

**HARRIS COUNTY HOUSING
FINANCE CORPORATION**
A Component Unit of Harris County, Texas

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**
As of and for the Years Ended December 31, 2021 and 2020

**HARRIS COUNTY HOUSING FINANCE CORPORATION
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Harris County Housing Finance Corporation:

Opinion

We have audited the financial statements of the Harris County Housing Finance Corporation (the "Corporation"), a component unit of Harris County, Texas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hann, Langston & Brezina, LLP

Houston, Texas
May 11, 2022

HARRIS COUNTY HOUSING FINANCE CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following discussion and analysis of Harris County Housing Finance Corporation's (the "Corporation") financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2021, 2020 and 2019. Please read in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The following financial highlights are reflected in the Corporation's basic financial statements:

- The total assets of the Corporation exceeded the liabilities at December 31, 2021 by \$6,767,157. This is an increase of \$494,545 from the previous year when total assets exceeded liabilities by \$6,272,612.
- The net position of the Corporation is comprised of unrestricted net position of \$6,767,157 and \$6,272,612 at December 31, 2021 and 2020, respectively, which represents the funds available to meet ongoing obligations of the business-type activities.
- The Corporation recorded grant expense of \$10,205 during 2020 in connection with an emergency home repair program and a roof replacement project in Harris County, Texas. No grant expense was recorded during 2021.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and the notes to the basic financial statements.

The basic financial statements provide both long-term and short-term information about the financial status of the Corporation and Harris County Community Land Trust Management Corporation ("HCCLT"), a component unit of the Corporation (collectively, the "Corporations"). HCCLT is a legally separate corporation for which the elected officials of the Corporation are financially accountable, or the relationship to the Corporation is such that exclusion would cause the Corporation's financial statements to be misleading or incomplete. At December 31, 2021, HCCLT has not commenced principal operations. The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data.

The basic financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Under this basis, revenues are recognized when earned, and expenses are recognized in the period in which they are incurred.

The statements of net position include all assets and liabilities associated with the operation of the Corporation. The statements of net position report financial position, which is the difference between assets and liabilities. The statements of activities report how assets and liabilities have changed over a one-year period.

FINANCIAL ANALYSIS OF THE CORPORATION

Net Position

The total net position at December 31, 2021 was \$6,767,157, a 7.9% increase from December 31, 2020. The total net position at December 31, 2020 was \$6,272,612, a 7.8% increase from December 31, 2019. (See Table A-1 Below).

Table A-1 Corporation's Net Position

	2021	2020	2019
Current assets	<u>\$ 6,774,657</u>	<u>\$ 6,280,779</u>	<u>\$ 5,824,453</u>
Total assets	<u>6,774,657</u>	<u>6,280,779</u>	<u>5,824,453</u>
Current liabilities	<u>7,500</u>	<u>8,167</u>	<u>6,848</u>
Total liabilities	<u>7,500</u>	<u>8,167</u>	<u>6,848</u>
Net position	<u>\$ 6,767,157</u>	<u>\$ 6,272,612</u>	<u>\$ 5,817,605</u>

**HARRIS COUNTY HOUSING FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Net Position, continued

The increase in current assets at December 31, 2021 when compared to December 31, 2020 is a result of reduced operating expenses during 2021 that created an increase in cash.

The increase in current assets at December 31, 2020 when compared to December 31, 2019 is a result of reduced operating expenses during 2020 that created an increase in cash, as well as program fee receivables at December 31, 2020 that were not present at December 31, 2019.

Changes in Net Position

The increase in financial position for the year ended December 31, 2021 when compared to December 31, 2020 was \$494,545. The total operating revenues increased by 4.6%, or \$27,821, and total operating expenses decreased by 7.9%, or \$11,717. Operating income increased by \$39,538 (See Table A-2.)

The increase in financial position for the year ended December 31, 2020 when compared to December 31, 2019 was \$455,007. The total operating revenues increased by 2.2%, or \$12,973, and total operating expenses decreased by 70.39%, or \$351,107. Operating income increased by \$364,080 (See Table A-2.)

Table A-2 Changes in the Corporation's Financial Position

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues:			
Single family mortgage fees	\$ 2,956	\$ 511	\$ -
Mortgage credit certificate program fees	-	-	122,088
Down payment assistance program fees	43,402	50,273	19,594
Interest income	19,732	41,796	47,198
Tax credit project loan fees	-	-	500
Bond administrative fees	<u>564,426</u>	<u>510,115</u>	<u>400,342</u>
Total operating revenues	<u>630,516</u>	<u>602,695</u>	<u>589,722</u>
Operating expenses:			
Program services:			
Mortgage credit certificate program expenses	-	-	187,775
Down payment assistance program expenses	-	151	9,797
Grant expenses	-	10,205	156,467
Professional fees	107,000	105,506	113,505
General and administrative expenses	<u>28,971</u>	<u>31,826</u>	<u>31,251</u>
Total operating expenses	<u>135,971</u>	<u>147,688</u>	<u>498,795</u>
Change in net position	494,545	455,007	90,927
Net position at beginning of year	<u>6,272,612</u>	<u>5,817,605</u>	<u>5,726,678</u>
Net position at end of year	<u>\$ 6,767,157</u>	<u>\$ 6,272,612</u>	<u>\$ 5,817,605</u>

During 2021, bond administrative fee revenue increased compared to 2020 as there was one new conduit debt issued during the year.

During 2021, interest income decreased when compared to 2020 due to the annual percentage yield on the Corporation's money market account decreasing from .45% in 2020 to .33% in 2021.

During 2020, MCC Program fee revenue decreased when compared to 2019 due to the discontinuation of the MCC Program. Bond administrative fee revenue increased compared to 2019, as there were two new conduit debt issuances during the year.

HARRIS COUNTY HOUSING FINANCE CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Changes in Net Position, continued

During 2020, MCC Program expenses decreased when compared to 2019 due to the discontinuation of the MCC Program. Grant expense decreased in 2020 when compared to 2019 as the Corporation expensed \$2,205 in 2020 pursuant to a \$125,000 grant agreement for an emergency home repair and roof replacement program in which the Corporation had expensed \$122,795 in 2019. Additionally, the Corporation expensed \$8,000 in 2020 pursuant to a \$50,000 grant agreement for a roof replacement program in 2019 whereby in 2019, the Corporation expensed \$26,000.

During 2020, professional fees decreased when compared to 2019, as the Corporation transferred certain accounting and administrative duties in 2019, once performed by a contract accountant and legal counsel, respectively, to a new administrator at a lower combined fee. The transfer happened during the course of 2019, so there were fees related to both parties recorded during 2019.

Financial Outlook

In light of COVID-19, which emerged in December 2019 and has subsequently spread worldwide, the Corporation has modified its operations to help mitigate the spread of the virus. The Corporation has also taken several steps to further strengthen our financial position and balance sheet and maintain financial liquidity and flexibility. As the COVID-19 pandemic is complex and rapidly evolving, the Corporation's methods of operation may change; however, the Corporation intends to continue its mission of providing affordable housing opportunities and will continue exploring the prospects of entering into a community land trust agreement which we believe will provide affordable housing to Houstonians.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to discuss issues that may be material to the operation of the Corporation. If you have any questions about this report, please contact the Harris County Housing Finance Corporation, 8410 Lantern Point Dr. Houston, Texas 77054.

**HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Housing Finance Corporation	Non-Major Fund Community Land Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,369,845	\$ 91,503	\$ 5,461,348
Investments, at fair value	1,307,636	-	1,307,636
Program fee receivables	5,673	-	5,673
Due from other funds	100,000	(100,000)	-
Total assets	<u>\$ 6,783,154</u>	<u>\$ (8,497)</u>	<u>\$ 6,774,657</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 7,500	\$ -	\$ 7,500
Total liabilities	<u>7,500</u>	<u>-</u>	<u>7,500</u>
NET POSITION	<u>6,775,654</u>	<u>(8,497)</u>	<u>6,767,157</u>
Total liabilities and net position	<u>\$ 6,783,154</u>	<u>\$ (8,497)</u>	<u>\$ 6,774,657</u>

The accompanying notes are an integral part of these basic financial statements.

**HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Housing Finance Corporation	Non-Major Fund Community Land Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,898,230	\$ -	\$ 4,898,230
Investments, at fair value	1,307,009	-	1,307,009
Program fee receivables	75,540	-	75,540
Total assets	<u>\$ 6,280,779</u>	<u>\$ -</u>	<u>\$ 6,280,779</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 8,167	\$ -	\$ 8,167
Total liabilities	<u>8,167</u>	<u>-</u>	<u>8,167</u>
NET POSITION	<u>6,272,612</u>	<u>-</u>	<u>6,272,612</u>
Total liabilities and net position	<u>\$ 6,280,779</u>	<u>\$ -</u>	<u>\$ 6,280,779</u>

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Housing Finance Corporation</u>	<u>Non-Major Fund Community Land Trust</u>	<u>Total</u>
Operating revenues:			
Single family mortgage fees	\$ 2,956	\$ -	\$ 2,956
Down payment assistance program participation fees	43,402	-	43,402
Interest income	19,732	-	19,732
Bond administrative fees	564,426	-	564,426
Total operating revenue	<u>630,516</u>	<u>-</u>	<u>630,516</u>
Operating expenses:			
Program services:			
Professional fees	107,000	-	107,000
Total program services	<u>107,000</u>	<u>-</u>	<u>107,000</u>
General and administrative:			
Board of director fees	11,850	-	11,850
Insurance	7,135	-	7,135
Miscellaneous	1,489	8,497	9,986
Total general and administrative	<u>20,474</u>	<u>8,497</u>	<u>28,971</u>
Total operating expenses	127,474	8,497	135,971
Change in net position	503,042	(8,497)	494,545
Net position, beginning of year	<u>6,272,612</u>	<u>-</u>	<u>6,272,612</u>
Net position, end of year	<u>\$ 6,775,654</u>	<u>\$ (8,497)</u>	<u>\$ 6,767,157</u>

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Housing Finance Corporation	Non-Major Fund Community Land Trust	Total
Operating revenues:			
Single family mortgage fees	\$ 511	\$ -	\$ 511
Down payment assistance program participation fees	50,273	-	50,273
Interest income	41,796	-	41,796
Bond administrative fees	510,115	-	510,115
Total operating revenue	602,695	-	602,695
Operating expenses:			
Program services:			
Down payment assistance program expenses	151	-	151
Grant expenses	10,205	-	10,205
Professional fees	105,506	-	105,506
Total program services	115,862	-	115,862
General and administrative:			
Board of director fees	17,250	-	17,250
Insurance	4,501	-	4,501
Miscellaneous	10,075	-	10,075
Total general and administrative	31,826	-	31,826
Total operating expenses	147,688	-	147,688
Change in net position	455,007	-	455,007
Net position, beginning of year	5,817,605	-	5,817,605
Net position, end of year	\$ 6,272,612	\$ -	\$ 6,272,612

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Housing Finance Corporation	Non-Major Fund Community Land Trust	Total
Cash flows from operating activities:			
Cash received from customers	\$ 700,383	\$ -	\$ 700,383
Cash paid to suppliers and employees	(128,141)	(8,497)	(136,638)
Net cash provided by (used in) operating activities	<u>572,242</u>	<u>(8,497)</u>	<u>563,745</u>
Cash flows from investing activities:			
Purchase of investments	(627)	-	(627)
Transfers to other funds	(100,000)	-	(100,000)
Net cash used in investing activities	<u>(100,627)</u>	<u>-</u>	<u>(100,627)</u>
Cash flows from financing activities:			
Transfers from other funds	-	100,000	100,000
Net cash provided by financing activities	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Net increase in cash	471,615	91,503	563,118
Cash at beginning of year	<u>4,898,230</u>	<u>-</u>	<u>4,898,230</u>
Cash at end of year	<u><u>\$ 5,369,845</u></u>	<u><u>\$ 91,503</u></u>	<u><u>\$ 5,461,348</u></u>
Reconciliation of net income to net cash provided by (used in) operating activities			
Change in net position	\$ 503,042	\$ (8,497)	\$ 494,545
Adjustments to reconcile change in net position to net cash from operating activities:			
Change in accounts receivable	69,867	-	69,867
Change in in accounts payable and accrued liabilities	(667)	-	(667)
Net cash provided by (used in) operating activities	<u><u>\$ 572,242</u></u>	<u><u>\$ (8,497)</u></u>	<u><u>\$ 563,745</u></u>

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Housing Finance Corporation	Non-Major Fund Community Land Trust	Total
Cash flows from operating activities:			
Cash received from customers	\$ 527,155	\$ -	\$ 527,155
Cash paid to suppliers and employees	(136,163)	-	(136,163)
Net cash provided by operating activities	390,992	-	390,992
Cash flows from investing activities:			
Purchase of investments	(2,907,009)	-	(2,907,009)
Proceeds from sale of investments	1,600,000	-	1,600,000
Net cash used in investing activities	(1,307,009)	-	(1,307,009)
Net decrease in cash	(916,017)	-	(916,017)
Cash at beginning of year	5,814,247	-	5,814,247
Cash at end of year	\$ 4,898,230	\$ -	\$ 4,898,230
Reconciliation of net income to net cash provided by (used in) operating activities			
Change in net position	\$ 455,007	\$ -	\$ 455,007
Adjustments to reconcile change in net position to net cash from operating activities:			
Change in accounts receivable	(75,540)	-	(75,540)
Change in program advances	10,206	-	10,206
Change in in accounts payable and accrued liabilities	1,319	-	1,319
Net cash provided by operating activities	\$ 390,992	\$ -	\$ 390,992

The accompanying notes are an integral part of these basic financial statements.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Harris County Housing Finance Corporation (the "Corporation") was incorporated on June 30, 1980, pursuant to the Texas Housing Finance Corporations Act (now codified as Chapter 394.001 et seq. Texas Local Government Code) as a separate not-for-profit corporate entity. Creation of the Corporation was authorized by the Harris County Commissioners Court, but the Corporation is not a political subdivision of Harris County, Texas ("Harris County") under state law. The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code ("IRC") and is authorized to issue debt instruments for the purpose of purchasing single-family home mortgages or interests therein and providing financing for multi-family housing projects, both relating to low and moderate-income owners/residents.

In accordance with Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* ("GASB 14"), as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* ("GASB 61"), the Corporation is a component unit of Harris County for financial reporting purposes. The Corporation is managed by a Board of Directors (the "Board") appointed by the Harris County Commissioners Court.

As required by generally accepted accounting principles in the United States of America ("U.S. GAAP"), the financial statements of the reporting entity include those of the Corporation and its component unit in conformity with GASB 14, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39"), GASB 61, and GASB Statement No. 80, *Blending Requirements for Certain Component Units* ("GASB 80"), clarifies the financial statement presentation requirements for certain component units which are incorporated as not-for-profit entities.

In accordance with these standards, the financial reporting entity consists of the Corporation and its component unit, Harris County Community Land Trust Management Corporation ("HCCLT"). HCCLT is a legally separate entity for which the elected officials of the Corporation are financially accountable, or the relationship to the Corporation is such that exclusion would cause the Corporation's financial statements to be misleading. HCCLT, although a legally separate entity, is, in substance, part of the Corporation's operations, so data from HCCLT is combined with data of the Corporation.

The criteria used to determine whether an organization is a component unit of the Corporation and whether it is a blended component unit includes: financial accountability of the Corporation for the component unit, whether the Corporation appoints a voting majority of the entity's governing board, the ability to impose the Corporation's will on the component unit, fiscal dependency criterion, if it is a financial benefit to or burden on the Corporation, and whether services are provided entirely or almost entirely to the Corporation.

For financial reporting purposes, HCCLT is included in the operations and activities of the Corporation as a blended component unit. At December 31, 2021, HCCLT has not commenced principal operations.

The basic financial statements include all activities of the Corporation and its component other than those associated with the mortgage and bond-related activities of the bond issuances.

A description of the Corporation's major programs and operations are as follows:

Down Payment Assistance Programs

The Corporation participates in a third-party's program which provides down payment and closing cost assistance for low to moderate income families purchasing single-family homes. The Corporation receives a participation fee from the third-party when mortgage loans within the limits of Harris County are closed and loans are sold.

Bond Programs

The Corporation acts as a conduit issuer of multi-family revenue bonds or assign the bond reservation to a third party for the purpose of providing financing to developers of multi-family housing projects. The Corporation collects application fees from all developers and assignees who apply for financing and receives a closing fee from all developers and assignees who close on a loan. The Corporation also receives annual issuer fees from developers and assignees for each year that the loan is outstanding.

As of December 31, 2021 and 2020, the Corporation had 18 multi-family bond issues outstanding, respectively, which are listed in Note 6, that the Corporation acts as a conduit issuer. These bond issuances are not reflected in the accompanying financial statements since the bonds are limited obligations payable only from assets of other funds of the Corporation.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

1. Organization and Nature of Operations, continued

Grant Programs

The Corporation approved a grant agreement with a third-party to provide emergency home repairs for elderly or disabled very-low income homeowners in Harris County. The Corporation provides grant assistance to fund repairs and the third-party administers the program. The Corporation receives no income from this program.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. GAAP for local governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Accordingly, expenses are recognized when the liability is incurred, and revenues are recognized when earned. Under the economic resources measurement focus, all assets and liabilities associated with the operation of the Corporation are included in the statements of net position. Since the Corporation has not received public donations, all net assets are considered to be unrestricted.

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. Management believes its estimates and assumptions are reasonable; however, actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all cash and short term, highly liquid investments with original maturities of three months or less to be cash and cash equivalents, respectively. The Corporation maintains demand deposits with financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC").

Investments

The Corporation Investment Policy is reviewed and approved at least annually by the board of directors. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

Program Fee Receivables and Allowance for Doubtful Accounts

Program fee receivables are stated at unpaid balances, less an allowance for doubtful accounts. Management believes the program fee receivables are fully collectible and have not provided allowance for doubtful accounts. The Corporation provides for losses on receivables based on historical experience and any other circumstances which may affect the ability of payors to meet their obligations. It is the Corporation's policy to charge off uncollectible accounts when management determines the receivable will not be collected.

Net Position

Net position in the Corporation's financial statements is unrestricted net position to support the business-type activities, including the Corporation's major programs and operations.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Corporation generates revenue from a variety of sources, including fees that arise from assistance provided through single-family mortgage fees and down payment assistance programs, loan application fees, and loan closing fees. Such revenues are generally recognized when the services are provided. The Corporation also generates revenue from annual issuer fees associated with multi-family bonds. These annual issuer fees are recognized over time, as received and as the services are provided.

Income Taxes

No income tax provision has been included in the financial statements since the Corporation is a Texas public not-for-profit instrument of the local government; thus, its revenues are non-taxable for federal income tax purposes under section 115 of the IRC.

Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2021 and 2020, investment securities, consisting of government investment pools, are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized and realized gains and losses on investments, dividends and interest income are reported in the statement of activities as increases or decreases in net position.

Concentration of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash, program fee receivables, and investments. The Company maintains its cash and cash equivalents and investments with major financial institutions selected based upon management's assessment of the institution's financial stability.

As of December 31, 2021 and 2020, all of the Corporation's demand deposits were either insured by the FDIC or collateralized with obligations of the United States of America or its agencies and instrumentalities or local government rated securities. All of the financial investments are held in creditworthy financial institutions in the name of the Corporation which protects against credit risk of the financial institution holding the investments. Balances at these institutions periodically exceed FDIC limits; however, the Corporation has not experienced any losses from these deposits and management believes the risk of loss is minimal due to the strength of the financial institutions in which the funds are held.

Recently Issued Accounting Pronouncements

GASB Statement No. 92, *Omnibus 2020* – ("GASB 92"), enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 will be adopted by the Corporation in fiscal year 2023 and the impact has not yet been determined.

3. Investments

The Board of Directors of the Corporation adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code (the "Code"), and authorized investments generally include obligations of the United States of America or its agencies and instrumentalities; fully collateralized certificates of deposit from approved public depositories; direct obligations of the State of Texas or its agencies and instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States of America or their respective agencies and instrumentalities; fully collateralized repurchase agreements; and other instruments and obligations authorized by the Code.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

Investments are reported at fair value in accordance with GASB 72, *Fair Value Measurement and Application*, which defines fair value, establishes a framework for measuring fair value, and establishes disclosures about fair value measurements. GASB 72 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the specific characteristics of the investment. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Investments traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2 – Investments not traded on an active market but for which observable market inputs are available for an asset, either directly or indirectly, as of the reporting date.

Level 3 – Investments not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The Corporation has established a framework to consistently measure the fair value of the Corporation's assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policy and procedures that will provide reasonable assurance that assets and liabilities are carried at fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment. As of December 31, 2021 and 2020, the Corporation valued the government investment pools at net asset value provided by the custodian.

4. Commitments and Contingency Liabilities

Risks and Uncertainties

In December 2019, COVID-19 emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. After close monitoring and responses and guidance from federal, state and local governments, in an effort to mitigate the spread of COVID-19, in March 2020, the Corporation modified its methods of operation and made other appropriate changes to reduce the spread of the virus.

The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation's net position, liquidity, and future results of activities. The Board of Directors are actively monitoring the global situation on its financial condition, liquidity, operations. Given the daily evolution of the COVID-19 pandemic and the global responses to curb its spread, the Corporation is not able to estimate the effects of the COVID-19 pandemic on its results of activities, net position, or liquidity for fiscal year 2022.

5. Liquidity

The Corporation is substantially supported by fee revenue resulting from bond issuances and single-family programs which are not subject to restrictions; thus, all financial assets are available for general expenditure within one year. As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

6. Outstanding Bonds and Other Programs

In accordance with the Corporation's adoption of GASB 91, effective January 1, 2020, the accompanying financial statements do not include the outstanding bonds or governmental notes issued by the Corporation. The bonds and notes are collateralized and payable solely from revenues and other assets pledged under trust indentures held in trust by the bond or note Trustee(s). Certain of the bonds and notes are limited obligations of the Corporation, the principal and interest on which are payable solely from the pledged receipts or from the other moneys made available to the Corporation for such purpose from the trust estate. Outstanding issuances as of December 31, 2021, for specified multi-family housing projects, were as follows:

<u>Bond Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2021</u>
2003	Empire Village Apartments	\$ 5,578,710
2003	Primrose Skyline Apartments	9,225,220
2004	Village at Corner Stone Apartments	6,115,000
2005	Louetta Village Apartments	5,280,000
2005	Primrose Apartments at Bammell	6,780,000
2005	Baypointe Apartments	10,090,000
2006	Oak Tree Manor Apartments	6,673,270
2006	Bayview Apartments	10,888,659
2006	Lafayette Village Apartments	11,615,000
2006	Gardens at Tomball Apartments	7,705,000
2007	Mansions at Hastings Green Apartments	12,591,674
2007	Mansions at Hastings Green Senior Apartments	11,872,149
2018	The Vireo Apartments	<u>23,079,000</u>
		<u>\$ 127,493,682</u>
<u>Note Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2021</u>
2019	Quail Chase Apartments	\$ 18,228,565
2020	Enclave at Lake Point	14,200,000
2020	Pinewood Apartments	28,476,000
2021	City Parc at West Oaks Apartments	<u>20,070,000</u>
		<u>\$ 80,974,565</u>

7. Subsequent Events

The Corporation has evaluated all subsequent events through May 11, 2022, which is the date the financial statements were issued, and has concluded that there are no significant events to be reported.