

**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, 2022 and 2021

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

The Board of Directors
Harris County Housing Finance Corporation
Houston, Texas

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, 2022 and 2021, 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, 2022 and 2021, 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
March 16, 2023

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, 2022, 2021 and 2020. 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, 2022 by \$7,254,317, an increase of \$487,160 from December 31, 2021. 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 December 31, 2020 when total assets exceeded liabilities by \$6,272,612.
- The net position of the Corporation is comprised of net position invested in capital assets of \$113,300 and \$0 and unrestricted net position of \$7,141,017 and \$6,767,157 at December 31, 2022 and 2021, respectively, which represents the funds available to meet ongoing obligations of the business-type activities.
- The Corporation recorded grant income of \$113,300 during 2022 in connection with land received through an affordable housing program.

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. HCCLT commenced principal operations during the year ended December 31, 2022. 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, 2022 was \$7,254,317, a 7.1% increase from December 31, 2021. The total net position at December 31, 2021 was \$6,767,157, a 7.9% increase from December 31, 2020. (See Table A-1 Below).

Table A-1 Corporation’s Net Position

	2022	2021	2020
Current assets	\$ 7,151,510	\$ 6,774,657	\$ 6,280,779
Capital assets	113,300	-	-
Total assets	\$ 7,264,810	\$ 6,774,657	\$ 6,280,779
Current liabilities	\$ 10,493	\$ 7,500	\$ 8,167
Total liabilities	10,493	7,500	8,167
Invested in capital assets	113,300	-	-
Unrestricted	7,141,017	6,767,157	6,272,612
Total net position	7,254,317	6,767,157	6,272,612
Total liabilities and net position	\$ 7,264,810	\$ 6,774,657	\$ 6,280,779

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

FINANCIAL ANALYSIS OF THE CORPORATATION, CONTINUED

Net Position, continued

The increase in current assets at December 31, 2022 when compared to December 31, 2021 is a result of improved investment performance and earnings that created an increase in cash and program fees receivable at December 31, 2022.

The increase in capital assets at December 31, 2022 when compared to December 31, 2021 is a result of single family lots granted to HCCLT through an affordable housing program sponsored by the City of Houston, Texas (the "City").

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.

Changes in Net Position

The increase in financial position for the year ended December 31, 2022 when compared to December 31, 2021 was \$487,160. The total operating revenues increased by 4.0%, or \$25,242, and total operating expenses increased by 24.0%, or \$32,627. Operating income decreased by \$7,385 (See Table A-2.)

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 \$364,080 (See Table A-2.)

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

	2022	2021	2020
Operating revenues:			
Single family mortgage fees	\$ 14,203	\$ 2,956	\$ 511
Down payment assistance program fees	14,565	43,402	50,273
Interest income	53,459	19,732	41,796
Grant income	113,300	-	-
Bond administrative fees	459,626	564,426	510,115
Other income	605	-	-
Total operating revenues	<u>655,758</u>	<u>630,516</u>	<u>602,695</u>
Operating expenses:			
Program services:			
Down payment assistance program expenses	-	-	151
Grant expenses	-	-	10,205
Professional fees	135,213	107,000	105,506
General and administrative expenses	33,385	28,971	31,826
Total operating expenses	<u>168,598</u>	<u>135,971</u>	<u>147,688</u>
Change in net position	487,160	494,545	455,007
Net position at beginning of year	6,767,157	6,272,612	5,817,605
Net position at end of year	<u>\$ 7,254,317</u>	<u>\$ 6,767,157</u>	<u>\$ 6,272,612</u>

During 2022, revenue from single family mortgage fees increased compared to 2021 due to significantly lower interest rates available to homebuyers in early 2022 resulting in increased homebuyer activity. Additionally, during 2021 homebuyer activity was depressed as the region and nation recovered from the financial impacts of COVID-19. Single family mortgage fee revenues are expected to decline going forward due to the significant interest rate increases in the mortgage lending industry.

During 2022, bond administrative fee revenue decreased compared to 2021 due to a bond defeasance in addition to certain additional closing and other fees related to new bond issuances and adjustments occurring in 2021.

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

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Changes in Net Position, continued

During 2022, down payment assistance program fee revenue decreased compared to 2021 due to continued run-off of the program.

During 2022, grant income increased compared to 2021 as the Corporation commenced principal operations and was granted single family lots valued at \$113,300 as part of an affordable housing program sponsored by the City.

During 2022, interest income increased when compared to 2021 due to the annual percentage yield on the Corporation's money market account increasing from 0.33% in 2021 to 1.26 % in 2022.

During 2022, professional fees and general and administrative expenses increased compared to 2021 due to costs incurred for a prospective bond issuance.

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 0.45% in 2020 to 0.33% in 2021.

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, 2022**

	<u>Housing Finance Corporation</u>	<u>Community Land Trust</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,664,802	\$ 91,098	\$ 5,755,900
Investments, at fair value	1,329,332	-	1,329,332
Program fee receivables	66,078	200	66,278
Due from (to) other funds	100,000	(100,000)	-
Total current assets	7,160,212	(8,702)	7,151,510
Land held in trust	-	113,300	113,300
Total assets	<u>\$ 7,160,212</u>	<u>\$ 104,598</u>	<u>\$ 7,264,810</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	<u>\$ 10,493</u>	<u>\$ -</u>	<u>\$ 10,493</u>
Total liabilities	<u>10,493</u>	<u>-</u>	<u>10,493</u>
NET POSITION			
Invested in capital assets	-	113,300	113,300
Unrestricted net position (deficit)	<u>7,149,719</u>	<u>(8,702)</u>	<u>7,141,017</u>
Total net position	<u>7,149,719</u>	<u>104,598</u>	<u>7,254,317</u>
Total liabilities and net position	<u>\$ 7,160,212</u>	<u>\$ 104,598</u>	<u>\$ 7,264,810</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, 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 (to) 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			
Unrestricted net position (deficit)	<u>6,775,654</u>	<u>(8,497)</u>	<u>6,767,157</u>
Total 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 ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Housing Finance Corporation</u>	<u>Community Land Trust</u>	<u>Total</u>
Operating revenues:			
Single family mortgage fees	\$ 14,203	\$ -	\$ 14,203
Down payment assistance program participation fees	14,565	-	14,565
Grant income	-	113,300	113,300
Interest income	53,459	-	53,459
Bond administrative fees	459,626	-	459,626
Other income	405	200	605
Total operating revenue	<u>542,258</u>	<u>113,500</u>	<u>655,758</u>
Operating expenses:			
Program services:			
Professional fees	135,213	-	135,213
Total program services	<u>135,213</u>	<u>-</u>	<u>135,213</u>
General and administrative:			
Board of director fees	14,250	-	14,250
Insurance	7,470	-	7,470
Miscellaneous	11,260	405	11,665
Total general and administrative	<u>32,980</u>	<u>405</u>	<u>33,385</u>
Total operating expenses	168,193	405	168,598
Change in net position	374,065	113,095	487,160
Net position, beginning of year	<u>6,775,654</u>	<u>(8,497)</u>	<u>6,767,157</u>
Net position, end of year	<u>\$ 7,149,719</u>	<u>\$ 104,598</u>	<u>\$ 7,254,317</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	<u>564,426</u>	<u>-</u>	<u>564,426</u>
Total operating revenue	<u>630,516</u>	<u>-</u>	<u>630,516</u>
Operating expenses:			
Program services:			
Professional fees	<u>107,000</u>	<u>-</u>	<u>107,000</u>
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	<u>1,489</u>	<u>8,497</u>	<u>9,986</u>
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 CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Housing Finance Corporation	Community Land Trust	Total
Cash flows from operating activities:			
Cash received from customers	\$ 481,853	\$ -	\$ 481,853
Cash paid to suppliers and employees	(165,200)	(405)	(165,605)
Net cash provided by (used in) operating activities	316,653	(405)	316,248
Cash flows from investing activities:			
Purchase of investments	(21,696)	-	(21,696)
Net cash used in investing activities	(21,696)	-	(21,696)
Net increase (decrease) in cash	294,957	(405)	294,552
Cash at beginning of year	5,369,845	91,503	5,461,348
Cash at end of year	\$ 5,664,802	\$ 91,098	\$ 5,755,900
Reconciliation of net income to net cash provided by (used in) operating activities			
Change in net position	\$ 374,065	\$ 113,095	\$ 487,160
Contribution of land	-	(113,300)	(113,300)
Adjustments to reconcile change in net position to net cash from operating activities:			
Change in accounts receivable	(60,405)	(200)	(60,605)
Change in in accounts payable and accrued liabilities	2,993	-	2,993
Net cash provided by (used in) operating activities	\$ 316,653	\$ (405)	\$ 316,248

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

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. HCCLT commenced principal operations during the year ended December 31, 2022.

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, 2022 and 2021, the Corporation had 14 and 17, respectively, multi-family bond issues and governmental notes outstanding, which are listed in Note 4, 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

Single Family Lot Leases

The Corporation, through HCCLT, is part of an affordable housing program sponsored by the City of Houston, Texas (the "City"), whereby HCCLT is granted ownership of land, in perpetuity, acquired by the City under the affordable housing program and provides an income-eligible homeowner with a 99-year ground lease to maintain affordable housing in the City.

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

GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* establishes standards for external financial reporting for all state and local government entities including a statement of net position and a statement of activities. It requires the classification of net position of enterprise funds into three components: invested in capital assets, net of related debt, restricted and unrestricted.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Net Position, continued

These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position invested in capital assets at December 31, 2022 relate to parcels of contributed land to be used to maintain affordable housing in the City. See Note 4.
- Restricted – This component of net position consists of restricted assets, reduced by liabilities and deferred inflows of resources related to those assets, upon which constraints have been externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2022, the Corporation had no restricted net position.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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.

The Corporation generates revenues from certain grants and lease income from an affordable housing program sponsored by the City which are recognized pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB 33"). Pursuant to GASB 33, revenues and expenditures are recognized when all applicable eligibility requirements are met.

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, 2022 and 2021, 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.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risk, continued

As of December 31, 2022 and 2021, 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 Adopted Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which requires lessees to recognize the following for all leases (with the exception of short-term leases and leases that transfer ownership of the underlying asset) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under GASB 87, a lessor is required to recognize a lease receivable and deferred inflow of resources, which is the future expected income derived from a lease, measured on a discounted basis, for all leases (except for short-term leases, certain assets held as investments, certain regulated leases and leases that transfer ownership of the underlying asset) at the commencement date. GASB 87 is effective for fiscal years beginning after December 15, 2019, early application is permitted. Lessees and lessors must apply a full retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to delay the effective date of GASB 87 by 18 months (effective for annual periods beginning after June 15, 2021). The Corporation adopted the provisions of GASB 87 effective January 1, 2022. The adoption of GASB 87 did not have a significant impact on the Corporation's financial statements.

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.

TexSTAR

The Corporation participates in Texas Short Term Asset Reserve fund ("TexSTAR") which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The Corporation's investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

Texas CLASS

The Corporation also participates in Texas Cooperative Liquid Assets Securities System ("Texas CLASS"). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administrator and UMB Bank N.A. as the custodian.

The Corporation's investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). The Corporation's investment in Texas CLASS is measured using published fair value per share. Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

The following is a summary of the Corporation's investments at December 31, 2022:

	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 612,622	46.1%	AAAm	5 days
Texas CLASS	<u>716,710</u>	<u>53.9%</u>	AAAm	38 days
Total investments	<u>\$ 1,329,332</u>	<u>100.0%</u>		

The following is a summary of the Corporation's investments at December 31, 2021:

	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 603,403	46.1%	AAAm	40 days
Texas CLASS	<u>704,233</u>	<u>53.9%</u>	AAAm	29 days
Total investments	<u>\$ 1,307,636</u>	<u>100.0%</u>		

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.

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

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, 2022 and 2021, the Corporation valued the government investment pools at net asset value provided by the custodians.

4. Land Held in Trust and Lease Income

At December 31, 2022, land held in trust is comprised of two single family lots granted to HCCLT during the year ended December 31, 2022. HCCLT has entered into a 99-year ground lease with the homeowner for each lot, which provides for \$50 of rental income per month over the life of the lease. The leases provide the homeowners with the right to an additional 99-year renewal. The improvements on the land may not be sold or otherwise mortgaged without prior written consent of HCCLT, and HCCLT maintains the right to purchase the improvements if the homeowner pursues the sale of the property. In the event of sale, the improvements may only be transferred to income-qualified buyers and the selling price of the property is subject to certain maximum thresholds determined by the underlying lease agreement to maintain affordable housing in the City. During the year ended December 31, 2022, lease income of \$200 was recognized on the lots and is included in other income at December 31, 2022.

5. 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 of bonds as of December 31, 2022, for specified multi-family housing projects, were as follows:

<u>Bond Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2022</u>
2003	Primrose Skyline Apartments	\$ 9,079,695
2004	Village at Corner Stone Apartments	5,815,000
2005	Louetta Village Apartments	5,080,000
2005	Primrose Apartments at Bammell	6,580,000
2005	Baypointe Apartments	9,705,000
2006	Bayview Apartments	10,726,180
2006	Lafayette Village Apartments	11,315,000
2006	Gardens at Tomball Apartments	7,435,000
2007	Mansions at Hastings Green Apartments	12,416,334
2007	Mansions at Hastings Green Senior Apartments	11,706,828
2018	The Vireo Apartments	23,079,000
		<u>\$ 112,938,037</u>

**HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

5. Outstanding Bonds and Other Programs, continued

Outstanding issuances of governmental notes as of December 31, 2022, for specified multi-family housing projects, were as follows:

<u>Note Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2022</u>
2019	Quail Chase Apartments	\$ 17,953,251
2020	Pinewood Apartments	28,476,000
2021	City Parc at West Oaks Apartments	<u>20,070,000</u>
		<u>\$ 66,499,251</u>

6. 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.

7. Subsequent Events

The Corporation has evaluated all subsequent events through March 16, 2023, which is the date the financial statements were issued, and has concluded that there are no significant events to be reported.