px	06/11/08	8/15/2008
Px	12/01/08	3/31/2009
Ix	06/15/09	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-A:
Inconsistencies in the Disposition of Monitoring Issues Should Be Addressed

We reviewed the monitoring files for fiscal years 2006 and 2007 for a sample of five subrecipients and found that there were inconsistencies in how errors were identified and categorized by the program officers who monitor the subrecipients. The program officers document the issues they identify during on-site monitoring visits in one of three ways: findings, recommendations or notes. Findings identify actions that do not comply with grant requirements and must be addressed by the subrecipient and resolved to the satisfaction of Community Services. Recommendations are preferences suggested by Community Services, but do not necessarily require a change in the subrecipient's procedures. Notes are used to document a condition, but do not include a recommendation for resolution.

There are inconsistencies in the assignment of the status of findings, recommendations or notes. For example, the CSBG does not allow the payment of late fees using grant funds. For one subrecipient we reviewed, the payment of late fees was reported as a finding.
For another subrecipient, it was not reported at all. Prior findings identified during a previous on-site monitoring visit that were still outstanding during the next on-site monitoring visit were reported as a finding for one subrecipient, and as a note for another.

Recommendation
Community Services management should provide program officers with a guide for the designation and disposition of common issues to generate more consistent reporting.

Status:

06/15/09 - Staff has developed a Monitoring Guide which includes standard language for common monitoring issues. The Monitoring Guide was reviewed by Energy Assistance Section, Community Services Section, and Portfolio Management and Compliance Division. Program officers received training May 14, 2009 on the Monitoring Guide. The Texas Administrative Code was revised to include the definition of a finding, recommendation and note. The Monitoring Guide is currently being reviewed by Executive Management.

12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management and Compliance Division. Annually, program officers will receive training on the Monitoring Guide.

06/11/08 - Management will develop a uniform definition for what constitutes a Finding, a Recommended Improvement and a Note that will be included in a Monitoring Guide Book for monitoring that outlines standard language for most commonly identified issues. The Project Manager for Monitoring will provide training to the Program Officers prior to each monitoring cycle to ensure a clear understanding of the Monitoring Guide Book. During the review of draft monitoring reports, the Project Manager will ensure adherence to the Monitoring Guide Book

Issue #	Report Date / Auditors	Report Name / Audit Scope
42	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Status		Target Date
Px	06/11/08	1/1/2009
Px	12/01/08	3/31/2009
Ix	06/15/09	
Px	06/17/09	7/30/2009
Nr	03/01/10	
Ix	07/13/10	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-B
The Review of Subrecipient Financial Information Should Be Improved

The program officers who monitor the subrecipients for compliance review some financial information, but the information they gather, review and retain is not sufficient to formulate a complete picture of the subrecipient's financial condition. Subrecipients who receive in excess of $500,000 in annual grant funding are required to submit an audited annual financial report (AFR) to the Department no later than nine months after the end of their fiscal year. The AFR also includes opinions rendered on the major programs and the internal controls, as well as a schedule of expenditures of federal awards to comply with the Office of Management and Budget's (OMB) Circular A-133 Compliance Supplement. The AFRs are reviewed by the Department's Portfolio Management and Compliance Division (PMC), but the program officers do not compare the financial information in the AFRs to the other financial documents gathered during monitoring.

In at least one case, we noted that a subrecipient's annual audit resulted in a separate management letter addressing potential problems with the subrecipient's financial operations. This management letter provided important information that should have been used in the monitoring process, but the management letter was not obtained on a timely basis and may not have been reviewed by the program officer. Not obtaining and reviewing all of the results of the AFR increases the likelihood that fraud, waste or abuse could go undetected.

Program officers review financial documentation, but generally have not retained all of the documentation needed to verify assertions about bank account and general ledger fund balances. For example, the program officer may collect data on the income statement accounts (revenue and expenditures.) They may also review bank account data (bank statement, bank reconciliation, and accounting records such as the general ledger detail of the bank account activity.) However, the documents copied and retained are often missing one or more of these. If bank reconciliations are not completed timely or are not available during the on-site monitoring visit, the request for "the most recent" bank reconciliation will not tie to the data already collected, and is not of any significant value.

Recommendations
Subrecipients should be required to submit to the Department any management letters resulting from their AFR audit when submitting the AFR.

Program officers should obtain and review a copy of the most recent audited AFR and any associated management letters prior to conducting an on-site monitoring visit. This information should then be compared to the financial documents reviewed during monitoring.

A complete general ledger printout for the month(s) reviewed (including the asset, liabilities and equity accounts in addition to revenue and expenditures) should be obtained along with the banking account data. This document would allow the program officer to verify that the accounting records are complete and in balance, verify the timely posting of account activity and provide the opportunity to determine whether any inter-fund activity occurred. Any general journal adjustments to the accounts would be easily identified.

Status:

07/13/10 - Community Affairs "Monitoring" Standard Operating Procedure have been revised to require Program Officers to review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC Sec. 5.16(b). Program Officers review documents and determine if follow-up is needed. Beginning with the FY 2009 contracts, a requirement is included that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.

03/01/10 -

06/17/09 - Community Affairs "Monitoring" Standard Operating Procedure will be revised to require that Program Officers review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC §5.16 (b). Program Officers review documents and determine if follow-up is needed. FY 2009 contracts include the requirement that a copy of the AFR be sent to the Community Affairs Division.

Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.

06/15/09 - The Community Affairs "Monitoring" Standard Operating Procedure Has been revised to require that Program Officers review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (fMC) 10 TAC §5.16 (b). Program Officers review documents and determine if follow-up is needed. FY 2009 contracts include the requirement that a copy of the AFR be sent to the Community Affairs Division.

Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.

12/01/08 - The Community Affairs "Monitoring" Standard Operating Procedure will be revised to require that Program Officers review the most recent copy of the Audited Financial Report (AFR) and any related management letters on file. The proposed general provisions of the TAC will require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC §516 (b). Program Officers will review documents and determine if follow-up is needed. FY 2009 contracts will include the requirement that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments will be revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.

06/11/08 - The Community Services Block Grant (CSBG) and Emergency Shelter Grants Program (ESGP) Monitoring Standard Operating Procedures will be revised to require that Program Officers obtain a copy of the latest Audited Financial Report (AFR) and any related management letter on file within the Portfolio Management and Compliance Division (PMC). The CA Director will recommend updates to the CSBG and ESGP rules and contracts during the next rules and contract cycle to specify the requirement of submission of the AFR and management letters to CA in addition to PMC. The Program Officer will review the AFR and management letter to determine if follow up is needed. Processes will also be changed regarding review of general ledgers and banking account data to verify that the accounting records are complete and in balance, verify the timely posting of account activity and provide the opportunity to determine whether any interfund activity occurred. Staff will be trained in this area.

Issue #	Report Date / Auditors	Report Name / Audit Scope
43	6/11/2008 / Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants / Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	11/1/2008
Px	12/01/08	1/31/2008
Nr	06/12/09	
Px	06/17/09	7/30/2009
Px	09/29/09	12/1/2009
Nr	03/01/10	
Ix	07/13/10	

Issue: Chapter 3-C
Criteria for Cost Reimbursement Should Be Identified

Community Services has not defined the criteria used to decide what sanctions to apply to subrecipients who have significant or repeated monitoring findings, or who do not comply with the CSBG grant requirements. An example of non-compliance is the failure to submit an audited AFR as required. The most significant sanction available to CSBG program staff is to place a subrecipient on cost reimbursement. This means that instead of receiving their grant funds in advance, the subrecipients placed on cost reimbursement must submit their receipts, invoices and check stubs for actual expenses in order to be reimbursed by the Department with CSBG funds. Without clear criteria for cost reimbursement or other sanctions, the Department could be left open to allegations of favoritism, inequities, or discrimination.

Recommendations
Community Services should define the range of sanctions that can be used for the various types of monitoring findings or issues of non-compliance. The following issues should be included:
o Fiscal mismanagement, fraud, waste and abuse,
o Repeated findings from previous monitoring reports that show a pattern of noncompliance (special attention should be paid to repeat financial findings),
o Issues with the composition of the subrecipient's governing board, including issues concerning board member attendance and representation, and general management failures, and
o Unresolved findings outstanding for a given period of time. For example, findings that are not resolved within a designated period of time should immediately prompt a decision regarding sanctions.

Status:

07/13/10 - The TAC rules have been revised to address "sanctions" in Sec. 5.17 "Sanctions and Contract Close Out". The Sanctions SOP has been revised to incorporate the TAC revisions.

03/01/10 -

09/29/09 - The TAC Rules have been revised to address "sanctions" in §5.17 "sanctions and Contract Close Out". The Sanctions SOP will be revised to incorporate the TAC revisions. This document is currently under development.

06/17/09 - The TAC rules have been revised to address "sanctions" in §5.17 "Sanctions and Contract Ciose Out". The Sanctions SOP will be revised to incorporate the TAC revisions.

06/12/09 -

12/01/08 - The Texas Administrative Code Rules have been revised to address "Sanctions" in §5.17 "Sanctions and Contract Close Out". The TAC Rules will be codified in January 2009. The Sanctions SOP will be revised to incorporate the TAC revisions.

06/11/08 - The existing Sanctions Standard Operating Procedure will be revised to define the range of sanctions that can be used for the various types of monitoring findings or issues of non-compliance and how and when the sanctions will be applied.

Issue #	Report Date / Auditors	Report Name / Audit Scope
44	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

	Status	Target Date
Px	06/11/08	9/30/2008
Px	12/01/08	5/31/2008
Ix	06/15/09	

Issue: Chapter 3-D
Monitoring Reports Need to Be Completed on a Timely Basis

Community Services' monitoring policies and procedures require that subrecipients receive a written monitoring report within 30 days for CSBG on-site monitoring visits or within 45 days for joint CSBG and Comprehensive Energy Assistance Program (CEAP) on-site monitoring visits. For the 31 on-site monitoring visits performed in fiscal year 2007, 18 reports (58%) were not sent out within the required timelines. The subrecipients are required to respond to the monitoring findings within 30 days, or 45 days for joint monitoring visits. If additional responses are needed, the subrecipient has 15 days to submit their follow-up responses. However, these responses are often not received for months.

For the 31 on-site monitoring visits performed in fiscal year 2007:
- One notification letter was not sent to the subrecipient, and 11 of the 31 required notification letters were sent late (35%) and did not provide the suggested 30 days notice prior to a monitoring visit;
- Review of the report was not documented on a review coordination sheet for five of the 31 visits (16%); and
- Twelve of the 31 reports (39%) were not sent to the subrecipients' governing boards as required.

Recommendation
Community Services' policies and procedures should be reviewed, revised and followed to ensure that monitoring reports are timely, are reviewed internally and are communicated to the subrecipients' governing boards as required.

Status:

06/15/09 - Staff developed a Monitoring Guide which includes standard language for common monitoring issues. Staff finalized the Monitoring Guide May 2009. The Guide thoroughly addresses documentation standards. The Monitoring Guide was reviewed by Energy Assistance Section. The Community Services Section, and Portfolio Management and Compliance Division. Community Services monitoring tracking system was updated to allow staff to enter the contract numbers. Additional modifications to that system are still needed. Program officers received training on the Monitoring Guide in May 2009. Monitoring procedures have been revised to allow 45 days. Instead of 30 days for the Department to issue the monitoring report and 45 days for the subrecipient to respond. Energy Assistance and Community Services will continue to work with Information Systems to modify the monitoring tracking systems so that more useful reports such as tracking deadlines are developed.

12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. The Guide will more thoroughly address documentation standards. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management' and Compliance Division. The Monitoring Tracking System will be updated to generate more useful reports to alert staff about approaching deadlines. Information Systems anticipates modifications to be completed 5/31/09. Annually, Program officers will receive training on the Monitoring Guide. Monitoring procedures have been revised to allow 45 days, instead of 30 days for the Department to issue the monitoring report and 45 days for the subrecipient to respond.

06/11/08 - Management will review and revise the Monitoring Standard Operating Procedure to more thoroughly address the recommendations in regards to timeliness of reports and correspondence, documentation of internal reviews, and communication with subrecipients' governing boards. Consistency between policies will be improved and controls will be put in place to ensure these processes are followed. Additionally, the existing monitoring tracking system will be updated to generate more useful reports to alert staff about approaching deadlines.

Issue #	Report Date / Auditors	Report Name / Audit Scope
45	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's

	Status	Target Date
Px	06/11/08	9/1/2008
Px	12/01/08	3/31/2009
Ix	06/15/09	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-E
All Program and Expenditure Requirements Need to Be Reviewed During Monitoring Visits

Generally, all program and expenditure requirements are considered during on-site monitoring visits. However, we compared the contract, rules, grant requirements and monitoring instruments used by the program officers during on-site monitoring visits and noted the following issues:

• One of the questions on the monitoring instrument, "Does the subrecipient maintain procedures which conform to the uniform administrative requirements?" has "not applicable" for the CSBG program. However, the CSBG contract states, "Except as expressly modified by law or the terms of this contract, subrecipient shall comply with the cost principles and uniform administrative requirements set forth in the Uniform Grant Management Standards, 1 T.A.C. Sec. 5.141 et seq."

• The monitoring instrument does not prompt program officers to ensure that the expenditures submitted by subrecipients as support for costs are expenditures that were incurred during the contract period. Section 4 of the contract states that the "Department is not liable to Subrecipient for any cost incurred by Subrecipient which is not incurred during the Contract period."

• A review is not performed to determine if the subrecipient's board-approved travel policies were provided to Community Services prior to the subrecipient incurring travel costs.

• Program officers do not review to ensure that the programs and services listed in the subrecipients' CAP plan are actually provided.

• There is no standard form for the program officers to use in documenting the results of their expenditure review.

Recommendations
Program officers should review programs and expenditures during on-site monitoring visits to ensure that subrecipients are complying with the Uniform Grant Management Standards, costs are incurred during the contract period, and subrecipients are providing the programs detailed in their CAP plan.

The program officers should ensure that subrecipient's board-approved travel policies are provided to Community Services prior to incurring any travel costs.

A standard form should be developed to document the results of the expenditure review

Status:

06/15/09 - Section 6A of the 2008 ESGP contract has been revised to include reference to the Uniform Grant Management Standards (UGMS) and to address inconsistencies in references. The monitoring instruments were revised to address time period of expenditure reviews. Management will institute controls to ensure that the monitoring instrument is properly completed. 10 TAC §5.2 was codified in March 2009, and states that subrecipients must comply with UGMS and the OMS circulars Subrecipients were requested to submit a current board approved travel policy and are on file.

12/01/08 - Section 6A of the 2008 ESGP contract has been revised to include reference to the Uniform Grant Management Standards (UGMS) and to address inconsistencies in references. The monitoring instruments will be revised to address time period of expenditure reviews. Management will institute controls to ensure that the monitoring instrument is properly completed. The Texas Administrative Code Rules 10 TAC §5.2 which will be codified in January 2009 state that subrecipients must comply with UGMS and the OMS Circulars. Subrecipients will be requested to submit a current board approved travel policy by 3/31/09.

06/11/08 - Management acknowledges inconsistencies in the CSBG and ESGP contracts and the corresponding monitoring instruments. The current contracts reference the Uniform Grant Management Standards (UGMS) and the Office of Management and Budget (OMB) Circulars and the monitoring instruments only reference the OMB Circulars.
Management will update the contracts and monitoring instruments to include references to UGMS and the OMB Circulars.

The Department will continue to review the monitoring instrument and consider strengthening the review process. The monitoring instrument will be revised to indicate that expenditures reviewed are within the contract period and other changes to the instrument made so that wording of questions better addresses risks and that appropriate follow up occurs for questions. Staff will be trained on the instrument and its changes. Further, controls will be put in place to ensure the monitoring tool is being properly completed (i.e. peer reviews or similar solution.)

Management will request a board-approved travel policy from each CSBG subrecipient to maintain in an electronic file at the Department. If a subrecipient changes their travel policy, the subrecipient will be required to submit a new policy to the Department.
A standard form, or similar effective tool, will be developed to document the results of the expenditure review.

Issue #	Report Date / Auditors	Report Name / Audit Scope
46	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	10/31/2008
Px	12/01/08	5/31/2009
Dx	06/15/09	
Dx	09/21/09	
Nr	03/01/10	
Px	07/13/10	12/31/2010
Px	10/28/10	12/31/2010
Px	01/10/11	2/28/2011

Issue: Chapter 3-F
The Monitoring Tracking System and the Risk Assessment Process Should be Updated and Improved

All subrecipients are required to have an on-site monitoring visit at least once every three years, and Community Services does a good job of ensuring that these reviews take place. Community Services uses a risk assessment process to determine which subrecipients to monitor each year. They use the Department's standard risk assessment module and rely on an automated monitoring tracking system to track the number, type, and status of findings reported as a result of on-site monitoring visits. The information from the monitoring tracking system is used to complete the risk assessment module. However, the monitoring tracking system is not being kept up to date. As a result, the system can not be relied upon in completing the risk assessment process, and staff must manually go through monitoring reports to determine the information they need for the risk assessment. In addition, the risk assessment does not capture all of the information needed to accurately determine risk.

In comparing the information contained in the monitoring tracking system to the information gathered from manually reviewing monitoring reports and responses, of the 65 on-site monitoring visits performed over the past two years:
• The information contained in the system matches the information in monitoring reports and responses for 16 visits (24.6%),
• The information contained in the system is incomplete when compared to the monitoring reports and responses for 34 visits (52.3%)and inaccurate for one visit, and
• There is no record of 14 monitoring visits (21.5%) in the monitoring tracking system.

Of the 453 questions answered in the 2006 risk assessment, 83 questions (19.6%) were answered incorrectly or not at all. In addition, the possible answers to the risk assessment questions do not provide an accurate assessment of which subrecipients pose the highest risk. For example:
• A subrecipient with one previous monitoring finding currently receives the same ranking as a subrecipient with multiple findings on a previous monitoring report.
• A subrecipient that has never been monitored is currently ranked higher for the question 'time since last on-site visit', but is rewarded by receiving no points for the questions 'results of last on-site visit' and 'status of most recent monitoring report.
• A subrecipient can be delinquent in providing their audited annual financial report to the Department for multiple months, but if they are in compliance on the day the risk assessment is completed, they are ranked the same as an entity who was in full compliance with the audit requirement throughout the year.

Recommendations
Community Services should:
• Revisit the use of the monitoring tracking system for tracking the findings resulting from on-site monitoring visits. This should be done before additional resources are spent in improving or maintaining the current system. If the monitoring tracking system is used, Community Services should develop processes to ensure that data entered into the system is complete and is periodically compared to the data in the monitoring files
• Develop a process or a database that will track the data used in the Department's risk assessment module, and
• Further develop answers to the questions in the risk assessment in order to produce a more accurate risk ranking of the subrecipients.

Status:

01/10/11 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessmenet will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department.
Community Services will modify a tracking system developed by CAD/Energy Assistance Section. Once it is modified to meet CS needs, the data related to the monitoring of CS contracts will be entered. The system is an Access based database. This database is in the final stages of completion, however due to a family emergency, the staff member responsible for implementation of this task was out for three weeks and unable to complete on schedule. Barring further unexcpected obstacles, this task will be completed by 2/28/2011.

10/28/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessmenet will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department.
Community Services will modify a tracking system developed by CAD/Energy Assistance Section. Once it is modified to meet CS needs, the data related to the monitoring of CS contracts will be entered. The system is an Access based database. This database should be modified to meet CS needs by 12/31/2010 and thereafter monitoring data will begin to be entered into the system.

07/13/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessment will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department. IS staff has also recommended not modifying what had been developed. Community Affairs Community Services will work with IS on this project once other pressing IS/CACS projects are finalized and IS has time available to determine what system can be developed to assist with the Risk Assessment. Community Services is considering developing either an Access or Excel database to manage data for the Risk Assessment and not relying on the IS database.

CS is in the process of entering monitoring data related to monitoring reviews and anticipates completing this by 12/31/2010. CSBG Program Officers have also had additional work related to the CSBG ARRA program. CSBG ARRA contracts will end 9/30/2010.

03/01/10 -

09/21/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed, The IS Division is currently working on projects assessed as higher priority to the Department.

06/15/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed. The IS division is currently working on projects assessed as higher priority to the Department. The IS division has set the incorporation of the American Recovery and Reinvestment Act contracts and reporting mechanism into the current Community Affairs contract system as a high priority.

12/01/08 - The Information Systems Division has made modifications to the Monitoring Tracking System but additional modifications are needed and will be completed by 5/31/09.

06/11/08 - The CA Division in conjunction with the IS Division will revisit and update the monitoring tracking system that tracks monitoring findings. A CS staff member, who is not required to travel, will be designated to maintain the monitoring tracking system. The existing monitoring tracking system tracks data used in the Department's Risk Assessment Module. Management will ensure that data is entered in a timely manner.

Prior to the 2008 Risk Assessment, questions and weights were revised to reflect a more accurate risk ranking of the subrecipients. The Risk Assessment will continue to be evaluated and improved.

Issue #	Report Date / Auditors	Report Name / Audit Scope
47	6/11/2008 / Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants / Review of the draw processing and monitoring functions of the Community Affairs Division's

	Status	Target Date
Px	06/11/08	10/1/2008
Px	12/01/08	3/31/2009
Ix	06/15/09	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 4-A
Community Services Should Review Underlying Data to Ensure That Performance Measures are Correct

Program officers are not required to review the supporting documentation (or even the supporting documentation for a sample of clients) to ensure that the subrecipients are correctly reporting the number of individuals transitioning out of poverty. This number is defined as the number of individuals achieving incomes above 125% of the poverty level.
Four out of the nine LBB performance measures for Community Services use this data in their calculations and of these four, three are key measures for the Department.

The number of individuals transitioning out of poverty is important because it is used as part of both the ROMA and the LBB performance measures, and is used to determine the amount of discretionary funds paid to subrecipients in the form of performance awards. (see Chapter 4-B) The definitions and methods of calculation for this measure do not require the Department to verify the data submitted by the subrecipients; however, the LBB's performance measures guidance requires the Department to have sufficient controls in place to ensure the accuracy of the data. Without the control of testing or verifying at least a sample of the underlying data, it is not possible for the Department to ensure that the data is accurate.

Recommendations
• When reviewing a sample of client files during monitoring visits, program officers should re-calculate the reported incomes using the supporting documentation in the client file to confirm that clients who were reported as transitioning out of poverty really did so, and that only allowable income is considered.
• Community Services should develop and enforce a standard methodology for calculating income to ensure consistent and comparable results.

Status:

06/15/09 - The CSBG monitoring instrument was revised in May 2009 to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients. A new attachment was created for the review of CSBG case management files and to review income documentation for households transitioned out of poverty.

12/01/08 - The CSBG monitoring instrument will be revised to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients.

06/11/08 - The current process will be reviewed by Management and the Community Services Block Grant monitoring instrument will be revised to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients.

Issue #	Report Date / Auditors	Report Name / Audit Scope
50	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

	Status	Target Date
Px	06/11/08	1/1/2010
Ix	12/01/08	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 5-A
Only Eligible Administrative Costs Should Be Charged to the Emergency Shelter Grant Program

Currently, all work performed by the ESGP staff is charged to the grant. This means that staff is charging the time they work on developing the Consolidated Plan to the ESGP's administrative funds. However, the U.S. Department of Housing and Urban Development (HUD), which administers the ESGP, states that ineligible administration costs include the preparation of the Consolidated Plan and other application submissions.

The Consolidated Plan serves as the state's application to the federal Government for ESGP funds. The plan states how the Department will pursue the goals of decent housing, a suitable living environment and expanded economic opportunities for all community development and housing programs.

Recommendation
The Department should find an alternate fund to which staff can charge the work performed on the Consolidated Plan.

Status:

12/01/08 - Staff has changed the process for allocating staff time associated with the HUD Consolidated Plan whereby ESGP funds are not charged for preparation of the Plan.

06/11/08 - The Department will utilize an eligible source of funds to develop the Emergency Shelter Grants Program portion of the 5 Year Housing and Urban Development Consolidated Plan, which includes work on the Annual Action Plan and Consolidated Annual Performance Evaluation Report (CAPER). CS staff will allocate time related to the development of the 5 Year HUD Consolidated Plan to an eligible source of funds.

Issue #	Report Date / Auditors	Report Name / Audit Scope
51	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division’s

Status		Target Date
Px	06/11/08	9/1/2008
Ix	12/01/08	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 5-B
The Methodology Used for Subrecipient Payments Should Ensure Consistency and Compliance with the Contract

The ESGP contract states that the subrecipient may request advance payment by submitting a properly completed monthly report to the Department. According to the HUD ESGP Program Guide, either cost reimbursement or advance payments can be used, depending on how the funds are handled. The CFR (24 CFR 85.20) states that, “Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.” Program staff state that the program is set up on a cost reimbursement basis and advance payments are not made. However, a review of one subrecipient indicates that they are making cost projections and receiving advance payments.

Recommendation
The Department should review the requirements and benefits of both the advance payment and cost reimbursement methodologies and determine which one to use. The contract and other written guidelines should be revised to ensure consistency with the chosen method.

Status:

12/01/08 - The 2008 ESGP contract was revised to only allow a one time advance payment.

06/11/08 - Management will review and ensure that the language in the Emergency Shelter Grants Program (ESGP) contract is consistent with the Housing and Urban Development ESGP Program Guide that allows for either cost reimbursement or an advance method of payment. A set of risk criteria will be established, and the payment method allowed for each subrecipient will be based on the level of risk. Staff will be trained to use the risk criteria to determine the appropriate method of payment for an ESGP subrecipient.

Issue #	Report Date / Auditors	Report Name / Audit Scope
52	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	12/31/2008
Px	12/01/08	3/31/2009
Ix	06/15/09	

Issue: Chapter 6-A
The Processes Used to Document and Communicate Monitoring Results Should Be Revised

There are inconsistencies in the manner in which program officers determine which issues are identified as findings and reflected in the final monitoring report and which issues are resolved on-site by the program officers via technical assistance and are not reflected in the report. During a review of the monitoring reports and monitoring instruments of multiple subrecipients, the same issue was reported as a finding in one report, while in another report it was documented as a recommended improvement. Recommended improvements do not require the subrecipient to respond to Community Services on how the issue will be corrected. Also, instances were noted where an issue was documented as a finding on the original monitoring instrument and then changed to a recommended improvement without documenting the reasons for the change.

The program officers who monitor the ESGP subrecipients complete a standard monitoring instrument during on-site monitoring visits. However, the monitoring instrument is not always entirely completed, nor is the monitoring information correctly posted to the monitoring tracking system.

We tested the monitoring files for 26 of the 76 subrecipients in program year 2006 and found that:
- three of 26 the subrecipient files did not contain any monitoring documents for the program year 2006 monitoring visit,
- 12 of the 23 subrecipient files for which documentation of a program year 2006 monitoring visit was available, did not have the monitoring instrument fully completed by the program officer during the monitoring visit,
- 13 of the 26 ESGP monitoring files were not posted to the monitoring tracking system and an additional 6 were not posted correctly, and
- 19 of the 26 monitoring files did not contain a cumulative inventory report, which is required by the ESGP contract and should be submitted to Community Services by October 31st.

The ESGP policies and procedures require that the monitoring reports be sent to the subrecipients within 30 days of the monitoring visit, and that the subrecipients provide written responses to the findings within 30 days from the date of the report. If additional responses are needed, the subrecipients have 15 days to submit their follow-up responses. Follow-up letters requesting additional responses must be sent within 30 days from the date of the original monitoring response, or, if no additional responses are needed, the letter sent to close out the monitoring report must be sent within 30 days of the date of the responses.
- 16 of the 23 subrecipient monitoring files did not contain evidence that the monitoring reports were sent to the subrecipient on a timely basis,
- six of the 23 subrecipients did not submit their monitoring responses within the required 30 days,
- three of the 6 subrecipients who were required to submit additional responses did not submit the additional responses within the required 15 days, and
- 11 of the 23 subrecipient monitoring files tested indicated that the follow-up or closeout letters were not sent within 30 days as required.

Four of the 23 subrecipient files did not have close out letters in the file, so it is unclear whether these monitoring reports were closed.

Recommendation
Community Services should develop processes to ensure that:
- Program officers are consistent in determining what issues are identified as findings and what issues are identified as recommended improvements,
- Monitoring files contain support for monitoring visits,
- Monitoring instruments are properly completed,
- Information entered into the monitoring tracking system is verified against the information in the monitoring files, and
- Correspondence and reports are sent to subrecipients on a timely basis.

Status:

06/15/09 - Staff has developed a Monitoring Guide which includes standard language for common monitoring issues. Monitoring Guide was reviewed by Energy Assistance Section. Community Services Section, and Portfolio Management and Compliance Division. Program officers received training May 14, 2009 on the Monitoring Guide. The Texas Administrative Code 10 TAC §5.16 was revised to include the definition of a finding, recommendation and note. Monitoring Guide is being reviewed by Executive Management. Procedures for support documentation have been revised to ensure that monitoring files are complete and that monitoring instruments are properly completed. Monitors are required to verify information entered into the monitoring tracking system coincides with information in the monitoring files. Monitors will be required to send correspondence and reports to subrecipients on a timely basis.

12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. The Program officers received training on the Monitoring Guide and for what is considered a finding, recommended improvement, a note, and standard language for common findings. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management and Compliance Division.

06/11/08 - 06/11/08 - Management will develop a uniform definition for what constitutes a Finding, a Recommended Improvement and a Note that will be included in a Monitoring Guide Book that outlines standard language for most the commonly identified issues. The Project Manager for Monitoring will provide training to the Program Officers prior to each monitoring cycle to ensure a clear understanding of the Monitoring Guide Book. During the review of draft monitoring reports, the Project Manager will ensure adherence to the Monitoring Guide Book. The CS Project Manager for Monitoring, responsible for ESGP, will provide training to Program Officers to ensure that monitoring files contain adequate support documentation and monitoring instruments are properly completed.

The CA Division in conjunction with the IS Division will revisit and update the monitoring tracking system that tracks monitoring findings. A CS staff member, who is not required to travel, will be designated to maintain the monitoring tracking system.

Management will provide training and oversight to ensure that staff adheres to the existing Monitoring Standard Operating Procedure in regards to timeliness of reports and correspondence, documentation of internal reviews, and communication with subrecipients' governing boards. The existing monitoring tracking system will be updated to generate more useful reports to alert staff about approaching deadlines.

Issue #	Report Date / Auditors	Report Name / Audit Scope
53	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	9/1/2008
Px	12/01/08	2/28/2009
Ix	06/15/09	
Px	06/19/09	
Nr	03/01/10	
Ix	07/13/10	

Issue: Chapter 6-B
Community Services Should Ensure That Subrecipients Comply with Federal Salary Requirements

The program officers who monitor the ESGP subrecipients do not review the supporting documentation for salaries in order to ensure that subrecipients comply with the Office of Management and Budget's (OMB) Circular A-122, which covers cost principles for nonprofit organizations, and Circular A-87, which covers cost principles for state, local and Indian tribal governments.

Circulars A-122 and A-87 require subrecipients' timesheets to reflect actual time worked. However, the monitoring instrument for ESGP asks, "Do the time sheets reflect actual time worked or a budgeted percentage?" Also, the program officers do not review to ensure that the timesheets are for the total activity of the employee, are maintained at least monthly, are signed by the employee or the authorized supervisor (for the non-profit subrecipients), and that the time sheet is signed by the employee (for state, local and Indian tribal government subrecipients.) Circular A-87 also requires that when an employee is working solely on a single program, the wages are supported by a periodic certification that is prepared at least semi-annually and is signed by the employee or a supervisory official having first hand knowledge of the work performed by the employee.

Recommendation
The monitoring instrument should be modified in order to require the program officers to review time sheets to ensure that the time reported is the actual time worked. The program officers should also ensure that the timesheets are for the total activity of each employee, that they are maintained at least monthly, and that they are signed by the correct individuals as required by Circulars A-122 (non-profits) and A-87 (state, local and Indian tribal governments.)

Status:

07/13/10 - The ESGP Monitoring Instrument was revised in 2008 and additional revisions were made 7/1/2010 to address the need for Program Officers to review timesheets, to compare and verify actual time worked, and to check for compliance with A-122 and A-87.

03/01/10 -

06/19/09 - After reviewing the ESGP Monitoring Instrument, the following items were noted:
1. The revised ESGP Monitoring Instrument DID include provisions for a program officer to review timesheets
2. The Monitoring Instrument did NOT include a requirement for time reported to be compared and verified for actual time worked.
3. The Monitoring Instrument did NOT include a requirement for compliance with Circulars A-122 and A-87.

06/15/09 - Emergency Shelter Grant Program Monitoring instrument was revised March 9, 2009 to address requirements related to timesheets.

12/01/08 - The ESGP Monitoring instrument will be revised to address requirements related to timesheets.

06/11/08 - The Emergency Shelter Grants Program (ESGP) monitoring instrument will be revised to expand the questions, and oversight, related to the review of subrecipient timesheets as required by OMB Circulars A-122 and A-87 and as further clarified by the Department's Legal Division.

Issue #	Report Date / Auditors	Report Name / Audit Scope
55	6/11/2008	Audit of the Community Services Block Grant and Emergency Shelter Block Grants
	Internal Audit	Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	9/1/2008
Px	12/01/08	2/28/2009
Nr	06/12/09	
Ix	06/17/09	
Px	03/22/10	
Ix	07/13/10	

Issue: Chapter 6-D
Subrecipients Should Document the Review of Client Eligibility Prior to Providing Funding for Essential Services

Two of the four categories of ESGP funds, homeless prevention funds and essential services funds are used to assist clients. Most ESGP clients receive homeless prevention services which consist of rent or utilities payments, or other services paid for with ESGP funds to prevent homelessness. Most of the essential services funds are used for subrecipient administration, but some clients receive funds from essential services, which are payments made directly to the client for things like bus tokens, job training or medical and psychological counseling. The subrecipients are not required to retain completed intake forms for clients that receive essential services, and program officers do not review client files to determine if the clients who received these funds were eligible.

Recommendation
Eligibility should be reviewed, documented and retained for all clients who receive essential services.

Status:

07/13/10 - The ESGP Monitoring Instrument was revised in 2008 and additional revisions were made 7/1/2010 to address the need for program officers to review eligibility documentation and to ensure such is maintained by subrecipient for clients receiving ESGP funded essential services.

03/22/10 - Internal Audit received a portion of the 2008 ESGP Monitoring Instrument marked specifically for Chapter 6-D, with an asterisk by the statement that reads "41. Is there a system of control for the accounting of vouchers, bus tickets, and other direct services provided with ESGP funds?" While the auditor understands this to be a way to maintain documentation of the essential services provided, the recommendation specifically asks that eligibility should be reviewed, documented, and retained for all clients receiving essential services. The auditor would need to see where eligibility is maintained for each client.

06/17/09 - ESGP Monitoring instrument was revised to indicate client eligibility requirements.

06/12/09 -

12/01/08 - The ESGP Monitoring instrument will be revised to affirm the eligibility of clients for essential services.

06/11/08 - Intake forms are currently required for homelessness prevention services provided directly to the clients such as rental subsidies and utility payments. When subrecipients provide essential services that include food, bus tokens and personal hygiene items (such as soap and shampoo), subrecipients maintain a log detailing client names. However, staff will improve on this tool so that it has the ability to affirm eligibility of clients for essential services.

Issue #	Report Date / Auditors	Report Name / Audit Scope
65	5/6/2009	Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi
	Internal Audit	The scope of this audit included the loan document processing and loan servicing functions

Status		Target Date
Px	05/06/09	7/31/2009
Ix	06/11/09	

Division: HOME

Section: HOME Production

Issue: Chapter 3-B

Condition: A certificate of completion or other evidence that verified the completion of construction was not included in eight of the 15 files (53.3%) reviewed.

Cause: Construction loans are forgiven based on a pre-determined date, rather than evidence that the construction is complete.

Criteria: To ensure loan provisions are satisfied, completion of construction should be documented prior to loan forgiveness.

Effect: Without some proof of the completion of construction, the Department could forgive a loan on a property before it is finished.

Recommendation: The Department should:

• ensure that the term of the unsecured equity loan is sufficient to guarantee completion of construction prior to the loan maturity date, and

• obtain and include in the loan servicing file the documentation verifying the completion of construction.

Status:

06/11/09 - To ensure loan provisions are satisfied and completion of construction is documented prior to loan forgiveness, the Division has a series of documents required for each loan file. The Department requires Contract Administrators undertaking construction activities execute a Construction Loan Agreement (CLA), which indicates a construction completion date and requires the Owner to acknowledge that before a final disbursement is made under the agreement, the Owner must provide a signed Affidavit of Completion, Form 11.27 the Department. In addition to the CLA, Division staff verifies construction completion of the housing unit by requiring Department Form 11.03-Final Inspection, which inspects housing conditions for compliance with applicable construction standards, specifications, and codes. This information is reviewed and provided as support documentation prior to the Final Draw Request Checklist--Form 16.26 and release of funds from the Department. Finally, in order to evidence both the construction completion date and loan maturity date, the Department executes a Deed of Trust and Promissory Note with households receiving construction assistance.

05/06/09 - Management agrees with the recommendations and will, in the next 90 days be revising the mechanism for forgiveness including documented assurances that the construction has been completed (Lora Myrick)

Issue #	Report Date / Auditors	Report Name / Audit Scope
69	12/20/2006	Energy Assistance Weatherization Assistance Program Subrecipient Monitoring
	Internal Audit	Consideration of EA Weatherization Assistance program's subrecipient monitoring functions

Division: Community Affairs

Section: Energy Assistance

Status		Target Date
Px	12/20/06	5/30/2007
Px	03/02/07	5/30/2007
Px	04/23/07	5/30/2007
Px	06/26/07	7/30/2007
Dx	08/02/07	11/1/2007
Dx	04/22/08	
Dx	12/01/08	
Dx	06/12/09	
Dx	02/12/10	
Dx	07/14/10	
Px	10/27/10	11/30/2010
Px	01/10/11	2/15/2011

Issue: Section 6
Assess and Satisfy Information Needs

The management information system is adequate to track most of the significant milestones such as the planned monitoring visit date, actual monitoring visit date, monitoring report date, monitoring report response due date and actual receipt date, follow-up letter date, and close-out date (close-out letter). However, data fields have not been created to capture significant milestones relating to the delivery of the monitoring letter to the subrecipient's governing board chair and the subrecipient's response to the monitoring follow-up letter.

A text/memo field called Notes in the Monitoring Tracking System is used to capture the results of monitoring activities such as findings or conditions noted, required corrective actions, concerns and comments; however, the information recorded in the Notes field is unclear, not consistently posted, and, in instances, incomplete.

Findings were not posted to the monitoring tracking system for six of the eight monitoring files tested, monitoring results are not tracked to conclusion (actions taken and final resolution), and multiple areas of concern were noted throughout the monitoring checklists and files that were not posted to the monitoring tracking system.

Adequate information is necessary to ensure timely, efficient delivery of services. Tracking results of subrecipient monitoring activities is important to ensure findings noted are satisfactory resolved. The results of monitoring activities also provides meaningful information management can use to identify and prioritize risks for resources allocation purposes and to identify, plan and provide technical assistance. Significant milestone dates are important to help ensure satisfactory progress is being made toward achieving the goals and objectives of the subrecipient monitoring function.

The Department of Energy (DOE) requires that major findings from subgrantee monitoring visits and financial audits be tracked by the State to final resolution and recommends that the tracking record include, but not necessarily be limited to, findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. DOE also requires the State annually summarize and review each subgrantee's audit, program monitoring reports and findings for internal monitoring of State and subgrantee needs, strengths, and weaknesses and that the results of this annual monitoring be considered during annual planning and be available for the DOE Regional Offices to review during their State program monitoring visits.

Recommendation
Management should assess its information needs to ensure they are being adequately satisfied. In assessing its information needs, management should minimally:

• determine what information is needed to function and operate on a daily basis,
• evaluate major problems regularly encountered and assess how information can help solve the problems,
• categorize the major decisions program management must make and determine how additional information could help,
• identify various reporting requirements and related information needs,
• evaluate how information can improve the effectiveness of services provided,
• determine what kinds of information could enhance the program's efficiency, and
• assess information needs of others such as executive management and oversight and funding agencies.

Strategies, including computer and non-computer solutions, should be developed for capturing necessary data to operate effectively. Minimally, we recommend the information system be enhanced to capture the results of monitoring activities and track the status of monitoring findings to final resolution.

Regardless of strategies selected, we recommend the processes be formalized with the goal of:

• recording complete, accurate and timely information, which will require the incorporation of quality control procedures and edits,
• facilitating the monitors performing their day-to-day operating activities and responsibilities,
• facilitating management's review and consideration of current performance against operating goals and objectives, and
• satisfying the reporting requirements of oversight and funding agencies.

Status:

01/10/11 - The ARRA WAP Unit Inspections database (Excel) is completed and implemented.

The Monitoring Results Database (Access) tracks the occurrence of ARRA WAP monitoring visits, the results of the visits (findings, corrective actions, notes, due dates responses and actions taken), the timely distribution of monitoring reports as well as the timely receipt of the responses from the subrecipients. The database is loaded with the current monitoring data, however, the addition of historical monitoring data is still being input. It is expected to be completed by 2/15/2011.

10/27/10 - ARRA WAP Unit Inspections & Monitoring Visits Summary - The primary purpose of this Excel database is to track the number of monitoring visits that have been planned and completed and the percentage of units inspected to ensure that the EA team meets ARRA, DOE, and TDHCA requirements. The database is also used to calculate the minimum number of units that must be inspected in upcoming visits and to assist in monitoring document inventories. Reports from this database are generated weekly; the first report was distributed in July 2010 and continues to evolve as management's information needs evolve.
Much of the data in the database is also used to populate fileds in a newly developed "ARRA WAP Monitoring Visit Risk Assessment" report. This report is used to prioritize monitoring visits based on specified risk factors and weights. This report has been generated weekly since the end of September 2010.

Monitoring Results Database - the primary purpose of this Access database is to track the occurrence of ARRA WAP monitoring visits, the results of these visits (findings, (recommended) corrective actions, recommendations, notes, due dates, responsible parties, responses, and corrective actions taken), the timely distribution of monitoring reports, as well as the timely receipt of report responses from the Subrecipients. This database will also be used to track and report unit inspection characteristics, finding trends, assess the training needs of the EA team and Subrecipients, and plan upcoming monitoring visits. The database is partially complete as of October 27, 2010. It is expected to be fully complete by November 30, 2010. Although the database is not fully complete, the EA team is currently able to generate reports of specific data elements that have been loaded into the database.

07/14/10 - The Information Systems Division is currently working on projects assessed as higher priority to the Department. The IS Division has set the incorporation of the ARRA contracts and reporting mechanism in the current Community Affairs contract system as a high priority.

02/12/10 - None provided.

06/12/09 - The Division of Information Systems is currently working on projects assessed as higher priorities to the Department. The IS Division has set the incorporation of the American Recovery and Reconstruction Act contracts and reporting mechanism into the current Community Affairs Contract System as a high priority.

12/01/08 - The Energy Assistance Section and the Information Systems staff have implemented a Monitoring Tracking System on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.

04/22/08 - The Energy Assistance Section and the Information Systems Division staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA and ISD staff will analyze this system for possible improvements.

Information Systems Division resources are currently allocated to projects assessed as higher priorities to the Department. Because of the focus on the Community Affairs Contract System project, deployment of the CDBG components of the Housing Contract System, and other high priority projects, an upgrade of the EA Monitoring Tracking System has not been presented to the Information System Steering Committee to be established as a new project. EA and ISD will submit an IS Project Request to the Steering in Committee for approval at its next meeting. The IS Project Request form will include estimates in technical and business team hours for development, testing, and deployment

08/02/07 - The Energy Assistance Section and the Information Systems staff have a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements that includes reports and increased narrative field size.

06/26/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.

04/23/07 - 04/23/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.

03/02/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.

12/20/06 - During the planning of the Contract System being developed by the IS Division, the EA Section identified the daily operational needs of the Section. The Contract System, once complete, will help the Section gather information needed to comprehensively monitor the subrecipients and make effective management decisions. However, Management acknowledges that the Contract System will only provide information for review. The EA Section must provide timely updates, conduct quality control checks, and supplement additional information needs by updating the Intranet monitoring tracking system. The updated monitoring tracking system will assist management by providing information, documenting results, and summarizing desk and field monitoring reviews.

The EA Section will coordinate with IS to update the Intranet monitoring tracking system to incorporate text fields to capture findings and the events that occur up to, and including resolution of, the findings. The updated system will be made available to all EA Program Officers, Project Managers, Section Manager, and to the Division Director. Upon coordination with IS staff, the updated system will be implemented after completion of the 2006 monitoring visits. In the interim, EA is using an Excel monitoring tracking system to track this information.

Issue #	Report Date / Auditors	Report Name / Audit Scope
71	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's

Status		Target Date
Px	06/11/08	
Px	12/01/08	2/28/2009
Ix	06/15/09	

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 6-E

Standard Forms and Processes Should be Developed to Document the Sample of Expenditures and Client Files Reviewed During Monitoring

There are no written procedures for documenting the shelters visited and expenditures reviewed by the program officers during on-site monitoring visits. In addition, the contract specialist performs reviews of monthly expenditures, but does not document the results of these reviews. Finally, there is no written procedure regarding how many client files should be reviewed during an on-site monitoring visit. For example, one program officer may review 12 client files while at another subrecipient, they may only review three client files.

Recommendation

Community Services should:

- Develop written procedures and standard forms to document the shelters and expenditures reviewed during monitoring visits,
- Maintain documentation to support the review of monthly performance and expenditure data, and
- Develop written procedures regarding the minimum number of client files that should be reviewed in order to ensure consistency between subrecipient monitoring visits.

Status:

06/15/09 - ESGP Monitoring Instrument was revised to address identified areas. Additional questions and forms were added to document the review of performance and expenditure data. A minimum of 5% of the client files will be reviewed.

12/01/08 - The ESGP Monitoring Instrument and Monitoring SOP will be revised to address identified areas.

06/11/08 - Management will expand the Emergency Shelter Grants Program (ESGP) monitoring instrument to document the name and number of shelters visited and to integrate a standard form, including maintaining documentation, for use in reviewing expenditures.

The CS Section will strengthen procedures to document a process for ensuring review of monthly performance and expenditure data.

ESGP Program Officers currently review all client files for the sample months selected.
The Monitoring SOP will be expanded to include a minimum percentage of client files that will be reviewed in order to ensure consistency between subrecipient monitoring visits.

Issue #	Report Date / Auditors	Report Name / Audit Scope
72	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's

Division: Community Affairs

Section: Community Services - CSBG

Status		Target Date
Px	06/11/08	
Px	12/01/08	5/31/2008
Ix	06/15/09	

Issue: Chapter 8

There are Advantages and Disadvantages in Changing the Organizational Structure to Separate the Monitoring and Program Support Functions

The program officers who monitor the subrecipients in both CSBG program and ESGP also provide technical assistance to the subrecipients. Technical assistance is provided when the program officer offers advice or suggestions to help improve the subrecipient's operations. Frequently this technical assistance takes place during on-site monitoring visits. Program officers are assigned a group of subrecipients to monitor and these assignments are rotated every three years. The program officers report to a manager who is directly accountable to the director of the Community Affairs Division. The director of Community Affairs is responsible for not only the monitoring of these programs, but for the performance of the programs, too. This model has several advantages and disadvantages.

The advantages are:

• An ongoing working relationship is developed between the subrecipient and the program officer that allows the program officer to become familiar with the operations and the needs of the subrecipients assigned to them,

• Program officers can identify the subrecipients' training needs and work with the trainer assigned to their program to ensure that the subrecipients get the training they need,

• Program officers can develop subject matter expertise in the CSBG program or ESGP, and

• The director of the Community Affairs Division is responsible for all aspects of the programs in the division and can more easily be held accountable for them.

The disadvantages are:

• There is a risk that managers or program officers could be inclined to identify issues as technical assistance or training needs rather than monitoring findings

• Program officers may develop relationships with subrecipients that could contribute to the risk of favoritism, and increase the potential for fraud, waste or abuse,

• The line between training needs and compliance with the laws and rules governing the administration of the grant funds is not clear,

• In the case of CSBG, technical assistance is not currently an allowable cost for the administration funds that pay the program officers' salaries (see Chapter 1-A),

• The director of the Community Affairs Division may not be willing to bring issues with subrecipients forward to executive management or the Department's governing board because they are responsible for the success of the grant programs, and

• The program officers may not have easy access to information gathered by other divisions within the Department, for example, the Portfolio Management and Compliance (PMC) Division (see Chapter 3-B.)

The Department's PMC Division is responsible for monitoring most of the Department's other programs. Combining the Community Affairs Division's program officers' monitoring function with the PMC Division's would have the following advantages:

• Separating the goals of program support and technical assistance from monitoring,

• Decrease the opportunity for collusion, or other types of fraud, waste and abuse, and

• Decrease the number of monitoring visits by coordinating monitoring visits for multiple programs with each subrecipient.

Recommendation

The Department should evaluate the functions and activities of the program officers and other staff of the Community Affairs Division and decide whether to move the monitoring function to another division, or to put into place safeguards to ensure the consistency of monitoring and decrease the potential for collusion or other types of fraud, waste and abuse.

Status:

06/15/09 - Safeguards have been implemented through the revision of TAC rules, the development of a monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse.

12/01/08 - Safeguards have been implemented through the revision of the TAC rules. the development of a draft monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse. The CA Division Director will continue to work with the Executive Team to evaluate the effectiveness of the monitoring function in the Community Affairs Division.

06/11/08 - Management will evaluate the functions and activities of the program officers and other staff of the Community Affairs Division and decide whether to move the monitoring function to another division, or to put into place additional safeguards to ensure the consistency of monitoring and decrease the potential for collusion or other types of fraud, waste and abuse.

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84 | 8/18/2008 | Audit of the Single Family Mortgage Revenue Bond Program at TDHCA

State Auditor's O | Review of the Department's processes of managing Program bond payments, interest rate s

	Status	Target Date
Px	08/18/08	11/30/2008
Px	11/08/08	11/30/2008
Ix	01/21/09	

Division: Information Systems

Section: Not Selected

Issue: Chapter 3-A
The Department Has Not Configured Its Internal Accounting System to Maintain Audit Trails

Although the Department controls access to the MITAS System through the use of user logins and passwords, it has not enabled the audit trail feature in the MITAS System. The MITAS System is the Department's internal accounting system for the Program; it contains general Program loan information, but it does not contain specific confidential information of Program borrowers. The MITAS System is an accounting software package the Department purchased from the MITAS Group. Audit trails maintain a transaction and logging history for a system. Without audit trails, the Department cannot consistently identify who created a transaction or changed data or when the activity occurred. This weakness may hinder any Department efforts to identify and resolve the source of errors or unauthorized changes to its data.

If unauthorized changes are made, it may limit the Department's ability to identify the source of the change and accurately reconcile Program funds. The Texas Administrative Code requires agencies to maintain appropriate audit trails based on a documented security risk assessment.

Recommendation
The Department should perform a risk assessment to determine whether it should enable the audit trail function in the MITAS System and implement the resulting decision.

Status:

01/21/09 - The department completed the MITAS risk assessment on November 24, 2008, and implemented the resulting audit trail decisions.

11/08/08 - The Department is currently performing the Mitas risk assessment and expects to be complete with it and associated audit trail decisions by November 30, 2008. The Department has reconfigured the current server environment to allocate disk space for any required system logging, based on the risk assessment

08/18/08 - The Department agrees with the recommendation and will perform a risk assessment to decide whether it should enable the MITAS audit trail function. Because of resource limitations on the server hardware that currently houses MITAS, the Department will also upgrade the hardware to add the disk space required for increased system logging.

Issue #	Report Date / Auditors	Report Name / Audit Scope
85	8/18/2008	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA
	State Auditor's O	Review of the Department's processes of managing Program bond payments, interest rate s

Status		Target Date
Px	08/18/08	11/30/2008
Px	11/08/08	11/30/2008
Ix	01/23/09	

Division: Information Systems

Section: Not Selected

Issue: Chapter 3-C
The Department Has Not Conducted a Security Risk Assessment Since 2005

Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), recommends that state agencies adopt 24 security policies and other information technology security controls based on a documented security risk assessment. The Department performed an agency-wide risk assessment in 2005, including an assessment of the security over information systems and its controls over high-impact information system processes. The Department reviewed the controls over these high impact information system processes again in 2006. The Department did not document its reasons for not implementing an information security control and eight of the policies recommended in 1 TAC 202.25. Auditors communicated details of these system security weaknesses to Department management. The Department could improve its information technology security by conducting a security risk assessment and addressing any weaknesses it identifies.

Recommendation
The Department should perform, document, and implement (as appropriate) a security risk assessment.

Status:

01/23/09 - On January 23, 2009, the Department completed an updated security risk assessment which addresses controls listed in Title 1, Texas Administrative code, Section 202.25. The risk assessment documents existing and recommended information security policies and other controls and established a target date for implementing each recommendation.

11/08/08 - The Department is in the process of performing an updated security risk assessment, which addresses controls listed in Title 1, Texas Administrative Code, Section 202.25.

08/18/08 - The Department agrees with the recommendation and has created a security policy upgrade plan which includes the step of performing an updated security risk assessment.

Issue #	Report Date / Auditors	Report Name / Audit Scope
86	8/18/2008	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA
	State Auditor's O	Review of the Department's processes of managing Program bond payments, interest rate s

Status		Target Date
Px	08/18/08	10/31/2008
Px	11/07/08	8/31/2009
Px	01/21/09	
Ix	07/06/10	

Division: Bond Finance

Section: Not Selected

Issue: Chapter 4

The Department Does Not Include Statutorily Required Language in All Program Contracts

The Program's contracts do not contain the statutorily required language granting the State Auditor's Office audit authority and access to records. These contracts include those with bond counsel, The Bank of New York Mellon Corporation, and Countrywide Home Loans, Inc. Contracts that do not contain this statutorily required language may limit the State's ability to provide effective oversight of contract terms, contractors, and the use of state funds. Access to records is an essential element of auditing. Texas Government Code, Section 2262.003, requires that all state agency contracts contain contract terms specifying that:

- The State Auditor may conduct an audit of any entity receiving funds from the State directly or indirectly under the contract.
- An entity subject to audit by the State Auditor must provide the State Auditor with access to any information that the State Auditor considers relevant to the audit.

These contract language requirements were effective as of September 1, 2003.

Recommendations

The Department should comply with statutory requirements by:

- Amending all current contracts to include terms granting the State Auditor audit authority and access to records.
- Including in all future contracts terms granting the State Auditor audit authority and access to records.

Status:

07/06/10 - TDHCA has added this provision to contracts prepared internally. The Office of the Attorney General prepares all outside counsel contracts and will add this provision to their form. Current bond counsel contract with Vinson & Elkins does not contain this provision but will be added upon renewal in 2011.

The OAG advised that this provision has been a complicated problem. Their current form doesn't include thses provisions because almost all outside counsels objected to it and refused to sign with the provision included. The OAG discussed the matter with the SAO. The decision was made to add the language into future forms and the SAO will field calls if outside counsels object again.

01/21/09 - Amend existing contracts as they are renewed.

11/07/08 - Existing contracts will be amended when they are renewed and all future contracts will contain the language to allow the State auditors office authority and access to records.

08/18/08 - The Department agrees to comply with statutory requirements relating to program contracts. The Department will review and amend all contracts to include terms granting the State Auditor audit authority and access to records as contracts are renewed. The Department has already incorporated Section 2262.003 of the Texas Government Code in the Request for Proposal for Underwriting Services and Request for Proposal for Master Servicer to be presented to the Board at the September 4, 2008 meeting, which included terms granting the State Auditor audit authority and access to records.

Issue #	Report Date / Auditors	Report Name / Audit Scope
114	6/23/2009	Texas Community Services Block Grant Program (CSBG) State Assessment Review
	Department of H	Review of the fiscal and programmatic procedures of the CSBG State agency

Status		Target Date
Px	07/27/09	
Px	10/02/09	12/31/2009
Nr	03/01/10	
Px	07/13/10	9/30/2010
Px	10/13/10	12/30/2010
Ix	01/10/11	12/30/2010

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 3

•The State did not have processes to ensure that eligible entities and CAAs inform and/or refer custodial parents to Child Support services as required by CSBG statute.

•We recommend the State:

o3.1 Develop and implement procedures according to the statute for referrals to the local child support office.

o3.2 Develop and implement procedures that require CSBG grantees and subgrantees conducting case management to document referrals to local child support offices.

Status:

01/10/11 - Rule requiring referral to child support was approved in draft form on November 10, 2010. No comments were received and the rule will be presented in final form at the January 20, 2011 Board meeting. Approval is anticipated.

10/13/10 - Community Affairs decided to move TAC Rules revisions to the November 2010 Board meeting. CA intends to present this rule for Board action at that time. The Department does not expect any further response from USHHS from their previous monitoring visit.

07/13/10 - On 3/29/2010 the Department received the final report of the U.S. Department of Health and Human Services (USHHS) assessment of the Community Services Block Grant conducted February 23-27, 2009. The Department responded on May 7, 2010. The response to Finding #3 is included on page 6 of 7 of the response. The Department is awaiting final response, if any from USHHS.

TAC Chapter 5, Subchapter B, CSBG, will be revised to address this issue. The CSBG monitoring instrument has been revised to address the requirement for CSBG eligible entities to refer custodial parents to Child Support Services.

03/01/10 -

10/02/09 - The Department is in the process of drafting State rules, to be filed under the Texas Administrative Code. Related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services. Community Services anticipates that the rules will be revised by 12/09 .

07/27/09 - Recommendation 3.1: CSBG eligible entities inform persons seeking CSBG assistance about the services available through the Texas Attorney General's Office for the collection of child support. The Department has revised the 2009 CSBG Monitoring Instrument to add specific questions regarding the requirements related to informing custodial parents in single-parent families about the availability of child support services and refer eligible parents to the child support offices.

The Department is in the process of drafting State rules, to be filed under the Texas Administrative Code, related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services.

Recommendation 3.2: TDHCA is in the process of drafting State rules, to be reflected under the Texas Administrative Code when adopted, relating to the requirement that require CSBG grantees and subrecipients conducting case management to document referrals to local child support offices. The 2009 CSBG Monitoring Instrument was revised to monitor compliance with the CSBG Act in regards to this issue.

Issue #	*Report Date* / *Auditors*	*Report Name* / *Audit Scope*	*Status*	*Target Date*
115	6/23/2009 Department of H	Texas Community Services Block Grant Program (CSBG) State Assessment Review Review of the fiscal and programmatic procedures of the CSBG State agency	Ix	07/27/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 4

•The State needs to ensure that all eligible entities and CAA's are in compliance with the income eligibility requirements for emergency services.

•We recommend the State:

o 4.1 Ensures eligible entities and CAA's verify income eligibility requirements for CSBG funded emergency service programs.

Status:

07/27/09 - Recommendation 4.1: TDHCA does require that CSBG eligible entities document and verify that persons receiving CSBG funded emergency services are income eligible. TDHCA requires that in cases where proof of income is unavailable, a Declaration of Income Statement form be completed and maintained in the applicable client level file. The form requires that the client certify the income of all household members without documentation of income. The program officers review client eligibility documentation in the client files during on site monitoring reviews.

Issue #	Report Date / Auditors	Report Name / Audit Scope
116	4/17/2009	Affordable Housing and Financial Monitoring and Technical
	HUD	On-site monitoring of the state's affordable housing programs

Status	Target Date
Px 06/30/09	
Tx 01/25/10	
Px 06/29/10	
Px 09/30/10	
Px 01/11/11	

Division: Compliance & Asset Overs

Section: Compliance

Issue: Finding #2 Review of the multifamily portfolio report indicated there are numerous projects that are out of compliance with the HOME Program requirements under §92.503(b). Some of the deficiencies/violations could have serious consequences resulting in the state being requested to repay the full amount of the HOME funds invested if the projects cannot be brought into compliance within a reasonable period of time.

Required Corrective Action: The state must provide a detailed report for all of the properties listed on the enclosed report. Report must be provided on or before June 20, 2009. The state must then provide a quarterly report beginning on October 10th and thereafter, on or before the 10th of the month for each subsequent quarter beginning January 10th, 2010, until the projects have been brought into compliance.

Status:

01/11/11 - The Department is confident that some of the remaining properties will come into compliance through normal monitoring and enforcement procedures. However, the Department acknowledges that some of these properties need special consideration. TDHCA and HUD regional staff have been discussing dates and times to meet and discuss ideas for resolving these property compliance issues.

09/30/10 - Last quarter 2 more properties came into compliance. The Department is confident that some of the remaining properties will come into compliance through normal monitoring and enforcement procedures. However, the Department acknowledges that some of these properties need special consideration. TDHCA and HUD regional staff have been discussing dates and times to meet and discuss ideas for resolving these property compliance issues.

06/29/10 - Since the last quarter, 12 more HOME properties have resolved all of their compliance issues. Staff continues to work with owners and report to HUD.

01/25/10 - Since the last quarter 24 HOME properties have cleared all of their noncompliance issues. Staff continues to work with HOME properties on corrections and reports to HUD regularly.

06/30/09 - The Department is working to bring about restored compliance and achieve required affordability through a combination of thorough and regular monitoring, enhanced technical assistance, the initiation of the administrative penalty process, and informal conferences.

Issue #	Report Date / Auditors	Report Name / Audit Scope
122	12/18/2008	Report to Management - year ending August 31, 2008
	Deloitte and Tou	Annual independent audit of the Department's general purpose financial statements

Status		Target Date
Px	09/30/09	10/31/2009
Px	12/18/09	1/31/2009
Ix	02/16/10	

Division: Information Systems

Section: Not Selected

Issue: Observation: The PeopleSoft support team makes changes to financial data stored in the Oracle database after receiving approvals through email by business users. Such requests are entered in Track-It to ensure they are completed timely. Changes made to the production database include SQL queries which update and delete data. Such changes are made through individual user identification to establish accountability on the system. However, such database changes are not logged systematically through individual user accounts to ensure only changes intended by management are made to the production database.

Recommendation: All requests by the business to allow IT support to make data changes should be written, maintained and monitored for appropriateness.

Status:

02/16/10 - The reporting mechanism that the Director of Information Systems uses to monitor the direct database change log was put into place in early November 2009. The report can now be run at any time and with any date range to produce a list of direct database changes made to the PeopleSoft Financials 8.8 production environment.

12/18/09 - In addition to the current process of documenting Financial Administration (FA) Division management or team leader approval in advance of performing direct database updates in PeopleSoft as requested by FA management and staff, the Information Systems Division will implement a process to log direct database changes made through the individual system accounts of the PeopleSoft support team. The Director of Information Systems will monitor these logs for ppropriateness.

09/30/09 - The Information Systems Division implemented the direct database change log for PeopleSoft in August 2009. The reporting mechanism that the Director of Information Systems will use to monitor the log will be put into place by October 31, 2009.

Issue #	Report Date / Auditors	Report Name / Audit Scope
123	12/18/2008	Report to Management - year ending August 31, 2008
	Deloitte and Tou	Annual independent audit of the Department's general purpose financial statements

Status		Target Date
Px	12/18/08	12/31/2008
Ix	09/30/09	

Division: Information Systems

Section: Not Selected

Issue: Observation: Policies have been created to govern network and systems software change management. Individuals have been granted authority to approve, test and deploy their own changes. Access to implement such changes has been limited to very few personnel. However, such changes are not formally reviewed by management to ensure they are consistent with management's intentions.

Recommendation: Changes made to network and operating systems software should be documented. Documentation should evidence testing and approvals of changes made.

Status:

09/30/09 - The Information Systems Division added the IS System Changes control to SOP 2264.14 in January 2009.

12/18/08 - In December 2007, management updated SOP 2264.14, "Network Change Procedures," to clarify the levels of authorization that the Director of Information Systems has granted to TDHCA's Network Administrator, Unix Administrator, and Database Administrator and to establish the Unix, Windows, and Cisco Change Log. The Information Systems Division has been in compliance with the updated version of SOP 2264.14 since that time. By December 31, 2008, management will add an additional control to SOP 2264.14 requiring that employees in these positions email a description of the planned change to a new distribution list named "IS System Changes" prior to initiating certain types of network and operating systems software changes identified in the SOP. The Director of Information Systems will be a member of this distribution list. Email sent to this distribution list will also be posted to a public folder to which all division employees will have read access.

Issue #	Report Date / Auditors	Report Name / Audit Scope
125	3/3/2009	State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ende
	State Auditor's O	Federal Portion Audit of the State's basic financial statements and a review of significant

Status		Target Date
Px	03/03/09	3/31/2009
Ix	09/30/09	

Division: Information Systems

Section: Not Selected

Issue: Condition:
• Genesis – Six users have administrative privileges that allow them the ability to have access to application and database administrator roles and to migrate application code changes into production. In addition, two of these six users are developers. The other four users are user account administrators for Genesis.
• CACS – Two developers have application administrative access rights.
• PeopleSoft – One developer/analyst has database administrator privileges, application administrator rights, and access to migrate code changes into production. TDHCA's Director of Information Systems performs a quarterly review of a PeopleSoft report that includes all changes made to the application. However, the developer/analyst has the ability to alter the report with his high-privilege access rights which are assigned so he can migrate changes into production.
• At the network level, one developer has domain administrative privileges.
Cause: In each system, duties are not appropriately segregated between the application administrators, database administrators, and developers. Also specific developers have access to move changes into the production environment of the individual systems.
Criteria: Community Affairs contract systems for monitoring contracts should allow only the appropriately authorized individuals access to update records.
Effect: Users with inappropriate rights to modify applications create a risk of unauthorized changes to the production environment and/or risks of unintentional errors or omissions in processing.
Recommendation: Duties should be segregated between application administrators, system administrators, database administrators, and developers. In addition, developers who have programming responsibilities should not have access to migrate changes to production. In cases where such condition is necessary, management should implement a monitoring control to help ensure that changes implemented to production are appropriate. Privileged access should only be granted to developers in the test environment. If monitoring controls such as report reviews are put in place, developers should not have access to modify the report.

Status:

09/30/09 - In April and May 2009, the Information Systems Division completed each change to access described in the Corrective Action Plan section of the March 2009 status update.

03/03/09 - Summary of Existing Processes and Monitoring Controls – Because of the size of the Department's Information Systems Division (ISD) and the number of systems supported, management has assigned some ISD employees responsibilities that cross between developer, application administrator, and database administrator roles to provide for efficient delivery of services in the support of production systems and to ensure adequate backup for critical ISD functions. Additionally, in the legacy Genesis system, technology limitations prevent the Department from systematically separating responsibilities between these roles.

Over the past five years, the Department has implemented both manual and systematic processes and monitoring controls for tracking software changes to compensate for the risks posed by advanced levels of systems access. These controls include a series of standard operating procedures governing software, database, and network changes, including a requirement to document approval of direct database updates requested by management within the Department's help desk system; the Software Change Acceptance form; the Object Change Report for PeopleSoft; and the Concurrent Versioning System (CVS), which systematically tracks all software changes promoted to the production environment for the new Community Affairs Contract System (CACS). In addition to these controls, the Department completely segregates developer access between front-end programmatic systems, such as Genesis and CACS, and the Department's general ledger system, PeopleSoft.

Corrective Action Plan – In order to strengthen segregation of duties and further reduce the risk of unauthorized changes to production environments, the Department will remove application administrator access from the two CACS developers and application and database administrator access from the PeopleSoft developer/analyst noted in the finding. While reducing the risks of unauthorized changes, removing these levels of access will pose some production support risks for PeopleSoft, because of limited backup.

Regarding Genesis, the Department will reduce the number of user account administrators from four to two. However, because of the technical limitations mentioned above and because the Department will retire the Genesis version of the Community Affairs Contract System from all but historical inquiry in April 2009, the Department will continue to grant administrative privileges to the two employees who both develop and support remaining Genesis applications, which are administrative in nature. Management will continue to apply manual monitoring controls to the Genesis environment.

Finally, the ISD employee identified as a developer with Windows domain administrative privileges performs no development duties in the Windows environment. The privileges are assigned for backup ISD Network and Technical Support section purposes. Because these privileges provide support benefits to the Department and there is no crossover between developer and administrative responsibilities in this environment, management does not plan to remove these privileges.

Issue #	Report Date / Auditors	Report Name / Audit Scope
127	8/1/2009	A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of
	State Auditor's O	Following up on prior audit recommendations and covered all matters related to the administr

	Status	Target Date
Px	08/01/09	9/1/2009
Ix	10/15/09	

Division: Disaster Recovery

Section: Not Selected

Issue: Chapter 1-A
The Department should continue to work toward addressing delays that have affected the rate at which Community Development Block Grant hurricane recovery funds have been spent.

Status:

10/15/09 - The Disaster Recovery Division continues to work proactively with ACS, the COGs, and other parties to streamline program processes where possible to address delays. Since the SAO audit, staff has worked with the contractors and the Board to implement several policy changes or updates to address delays or obstacles to program delivery. The most prominent changes include the implementation of a revised ownership eligibility policy, revised policies to utilize in the event that the required costs to accomplish the approved project exceed allowable program caps for accessibility and/or municipality requirements, changes in the maximum benefit limitation for elevation assistance when such assistance exceeds the established cap, and a revision to our hold harmless agreement regarding notification to lienholders when providing program assistance to an affected property. This has resulted in an increase to 585 homes completed as of November 23, 2009.

08/01/09 - Management agrees with the recommendation. However, the streamlining suggested by the SAO must be a coordinated effort among a number of federal, state, and local governmental entities, and significant streamlining may not be possible without changes to federal and state laws governing the Community Development Block Grant program. Disaster response is an urgent need, and where processes can be streamlined or accelerated to bring needed relief more quickly, such improvements will be made. However, they must always be made in a manner that minimizes the risk of fraud, waste, and abuse and provides assurance that these public funds are, in fact, used only to build safe, decent homes for qualified individuals. During the 81st legislative session, the Legislature provided additional guidance to the Department in order to expedite disaster relief even where recipients could not document legal title to their homes. The Department's Governing Board consequently adopted a policy to move forward with providing relief to these individuals. The Department has worked proactively with ACS, the COGs, and other parties to streamline these processes wherever possible and will continue to seek opportunities to address any delays.

Person Responsible: Kelly Crawford

Issue #	Report Date / Auditors	Report Name / Audit Scope
128	8/1/2009	A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of
	State Auditor's O	Following up on prior audit recommendations and covered all matters related to the administr

Status		Target Date
Px	08/01/09	9/1/2009
Ix	11/09/09	

Division: Information Systems

Section: Not Selected

Issue: Chapter 1-E

Although the contractor had information technology controls in place for the three information systems tested, auditors identified weaknesses within those controls that should be addressed to ensure compliance with the Texas Administrative Code and the contract between the contractor and the Department. Recommendation:The Department should monitor the information systems of the contractor to ensure compliance with the contractual provisions related to information system controls. Specifically, the Department should:

- Ensure that the contractor assigns unique user IDs to each individual who uses its information systems.
- Ensure that the contractor removes or disables user IDs for its information systems for terminated employees or employees who are not assigned to the Homeowner Assistance Program or the Sabine Pass Restoration Program.
- Ensure that the contractor enables user password expiration and password complexity within the system the contractor uses to manage the application and construction process.
- Ensure that the contractor implements controls that compensate for the password weaknesses in the system the contractor uses to process payments to building contractors.
- Ensure that the contractor documents, tests, and communicates the key components of its information system change control process.
- Ensure that the contractor stores backup data off site.

Status:

11/09/09 - The Department's Information Systems Division management and IT security staff have met with ACS to follow up on the status of each recommendation from chapter 1-E of SAO report 09-048. ACS provided the Department with a description of how each recommendation was addressed and with its written IT change control policies. On an ongoing basis, the Department will conduct monitoring visits to review ACS IT security and disaster recovery controls and procedures.

08/01/09 - Management agrees with the recommendation and will work with ACS to ensure that their information technology controls are strengthened. TDHCA's Information Technology staff and Disaster Recovery & Emergency Housing staff will meet with ACS and ensure that the necessary measures are taken and that the recommended controls are implemented.

Person Responsible: Curtis Howe

Issue #	Report Date / Auditors	Report Name / Audit Scope
139	4/27/2010 / Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 / WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

Division: Community Affairs

Section: Energy Assistance - WAP

Status		Target Date
Px	04/27/10	5/1/2010
Px	07/14/10	7/29/2010
Px	10/26/10	11/10/2010
Ix	01/10/11	

Issue: Chapter 1-B
Monitoring Reports Should Be Issued Timely

The Community Affairs Division's Monitoring Guidelines state that the monitoring report is to be issued within forty-five days of the monitoring visit. However, according to the Weatherization Grant Guidance issued by the Department of Energy (DOE), these reports should be issued within thirty days of the end of the monitoring visit.

We reviewed the monitoring reports for all monitoring visits conducted in program year 2008. Of the 33 monitoring reports reviewed, 18 reports (54.5%) were not issued within the thirty day deadline required by DOE and 16 of those 18 reports (48.5%) were not issued within Energy Assistance's forty-five day deadline. The average number of days in which the reports were issued to the subrecipient was 50.5 days. In one instance 205 days passed between the end of the monitoring visit and the report issuance, which is more than six months.

If Energy Assistance does not issue the monitoring reports timely, the subrecipients may be unaware of the extent or severity of the identified deficiencies and may not correct them in a timely manner.

Recommendations

Energy Assistance should:
• follow the DOE's thirty-day deadline for issuing monitoring reports so that subrecipients can implement the recommended improvements timely, and
• ensure that the Energy Assistance monitoring guidelines are consistent with the DOE's Weatherization Grant Guidance.

Status:

01/10/11 - The revision to the TAC was adopted by the TDHCA governing Board at the December 17, 2011 Board Meeting.

10/26/10 - Energy Assistance staff has proposed to revise the TAC rules to reflect the DOE Weatherization Grant Guidance requirement that monitoring reports be issued within 30 days of a review. This rule revision will be ratified by the TDHCA Board on November 10, 2010. To meet the 30-day requirement, Energy Assistance has instituted a requirement that Program Officers must turn in their reports within 14 days of the end of a review; and the Project Manager must review and forward the report to the EA Manager within 21 days of the end of the review.

EA has instituted an enhanced tracking system for monitoring reports that will track when the visit is completed, when the report is due, when the report is sent, when the repsonse is received, and when the report is closed.

07/14/10 - The Staff agrees with the auditor; staff will revise it's guidelines to mirror those of the DOE Weatherization Grant Guidance and will immediately adhere to the revised guidelines of thirty days. New guidelines are proposed and will be submitted to the TDHCA Board for approval during the 07/29/2010 meeting.

04/27/10 - Regarding late issuance of reports, staff agrees with the auditor; staff will revise its guidelines to mirror those of the DOE Weatherization Grant Guidance and will immediately adhere to the revised guideline of thirty days. EA has also instituted an enhanced tracking system for monitoring reports that will track when the visit is completed, when the report is due, when the report is sent, when the response is received, and when the report is closed. Management notes that more expedited verbal follow up with subrecipients occurs in situations where a monitoring visit resulted in significant concerns relating to possible misuse of funds or failure to adhere to federal program regulations. Discussions with subrecipients ensues immediately including, when necessary, placement of the subrecipient on cost reimbursement status, which prevents them from drawing down funds until all expenditures are substantiated. Target date for completion – May 1, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
140	4/27/2010	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035
	Internal Audit	WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

	Status	Target Date
Px	04/27/10	5/1/2010
Ix	07/14/10	5/1/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 1-C
All Weatherized Units Should be Subject to On-Site Inspections

The DOE Weatherization Grant Guidance requires that the Department perform a comprehensive monitoring of each subrecipient at least once per year. The comprehensive monitoring must include a review of client files and subrecipient records as well as an actual inspection of 5% of the completed units. Energy Assistance's WAP plan, revised March 5, 2010, states that Energy Assistance plans to review client files and inspect at least 5% of the completed units. Prior to the revised plan, Energy Assistance's goal was to inspect 10% of the units weatherized at the time of the monitoring visit. Energy Assistance has been successful in meeting its 10% monitoring goal for DOE weatherized units the past two program years.

Due to the timing of the monitoring visits, the population of units inspected does not necessarily include the units weatherized at the end of the program year. Because the majority of the weatherized units are completed at the end of the program year (see Table 2), this creates a risk that some units may potentially never be selected for monitoring. When a monitoring visit occurs in February, for example, any units completed after the February monitoring visit but before the end of the closeout period on May 31PPPPstPPPP would not be part of the population of completed units eligible for monitoring. In addition, these units are also not included in the population for the following program year's monitoring visit and would therefore never be monitored. Subrecipients are aware of this timing process. The increase in volume of work at the end of the program year could lead to unsatisfactory performance. The pressure to expend all awarded funds at the end of the year could cause unauthorized transactions to occur and increases the risk that any unauthorized transactions could remain undetected.

Recommendation

Energy Assistance should ensure that any units completed during the program year that were not completed at the time of the monitoring visit be included in the population of units available for inspection during subsequent monitoring visits.

Status:

07/14/10 - Staff has implemented the audit recommendation of considering all weatherized units in the sample of units selected for inspection and adjusted the plan to affect the ARRA WAP 2010, DOE WAP and LIHEAP WAP programs. The monitoring plan reflects that monitoring visits will be conducted quarterly and should help mitigate the identified risk.

04/27/10 - Staff will implement the audit recommendation and adjust monitoring guidelines accordingly to be in effect for ARRA WAP, 2010 non-ARRA WAP funds and all ensuing WAP program years. The aggressive monitoring plan for ARRA WAP, which requires quarterly monitoring visits through the contract period, would likely also have mitigated this risk. Target date for completion – May 1, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
141	4/27/2010 / Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 / WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

	Status	Target Date
Px	04/27/10	5/15/2010
Ix	07/14/10	7/1/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 2-A
Monitoring Activities Should Be Clearly Distinguished From Program Activities

Monitoring of the WAP subrecipients is important to determine if program objectives are met, resources are used effectively, and laws and regulations are followed. In order to be effective, monitoring must be performed in an independent and objective manner. The program officers are responsible for monitoring the program's subrecipients but they also have some responsibility for providing ongoing technical assistance and training. When they are monitoring the subrecipients, the program officers are seen as the face of the Department and are often asked programmatic questions. The program officers are responsible for answering these programmatic questions for their assigned subrecipients. It is possible that subrecipients may perceive the program officers as technical advisors who dictate how WAP should be administered and not as monitors who are responsible for evaluating the subrecipients' performance in administering the program.

Monitors, like auditors, must provide an impartial, unbiased assessment and avoid any possible conflicts of interest. Some of the current duties of the program officers appear to be program advisor duties. Since the program officers answer the subrecipients' programmatic questions and provide guidance and support to the subrecipients, the program officers could be placed in the position of monitoring the subrecipient on program guidance that they previously provided. This can create the potential for impaired objectivity by the program officer. In addition, there is also the risk that issues may not be brought forward by the program officer, program manager, or the division director as the issue may reflect on the quality of the guidance given to the subrecipient or may negatively reflect on the performance of the Energy Assistance staff.

Recommendation

The Department should consider separating the Energy Assistance monitoring responsibilities from the programmatic responsibilities.

Status:

07/14/10 - EA has implemented a requirement that Program Officers who advise assigned Subrecipients will not be allowed to monitor the same Subrecipient. The Project Manager of Monitoring will schedule a different Program Officer to monitor the Subrecipient.

04/27/10 - Management agrees with the observations and the objective, but the need to maintain consistent program operations in an effort to administer ARRA WAP on a rapidly moving ongoing basis, poses a challenge. Therefore until such time as there is sufficient time and adequate staffing to segregate the functions fully, management intends to implement a requirement that person advising a subrecipeint as program staff may not also be the person monitoring that subrecipient. This will be augmented by a policy that bars subrecipients from communicating about substantive programmatic issues with any program staff other than their designated staff person and his or her chain of command. Target date for completion – May 15, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
142	4/27/2010	An Audit of the Weatherization Assistance Program’s Monitoring Process, Report #10-1035
	Internal Audit	WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

Status		Target Date
Px	04/27/10	5/30/2010
Px	07/14/10	8/30/2010
Px	10/26/10	11/1/2010
Ix	01/10/11	

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 2-B
Ensure Consistency by Enhancing Training for Program Officers

The Energy Assistance program officers have increased from five in program year 2007 to eleven in program year 2009. Energy Assistance plans to further increase the number of program officers to nineteen. Of the eleven current program officers, seven have joined the Department since September 2009. Energy Assistance has controls in place to manage the significant increase in staff, including: documented job descriptions, a documented monitoring plan, standardized monitoring instruments, easy access to management and peers, an effective communication structure and a variety of classroom and on-the-job training opportunities.

The significant growth in staff in such a short time span makes it especially important that program officers receive sufficient and relevant training in order to perform their duties. We reviewed the training attended by the program officers and found it to be relevant to their job duties. However, Energy Assistance does not have a set curriculum for program officers. Instead, program officers determine what training they would like to attend. A core curriculum for the program officers would provide consistency and help ensure that they are all properly trained. The core curriculum should include the courses required to obtain a “Certified Renovator” designation and training in lead safe weatherization methods because this certification and training is required by the DOE’s WAP grant guidance.

Two new program officers were sent to a subrecipient for one-on-one unit assessment training from a subrecipient employee. The training was not attended by an experienced program officer who would be able to ensure that the new program officers were trained on the correct way to perform assessments in compliance with the Department’s guidelines. Energy Assistance management wanted new program officers to observe a final inspection performed in a real world setting to give the program officers a sense of the work environment during an actual monitoring visit. Because the subrecipient who provided the training earned national recognition by the DOE on their Weatherization Assistance Program, Energy Assistance utilized it as a model for the new program officers.

Program officers may learn monitoring practices that are inconsistent with the Department monitoring guidelines if they are trained by a subrecipient in the absence of a more experienced program officer who could affirm, refute, or further expand on the practices as they are observed. Program officers may place too much reliance on the subrecipient because the subrecipient provided the training and may be reluctant to accurately identify deficiencies that arise at that subrecipient. In addition, the subrecipient could be resistant to monitoring findings if they were providing training to program officers, which could suggest a conflict of interest or impairment of independence on the part of the program officer.

Recommendations

Energy Assistance should ensure that all program officers attend a designated curriculum of classes, which should include certified renovator and lead safe weatherization courses since these are required by the DOE grant guidance. In addition, Energy Assistance should not rely on training provided by the subrecipients since they are the entities the program officers are charged with monitoring. Any on-the-job training should be provided by an experienced program officer in order to ensure that the training provided to the new program officers is in line with the Department’s and DOE’s guidelines and best practices.

Status:

01/10/11 - Training has been increased to include each class offered by the training academy. Additionally, training staff has identified additional training opportunities outside of the academy. The curriculum will be updated periodically to incorporate new guidance from DOE and other Federal funding sources.

The Energy Assistance Management team has instituted a training pairing system to ensure that newly hired Program Officers receive on the job training from experienced program officers on monitoring visits to subrecipients. Prior to being approved for monitoring on their own, the program officer will be accompanied on a monitoring visit by a Senior Program Officer or the Project Manager for Monitoring to ensure that they have been properly trained.

10/26/10 - Energy Assistance currently has 20 Program Officers. We have also increased our training staff to one Project Manager and two Training Officers. Our training staff, working through the Weatherization Training Academy, has ensured that each newly hired Program Officer has attended each training class offered by the Academy. Our training staff has also identified training opportunities outside of the Academy for new and existing Program Officers. As guidance is updated, our training staff will continuously add classes that are consistent with DOE Grant Guidance. Each of these classes will be included in a designated curriculum of classes that Program Officers will be required to attend.

Energy Assistance management has instituted a Program Officer pairing system to ensure that newly hired Program Officers received on-the-job training only from experienced Program Offficers. New Program Officers are assigned to accompany existing Program Officers on monitoring visits to Subrecipients. The new Program Officer learns by assisting the existing Program Officer. Prior to being allowed to review a Subrecipient on their own, new Program Officers will be accompanied on a monitoring visit by a Senior Program Officer or the Prjoect Manager for Monitoring to ensure that they have been proprerly trained.

07/14/10 - Staff will formalize a set core curriculum to ensure consistency in training for newly hired Program Officers which includes all training required by the DOE Grant Guidance. Newly hired Program Officers will also visit Subrecipients for training purposes under the direction of a Senior Program Officer.

04/27/10 - Staff will implement the audit recommendation. A formalized set core curriculum will be created to ensure consistency in training for newly hired program officers which, among other things, will include training required by DOE Grant Guidance and require that new program officers that visit subrecipients for training only do so when with a senior program officer. Target date for completion – May 30, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
143	4/27/2010	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035
	Internal Audit	WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

	Status	Target Date
Px	04/27/10	5/15/2010
Px	07/14/10	8/31/2010
Px	10/26/10	11/1/2010
Px	01/11/11	2/15/2011

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3A
Policies and Procedures for WAP Monitoring Should be Finalized

The Community Affairs' monitoring guide has been in draft form since August 1, 2009 and has not been finalized and approved by management or distributed to program officers to use. Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for program officers, the program officers may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the program officers.

In addition, we noted an inconsistency between the monitoring report submission deadlines in the draft monitoring guide compared to the monitoring report submission guidelines in DOE's Weatherization Grant Guidance. (See Chapter 1-B)

Recommendation

The draft monitoring guide should be finalized and approved by the Director of Community Affairs. Once finalized, the policies and procedures should be clearly communicated to the program officers.

Status:

01/11/11 - The draft monitoring guide has been updated to include clarifications on adequacy of documentation, acceptable forms of documentation and clarified expectations. It has been reviewed by the Project Managers in the Energy Assistance Section as of 1/1/2011. The document will be reviewed by the EA Manager and the Community Affairs Division Director by 1/20/2011. Final approval through the Executive Team will be completed by 2/15/2011.

10/26/10 - The draft monitoring guide is currently in the review stage. It will be reviewed by the Energy Assistance Section Manager and Director, and by the Deputy Executive Director for Community Based Services.

07/14/10 - Staff will formalize a monitoring guide that will include policies and procedures for Program Officers. The monitoring guide will ensure consistency for all Program Officers. Implementation of recommendations into the guidelines to be completed by 08/31/2010.

04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
144	4/27/2010 / Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 / WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

Status		Target Date
Px	04/27/10	5/1/2010
Dx	07/14/10	
Ix	10/15/10	

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3B
Polices and Procedures for Davis-Bacon Monitoring of ARRA WAP Should be Finalized

The Labor Standards - American Recovery Reinvestment Act (ARRA) and Weatherization Assistance Program Standard Operating Procedures are in draft form and have not been finalized and approved by management.

Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for the labor standards staff, the staff may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the staff. An approved set of polices and procedures will allow the Department to monitor subrecipients' compliance with the Davis-Bacon Act consistently.

Recommendation

Program Services' policies and procedures for monitoring the Davis-Bacon Act requirements related to ARRA WAP should be finalized. Once they are finalized, they should be clearly communicated to the labor standards staff.

Status:

10/15/10 - In April 2010, the Program Services group finalized and distributed an SOP that covers Davis-Bacon Act monitoring requirements. This SOP was distributed to and discussed with the Davis-Bacon monitoring staff during a meeting led by Lora Myrick.

07/14/10 - Staff will formalize a monitoring guide that will include policies and procedures for monitoring the Davis Bacon requirements related to ARRA WAP.

04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 1, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
145	4/27/2010	An Audit of the Weatherization Assistance Program’s Monitoring Process, Report #10-1035
	Internal Audit	WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest

	Status	Target Date
Px	04/27/10	5/15/2010
Px	07/14/10	9/30/2010
Px	10/26/10	11/30/2010
Ix	01/11/11	

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3C
Ensure that the Monitor Tracking System Includes All DOE-Required Elements

Although Energy Assistance has a system for tracking the monitoring process, it does not contain all the elements recommended by the DOE. The DOE recommends tracking the findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken and final resolutions. The current monitoring tracking system is an EXCEL spreadsheet maintained by the Project Manager of Monitoring. The spreadsheet includes when monitoring visits occurred and tracks related milestones such as when the report is sent out, when report responses are due, when follow-up letters are sent, when responses are received, and when the findings are closed out. However, the individual monitoring reports must be reviewed to determine the findings, the responsible parties, the corrective action recommended, and the final resolution because none of these elements are captured in the spreadsheet tracking system. These reports are maintained in the subrecpient's folder on a shared drive at the Department. This issue was identified in a prior internal audit report (An Internal Audit Report on the Energy Assistance Weatherization Assistance Program – Subrecipient Monitoring, Report #1012) and the recommendation to track these elements has not been implemented.

The DOE Program Year 2010 Weatherization Program Notice (# 10-1, Effective December 18, 2009) recommends that: "Major findings from the subgrantee monitoring visits and financial audits should be tracked by the grantee to final resolution. DOE recommends that the tracking record developed by the grantee include, but not be limited to: findings, including success stories, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions.”

Recommendation

Energy Assistance should ensure the system used for tracking monitoring activities includes all of the elements recommended by the DOE, including: findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. This can be accomplished by enhancing the existing EXCEL spreadsheet to include all of the recommended elements or using an ACCESS database that captures all of the recommended elements.

Status:

01/11/11 - The monitoring tracking system is now able to capture all of the elements recommended by DOE including: findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, responses and final resolution.

10/26/10 - Energy Assistance has developed a database to track monitoring activities. The database tracks findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions. A temporary employee is being sought to assist with data entry. Once the data entry is completed, the database will be fully deployed to track all monitoring activities.

07/14/10 - Staff will formalize a system used for tracking monitoring activities. The activities will include findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions. This database is complex and will require significant staff time.
Database development - Target date 08/15/2010
Data population of database - Target date 09/15/2010
Implementation with EA Program Staff - Target date 09/30/2010

04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

Issue #	Report Date / Auditors	Report Name / Audit Scope
150	8/25/2010 Internal Audit	An Internal Audit of Accounting Operations Financial transactions processed by accounting operations between September 1, 2007 and

	Status	Target Date
Px	08/25/10	9/10/2010
Ix	10/22/10	

Division: Financial Administration

Section: Accounting Operations

Issue: Of the 288 transactions tested, one HOME transaction did not have supporting documentation showing that the appropriate supervisory approval occurred and one HTF transaction did not have supporting documentation identifying the preparer. In addition, we noted that budget and expenditure transfers that affect the divisions did not have any supporting documentation showing the transfer was originally authorized by the division affected by the transfer.

Because Accounting Operations relies on supporting documentation as evidence of the validity of financial transactions, in addition to what is reflected in PeopleSoft, it is important that the supporting documentation include the appropriate authorizations and supervisory approvals. It is also important to maintain all supporting documentation necessary to these transactions. This will ensure that Accounting Operations is conducting transfers in accordance with the directions of division management.

Recommendation:
When Accounting Operations is processing budget and expenditure transfers, they should maintain the authorization from the originating division.

Status:

10/22/10 - As of September 10, 2010 the Manager of Accounting Operations has ensured that all supporting documentation is initialed by preparers and approvers. The Manager is also ensuring that all supporting documentation for budget and expenditure transfers are maintained.

08/25/10 - Financial Administration will ensure the authorization from the originating division is maintained when budget or expenditure transfers are processed. We will also ensure all supporting documentation is initialed by preparers and approvers. This process will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.

Issue #	Report Date / Auditors	Report Name / Audit Scope
151	8/25/2010 Internal Audit	An Internal Audit of Accounting Operations Financial transactions processed by accounting operations between September 1, 2007 and

	Status	Target Date
Px	08/25/10	9/10/2010
Ix	10/22/10	

Division: Financial Administration

Section: Accounting Operations

Issue: There is no supervisory review of the contract award set-ups in PeopleSoft. Once the contract award has been set-up in PeopleSoft, the grant accountants have the ability to begin entering draw downs against the contract. In addition, of the 90 contract awards tested, 34 (37.8%) had at least one amendment that either increased or decreased the contract award. A supervisor does not review these changes to the award amount. Because there is no supervisory review of the contract award set-ups or of contract award amendments, there is a risk that the grant accountants who process draw downs could believe that there are more or less funds available than there actually are. In addition, the risk increases if the contract award amount is amended.

Recommendation:
Accounting Operations can strengthen their federal draw process by implementing a review step for the contract award set-ups and contract award amendments in PeopleSoft to ensure the contract award amounts are set-up accurately and that contract award amendments are entered correctly.

Status:

10/22/10 - As of September 10, 2010 the Manager of Accounting Operations has expanded their contract review process. All subrecipients contracts are reviewed by team leaders or senior accountants to ensure that contract amounts are set-up accurately and that award amendments are entered correctly.

08/25/10 - Accounting Operations will expand our contract review process. All subrecipient contracts will be reviewed by the team leader or senior accountant to ensure accuracy. Supporting documents for contract setup and amendments will be approved and maintained. We will also work with Information Systems to explore automation of this process. This will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.

Issue #	Report Date / Auditors	Report Name / Audit Scope
152	8/31/2010	An Internal Audit of the Construction Quaility in the Disaster Recovery Division
	Internal Audit	CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010.

Status		Target Date
Px	08/31/10	9/30/2010
Px	10/25/10	
Ix	01/10/11	

Division: Disaster Recovery

Section:

Issue: ACS delegated the management of the construction of disaster recovery homes to its subcontractor, Shaw. ACS does not provide sufficient active, ongoing oversight of Shaw's management of the construction process as required by ACS's contract with the Department. The contract between ACS and the Department requires ACS to conduct reviews, perform testing and develop processes to assure quality performance and timeliness of suppliers. In addition, the contract requires ACS to provide written results of its quality assurance processes. We tested a random statistical sample of 100 completed homes and found that eighty-six of 100 (86.0%) completed home files did not contain documentation of a workmanship inspection.

ACS has performed some limited oversight of construction. They hired a third party inspector to conduct workmanship reviews between June 2009 and early February 2010. Ten of the 14 files (71.4%) found to have a workmanship inspection contained a single photograph of the exterior of the home or a photo of an empty lot as evidence of the inspection. Subsequently, ACS hired a construction manager to conduct inspections of the construction sites. The construction manager does not use a checklist nor does he file a report for these site visits. Without documentation of these visits, there is no record to support any assistance or guidance provided to the builders.

The ACS production manager provides some operational oversight of the construction process. The production manager conducts a daily conference call to discuss anticipated application approvals, anticipated and actual closings, anticipated and actual construction starts, inspections and completed homes. The purpose of this daily call is to share data with the Department and with Shaw. However, the data in these reports may not be accurate because some of this data consists of forecasts and estimates. In addition, the data is not aged beyond 30 days, and includes data self-reported by the builders which could be manipulated.

The ACS construction manager and production manager are responsible for overseeing Shaw, as well as the home inspectors and the home builders. However, ACS has not provided specific guidance nor current written procedures to these oversight staff. Without guidance or updated procedures, these staff may not be aware of all of their responsibilities.

Recommendations

•□ The Department should ensure that ACS provides active and ongoing oversight of the construction management function.
•□ The results of ACS's oversight should be documented, reviewed and retained by the Department to ensure that it is performed properly.
•□ ACS should establish a procedure to provide written feedback to Shaw and their building contractors when needed.
•□ ACS should develop and implement a formal policy and current written procedures for providing oversight of the construction management function.

Status:

01/10/11 - Management provided guidance to ACS regarding ongoing oversight of the construction management process. ACS achieves this through multiple status update conferences with Shaw as well as tracking production through the pipeline. The Department enhances ACS' activities by performing onsite construction inspections on a regular basis and will continue this practice through the end of the contract. A follow up review indicates that this risk is mitigated adequately by these activities.

10/25/10 - Management provided guidance to ACS regarding ongoing oversight of the construction management process. ACS achieves this through multiple status update conferences with Shaw as well as tracking production through the pipeline. The Department enhances ACS' activities by performing onsite construction inspections on a regular basis and will continue this practice through the end of the contract. Due to the fast approaching end of the contract, no further action will be implemented.

08/31/10 - Management acknowledges the need for ongoing oversight of the construction management function and will provide guidance to ACS on ways to enhance their documentation of oversight they are currently conducting as well as feedback provided to Shaw and the building contractors. Management will also include this in the design of programs moving forward to require the inspections in large scale disaster recovery programs, and also require the physical documentation that the work has been done in a timely manner.

Implementation Date: September, 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

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Issue #	Report Date / Auditors	Report Name / Audit Scope
153	8/31/2010 Internal Audit	An Internal Audit of the Construction Quaility in the Disaster Recovery Division CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010.

Status		Target Date
Px	08/31/10	9/30/2010
Ix	10/25/10	

Division: Disaster Recovery

Section:

Issue: We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that nineteen of 100 files (19.0%) did not contain the required inspection documentation. For example:

•□ One of two (50.0%) of the rehabilitation inspections included in the sample did not contain any documentation of the completed work.
•□ Four of 26 (15.4%) manufactured home files did not contain the required T-Form, which is an installation inspection application filed with the Department's Manufactured Housing Division to verify that the manufactured home is installed properly.
•□ Nine of the 100 files (9.0%) with approved final inspections contained notes in the file or on the Housing Quality Survey form that appliances were missing from the home. Six of these were due to theft and in three of these homes the appliances were not delivered before the final inspection.
•□ One home did not have evidence of working electrical service.
•□ Five files did not have signed final inspection documents. These documents should be collected by the inspector during the final inspection

Although checklists are used to ensure that all of the required documentation is completed, final inspections are accepted even when the paperwork is not complete. The builder can request the balance of the payment for the home (less a 10% retainage) when the final inspection is accepted. (See Appendix C for more information regarding the inspection process.) If the inspection requirements are not met but the bulk of the funds are paid out, this could put the Department at risk if the home is not satisfactorily completed.

Recommendations

ACS should ensure that:
•□ all inspection requirements are completed and documented in the file prior to accepting the final inspection, and
•□ all required documents are present in the file before paying the builders.

Status:

10/25/10 - ACS conducts a quality assurance control which includes ensuring that inspection reports are uploaded in the Worltrac system and available prior to paying builders. This concern is further mitigated by the independent random inspections performed by the Department to ensure that homes are complete and compliant to ensure funds are being expended appropriately.

08/31/10 - Management will work with ACS to ensure that all requirements are met and all documentation exists to support a proper final inspection that substantiates completion and payment to the builders.

Implementation Date: September 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

Issue #	Report Date / Auditors	Report Name / Audit Scope
154	8/31/2010	An Internal Audit of the Construction Quaility in the Disaster Recovery Division
	Internal Audit	CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010.

Status		Target Date
Px	08/31/10	9/30/2010
Px	10/25/10	
Ix	01/10/11	

Division: Disaster Recovery

Section:

Issue: ACS tracks the number of construction complaints (tasks.) Complaints are aged to determine how long they are outstanding. Currently the complaints are aged in 3 to 15 day increments up to 30 days. All complaints over 30 days are classified as 30+ days which is the highest range for classification. The production report that shows the classification of complaints is referred to as the dashboard report. As of the July 11, 2010 dashboard report, 66.0% of the construction-related complaints were more than 30 days old. This suggests that tasks are not resolved in a timely manner and that management may not be aware of the true age of a complaint once it exceeds 30 days.

Tasks can be marked as completed by the builder even when they are not completely resolved. For example, a builder scheduled the work to complete the task and at that point changed the task status to completed, although the work to satisfy the complaint was not yet accomplished. Because the task status was changed to completed, it appeared that the homeowner's issue was completely resolved, and that the resolution occurred at an earlier point in time.

Recommendations

ACS should:
•□ ensure customer complaints are resolved in a timely manner,
•□ monitor the construction-related tasks regularly to ensure that a task is completely resolved before it is marked as complete by the builder,
•□ consider expanding the range for classifying outstanding construction complaints to include: 31-60 days, 61-90 days, 91-120 days and greater than 120 days,
•□ consider evaluating customer satisfaction by using telephone calls, letters and surveys to help identify and resolve the causes of homeowner dissatisfaction.

Status:

01/10/11 - ACS' call center continues to receive and log applicant complaints into the WorlTrac system. Applicants are also encouraged to contact their builder since the warranty is provided by the builder. A complaint system was not required by the scope of work; however, the contractor provided a system to receive, log and track homeowner complaints. These complaints continue to be received, tracked and resolved; many times DR staff are involved and follow complaints to resolution. The Department also deploys independent inspection personnel to resolve serious complaints and follow up on those complaints to ensure resolution. These actions appear to adequately mitigate this issue.

10/25/10 - ACS' call center continues to receive and log applicant complaints into the WorlTrac system. Applicants are also encouraged to contact their builder since the warranty is provided by the builder. ACS is developing a Construction Complaint system to ensure complaints are addressed in a timely manner. The Department will continue to monitor this issue throughout the contract period.

08/31/10 - Management will work with ACS to more closely manage the complaint process. The process for resolving complaints will not end when the contract does as one of the key goals for this program is to create a relationship between the homeowner and the builder so the property homeowners could require in traditional methods warranty work be done. For the duration of this Program, and to provide the most information as the program closes, correction of complaints should be completed immediately. Since the Program will be concluding within the next four months, management will carry forward this process improvement recommendation as a best practice for future disaster recovery programs.

Implementation Date: September 2010 and ongoing

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

Issue #	Report Date / Auditors	Report Name / Audit Scope
155	8/31/2010	An Internal Audit of the Construction Quaility in the Disaster Recovery Division
	Internal Audit	CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010.

Status		Target Date
Px	08/31/10	9/30/2010
Px	10/25/10	
Px	01/10/11	2/15/2011

Division: Disaster Recovery

Section:

Issue: ACS has contractually delegated the responsibility for the repair of existing homes to its subcontractor Shaw. Shaw is currently the general contractor for the rehabilitation portion of the disaster recovery program.

The contract between ACS and Shaw allows Shaw to engage in both contracting and inspection activities. As a result, Shaw is inspecting its own construction work. This lack of segregation of duties increases the possibility of errors and increases the risk that fraud or mismanagement could occur.

The Shaw manager reviews and accepts bids from subcontractors for rehabilitation work. The manager is also responsible for assigning the Shaw inspectors to inspect the rehabilitation work performed by its own subcontractors. In addition, the manager reviews and approves the inspection documents and photos entered into the Worltrac system. When the builder submits a request for payment, the request is approved by the Shaw manager. The purpose of segregating duties is so that the same individual is not in a position to initiate, approve, and review the same activity.

Recommendation

ACS should ensure that Shaw segregates duties among its employees so that the same employee is not assigning contractors and inspectors, reviewing and approving inspection documents and authorizing payments.

Status:

01/10/11 - TDHCA staff conducted an onsite monitoring review to evaluate documentation for construction inspection oversight and documentation. Staff found that ACS' quality control process does not consistently ensure that all inpection support documents are uploaded into the WorlTrac system to support payment of work conducted for rehabilitation.

10/25/10 - ACS has reviewed this process and determined that there exists adequate separation of duties within Shaw's management team regarding the assignment and review of contractors and inpsections as well as authorization of contractor draws. Also, ACS provides a separate control by their review, final authorization, and payment of these activities.

08/31/10 - While there are very few rehabilitations left to undergo this process, management will work with ACS to determine if any further segregation of duties can be attained and will work to ensure enhanced oversight of this process.

Implementation Date: September 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

Issue #	Report Date / Auditors	Report Name / Audit Scope
156	11/15/2010	An Internal Audit of Information Technology Governance
	Internal Audit	To determine if the Department's leadership, organizational structures and processes ensure

Status	Target Date
Px	11/15/10
Ix	01/07/11

Division: Information Systems

Section:

Issue: 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.

Status:

01/07/11 - Management has scheduled the next IS Steering Committee meeting for January 26, 2011, and will contiue to schedule meetings at intervals agreed upon by the committee.

11/15/10 - 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.

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Issue #	Report Date / Auditors	Report Name / Audit Scope
157	11/15/2010	An Internal Audit of Information Technology Governance
	Internal Audit	To determine if the Department's leadership, organizational structures and processes ensure

Status		Target Date
Px	11/15/10	
Px	01/07/11	1/26/2011

Division: Information Systems

Section:

Issue: The policies and proceduers used by IS to handle requests for new systems or for system changes may need revision. 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 requeires 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 conistently follow the policy 1264.08 - Requesting IS Services as stated or update the policy to reflect the current process.

Status:

01/07/11 - IS Steering Committee review of SOP 1264.08 is an agenda item for the January 26, 2011 meeting. Management will adopt any changes approved by the committee at the meeting and will resume consistent use of the Change Request Form and IS Project Request Form.

11/15/10 - 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.