

**HARRIS COUNTY COMMUNITY LAND TRUST
MANAGEMENT CORPORATION**
A Component Unit of
Harris County Housing Finance Corporation

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**
As of and for the Years Ended December 31, 2023 and 2022

**HARRIS COUNTY COMMUNITY LAND
TRUST MANAGEMENT CORPORATION
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements:	
Statements of Net Position December 31, 2023 and 2022	5
Statements of Activities For the Years Ended December 31, 2023 and 2022	6
Statements of Cash Flows For the Years Ended December 31, 2023 and 2022	7
Notes to Basic Financial Statements	8

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Harris County Community Land Trust Management Corporation
Houston, Texas

Opinion

We have audited the financial statements of the Harris County Community Land Trust Management Corporation (the "Corporation"), a component unit of the Harris County Housing Finance Corporation, as of and for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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 opinion.

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 audits.
- 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 audits 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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 audits 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 & Buzina, LLP

Houston, Texas
April 12, 2024

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

The following discussion and analysis of Harris County Community Land Trust Management Corporation’s (the "Corporation") financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2023 and 2022. 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 Corporation commenced principal operations during 2022.
- The total assets of the Corporation exceeded the liabilities at December 31, 2023 by \$1,578,087. This is an increase of \$1,473,489 from the previous year when total liabilities exceeded assets by \$104,598.
- The net position of the Corporation is comprised of net position invested in capital assets of \$1,585,300 and \$113,300 and unrestricted net deficit of \$7,213 and \$8,702 at December 31, 2023 and 2022, respectively, which represents the funds available to meet ongoing obligations of the business-type activities.
- The Corporation recorded grant income of \$1,472,000 and \$133,300 during 2023 and 2022, respectively, 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. At December 31, 2021, the Corporation had 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, 2023 was \$1,578,087, a 1,408.7% increase from December 31, 2022. (See Table A-1 Below).

Table A-1 Corporation’s Net Position

	2023	2022
Current assets	\$ 92,787	\$ 91,298
Capital assets	1,585,300	113,300
Total assets	\$ 1,678,087	\$ 204,598
Current liabilities	\$ 100,000	\$ 100,000
Total liabilities	\$ 100,000	\$ 100,000
Invested in capital assets	\$ 1,585,300	\$ 113,300
Unrestricted net deficit	(7,213)	(8,702)
Total net position (deficit)	\$ 1,578,087	\$ 104,598

**HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

FINANCIAL ANALYSIS OF THE CORPORATATION, CONTINUED

Net Position, continued

The increase in total assets at December 31, 2023 when compared to December 31, 2022 is the result of single family lots granted to the Corporation through an affordable housing program sponsored by the City of Houston, Texas (the "City").

Changes in Net Position

The increase in financial position for the year ended December 31, 2023 was \$1,473,489. The total operating revenues increased by 1,201.6%, or \$1,363,828, and total operating expenses increased by 847.9%, or \$3,434. Operating income increased by \$1,360,394 (See Table A-2.)

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

	2023	2022
Operating revenues:		
Grant income	1,472,000	113,300
Lease income	5,308	200
Other income	20	-
Total operating revenues	<u>1,477,328</u>	<u>113,500</u>
Operating expenses:		
General and administrative expenses	3,839	405
Total operating expenses	<u>3,839</u>	<u>405</u>
Change in net position	1,473,489	113,095
Net position at beginning of year	<u>104,598</u>	<u>(8,497)</u>
Net position at end of year	<u>\$ 1,578,087</u>	<u>\$ 104,598</u>

During 2023, grant income increased compared to 2022 as the Corporation was granted single family lots with values totaling \$1,472,000 as part of an affordable housing program sponsored by the City. These lots are then leased to income-eligible homebuyers in the City by the Corporation.

During 2023, general and administrative expenses increased when compared to 2022 as the Corporation incurred professional fees for tax exemption application .

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 COMMUNITY LAND TRUST MANAGEMENT CORPORATION
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 92,432	\$ 91,098
Program fee receivables	355	200
Total current assets	92,787	91,298
Land held in trust	1,585,300	113,300
Total assets	\$ 1,678,087	\$ 204,598
LIABILITIES		
Current liabilities:		
Due to other government	\$ 100,000	\$ 100,000
Total liabilities	\$ 100,000	\$ 100,000
NET POSITION		
Invested in capital assets	\$ 1,585,300	\$ 113,300
Unrestricted net position (deficit)	(7,213)	(8,702)
Total net position	\$ 1,578,087	\$ 104,598

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

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Operating revenues:		
Contributed property	\$ 1,472,000	\$ 113,300
Lease income	5,308	200
Other income	20	-
	1,477,328	113,500
Operating expenses:		
General and administrative:	3,839	405
	3,839	405
Change in net position	1,473,489	113,095
Net position, beginning of year	104,598	(8,497)
Net position, end of year	\$ 1,578,087	\$ 104,598

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

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 5,173	\$ -
Cash paid to suppliers and employees	(3,839)	(405)
Net cash provided by (used in) operating activities	1,334	(405)
Increase (decrease) in cash	1,334	(405)
Cash at beginning of year	91,098	91,503
Cash at end of year	\$ 92,432	\$ 91,098
Reconciliation of net income to net cash provided by (used in) operating activities		
Change in net position	\$ 1,473,489	\$ 113,095
Contributed land	(1,472,000)	(113,300)
Adjustments to reconcile change in net position to net cash from operating activities:		
Change in program fee receivables	(155)	(200)
Net cash provided by (used in) operating activities	\$ 1,334	\$ (405)

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

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Harris County Community Land Trust Management Corporation (the "Corporation") was incorporated on June 9, 2020 pursuant to Chapter 373B et seq. Texas Local Government Code as a separate not-for-profit corporate entity to aid, assist and act on behalf of the Harris County Housing Finance Corporation ("HCHFC") regarding the creation and operation of the Harris County Community Land Trust ("CLT"). The CLT will provide affordable housing for low-income and moderate-income residents in the community, promote resident home-ownership, retain affordable housing for future residents, and capture the long-term value of public investments. HCHFC serves as trustee to the Corporation to acquire ownership and underlying rights in real property while improvements are owned or leased by residents with the explicit goal of promoting affordable housing. 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 501(c)(3) of the Internal Revenue Code ("IRC").

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 HCHFC for financial reporting purposes. The Corporation is managed by a Board of Directors (the "Board") appointed by HCHFC.

As required by generally accepted accounting principles in the United States of America ("U.S. GAAP"), the financial statements of the reporting entity must include those of the Corporation and its component units 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.

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. At December 31, 2023 and 2022, the Corporation did not have any component units.

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

Single Family Lot Leases

The Corporation is part of an affordable housing program sponsored by the City of Houston, Texas (the "City"), whereby the Corporation 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.

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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").

Land Held in Trust

Land held in trust represents real property granted to the Corporation through an affordable housing program sponsored by the City and is carried at fair value as of the grant date.

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. 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, 2023 and 2022 relate to parcels of contributed land to be used to maintain affordable housing in the City. See Note 3.
- 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, 2023 and 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's primary sources of income are derived from 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

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the IRC. However, the Corporation is subject to taxes on certain unrelated business income. For the years ended December 31, 2023 and 2022, there were no unrelated business activities; thus, no provision has been made for income taxes.

Concentration of Credit Risk

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

As of December 31, 2023 and 2022, all of the cash and cash equivalents 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 may 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.

HARRIS COUNTY COMMUNITY LAND TRUST MANAGEMENT CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 of 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.

GASB Statement No. 99, *Omnibus 2022* – ("GASB 99"), 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 99 was adopted by the Corporation in fiscal year 2023 and this pronouncement had no significant impact on the Corporation's financial statements for the year ended December 31, 2023.

Recently Issued Accounting Pronouncements

GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment to GASB Statement No. 62. This statement enhances accounting and financial reporting requirements or accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 will be adopted by the Corporation in fiscal year 2024 and the impact has not yet been determined.

3. Land Held in Trust and Lease Income

At December 31, 2023 and 2022, land held in trust is comprised of twenty four and two, respectively, of single family lots granted to HCCLT during the years then ended. 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. Lease income of \$5,308 and \$200 was recognized in the statement of activities for the years ended December 31, 2023 and 2022, respectively.

4. Related Parties

At December 31, 2023 and 2022, the balance due to other government consists of \$100,000 in seed funding provided by HCHFC.

5. Liquidity

The Corporation is substantially supported by lease income from single family lots granted to the Corporation by the City 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 COMMUNITY LAND TRUST MANAGMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

6. Subsequent Events

The Corporation has evaluated all subsequent events through April 12, 2024, which is the date the financial statements were issued, and has concluded that there are no significant events to be reported.