

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

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
As of and for the Years Ended December 31, 2023 and 2022**

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PART I.

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT AND SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
As of and for the Years Ended December 31, 2023 and 2022**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the business-type activities and each major fund 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, 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 respective financial position of the business-type activities and each major fund 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") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government Auditing Standards* 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.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, 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.
- 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 on pages 3-6 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 12, 2024, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Hann, Langston & Buzina, LLP

Houston, Texas
April 12, 2024

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, 2023, 2022 and 2021. 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, 2023 by \$11,569,631, an increase of \$4,315,314 from December 31, 2022. The total assets of the Corporation exceeded the liabilities at December 31, 2022 by \$7,254,317. This is an increase of \$487,160 from December 31, 2021 when total assets exceeded liabilities by \$6,767,157.
- The net position of the Corporation is comprised of net position invested in capital assets of \$3,745,300 and \$113,300 and unrestricted net position of \$7,824,331 and \$7,141,017 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 \$113,300 during 2023 and 2022, respectively in connection with lands received through the single family affordable housing program. The Corporation recorded grant income of \$2,160,000 during 2023 from the US Department of Treasury through the Harris County's pass-through program, Coronavirus State and Local Fiscal Recovery Funds (ARPA) for a multi-family development 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.

In addition to the HCCLT, the Corporation created two additional component units during the year ended December 31, 2023. On December 17, 2023 the Corporation created the HCHFC Ella Boulevard Landowner, LLC and the Houston Ella Boulevard GP, LLC. (the LLC's). Both LLC's are separate legal entities of the Corporation for which the Corporation is the sole owner, or has significant owner membership causing each to be financially accountable to the Corporation, and their relationship to the Corporation is such that exclusion would cause the Corporation's financial statements to be misleading or incomplete. The Corporation has determined that each LLC's are "blended component" units in accordance with GASB statement 14, and clarifying GASB statements 61 and 80, and these two components are included in the Housing Finance Corporation's fund.

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 \$11,569,631, a 59.5% increase from December 31, 2022. The total net position at December 31, 2022 was \$7,254,317, a 7.1% increase from December 31, 2021. (See Table A-1 Below).

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

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Net Position, continued

Table A-1 Corporation's Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 7,832,731	\$ 7,151,510	\$ 6,774,657
Noncurrent assets	4,310,667	113,300	-
Total assets	<u>\$ 12,143,398</u>	<u>\$ 7,264,810</u>	<u>\$ 6,774,657</u>
Current liabilities	\$ 8,333	\$ 10,493	\$ 7,500
Total liabilities	<u>\$ 8,333</u>	<u>\$ 10,493</u>	<u>\$ 7,500</u>
Deferred lease revenue	\$ 565,434	\$ -	\$ -
Total deferred inflow of resources	<u>\$ 565,434</u>	<u>\$ -</u>	<u>\$ -</u>
Invested in capital assets	\$ 3,745,300	\$ 113,300	\$ -
Unrestricted	7,824,331	7,141,017	6,767,157
Total net position	<u>\$ 11,569,631</u>	<u>\$ 7,254,317</u>	<u>\$ 6,767,157</u>

The increase in current assets at December 31, 2023 when compared to December 31, 2022 is a result of improved investment performance, bond issuance earnings, and additional fees received related to real estate development activities that created an increase in cash and program fees receivable at December 31, 2023.

The increase in noncurrent assets at December 31, 2023 when compared to December 31, 2022 is a result of grants received by the Corporation for multifamily project and affordable housing programs sponsored by the City of Houston, Texas (the "City").

The increase in deferred inflow of resources due to the acquired land for the multifamily project and then lease to the developer, resulting in the recognition of a lease receivable and deferred lease revenue of \$565,434 during 2023 which will be recognized over the life of the lease agreements.

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").

Changes in Net Position

The increase in financial position for the year ended December 31, 2023 when compared to December 31, 2022 was \$4,315,314. The total operating revenues increased by 591.4%, or \$3,878,292, and total operating expenses increased by 29.7%, or \$50,138. Change in net position increased by \$3,828,154 (See Table A-2.)

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. Change in net position decreased by \$7,385 (See Table A-2.)

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

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Changes in Net Position, continued

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues:			
Single family mortgage fees	\$ 32,144	\$ 14,203	\$ 2,956
Down payment assistance program fees	7,876	14,565	43,402
Developer fees	77,004	-	-
General contractor fees	62,500	-	-
Grant income	3,632,000	113,300	-
Lease income	5,308	-	-
Interest income	232,168	53,459	19,732
Bond administrative fees	485,030	459,626	564,426
Other income	<u>20</u>	<u>605</u>	<u>-</u>
Total operating revenues	<u>4,534,050</u>	<u>655,758</u>	<u>630,516</u>
Operating expenses:			
Program services:			
Professional fees	175,245	135,213	107,000
General and administrative expenses	<u>43,491</u>	<u>33,385</u>	<u>28,971</u>
Total operating expenses	<u>218,736</u>	<u>168,598</u>	<u>135,971</u>
Change in net position	4,315,314	487,160	494,545
Net position at beginning of year	<u>7,254,317</u>	<u>6,767,157</u>	<u>6,272,612</u>
Net position at end of year	<u>\$ 11,569,631</u>	<u>\$ 7,254,317</u>	<u>\$ 6,767,157</u>

During 2023, revenue from single family mortgage fees increased compared to 2022 due to increase in homebuyer activity.

During 2023, revenues from general contractor fees and developer fees increased due to fees received related to real estate development activities for the multifamily project.

During 2023, interest income increased when compared to 2022 due to the annual percentage yield on the Corporation's money market account increasing from 1.26% in 2022 to 5.36 % in 2023.

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. In addition, the Corporation was granted \$2,160,000 to purchase land as part of the City's multifamily project.

During 2023, bond administrative fee revenue increase compared to 2022 due to a bond defeasance in addition to certain additional closing and other fees related to new bond issuances applications.

During 2023, professional fees and general and administrative expenses increased due to the Corporation incurring higher professional fees compared to 2022.

During 2023, bond administrative fee revenue decreased compared to 2022 due to a bond defeasance in addition to certain additional closing and other fees related to new bond issuances and adjustments occurring in 2022.

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

FINANCIAL ANALYSIS OF THE CORPORATION, CONTINUED

Changes in Net Position, continued

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.

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 decreasing 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.

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
DECEMBER 31, 2023

	Housing Finance Corporation	Community Land Trust	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,249,978	\$ 92,432	\$ 6,342,410
Investments, at fair value	1,399,176	-	1,399,176
Program fee receivables	90,723	355	91,078
Lease receivable	67	-	67
Due from (to) other funds	100,000	(100,000)	-
Total current assets	7,839,944	(7,213)	7,832,731
Lease receivable	565,367	-	565,367
Land held in trust	-	1,585,300	1,585,300
Capital assets, land	2,160,000	-	2,160,000
Total assets	<u>\$ 10,565,311</u>	<u>\$ 1,578,087</u>	<u>\$ 12,143,398</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 8,333	\$ -	\$ 8,333
Total liabilities	<u>\$ 8,333</u>	<u>\$ -</u>	<u>\$ 8,333</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred lease revenue	\$ 565,434	\$ -	\$ 565,434
Total deferred inflows of resources	<u>\$ 565,434</u>	<u>\$ -</u>	<u>\$ 565,434</u>
NET POSITION			
Invested in capital assets	\$ 2,160,000	\$ 1,585,300	\$ 3,745,300
Unrestricted net position (deficit)	7,831,544	(7,213)	7,824,331
Total net position	<u>\$ 9,991,544</u>	<u>\$ 1,578,087</u>	<u>\$ 11,569,631</u>

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

HARRIS COUNTY HOUSING FINANCE CORPORATION
STATEMENT OF NET POSITION
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	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
Total current assets	7,160,212	(8,702)	7,151,510
Land held in trust	<u>-</u>	<u>113,300</u>	<u>113,300</u>
Total assets	<u>\$ 7,160,212</u>	<u>\$ 104,598</u>	<u>\$ 7,264,810</u>
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>

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, 2023

	<u>Housing Finance Corporation</u>	<u>Community Land Trust</u>	<u>Total</u>
Operating revenues:			
Single family mortgage fees	\$ 32,144	\$ -	\$ 32,144
Down payment assistance program participation fees	7,876	-	7,876
Developer fees	77,004	-	77,004
General contractor fees	62,500	-	62,500
Grant income	2,160,000	1,472,000	3,632,000
Lease income	-	5,308	5,308
Interest income	232,168	-	232,168
Bond administrative fees	485,030	-	485,030
Other income	-	20	20
Total operating revenue	<u>3,056,722</u>	<u>1,477,328</u>	<u>4,534,050</u>
Operating expenses:			
Program services:			
Professional fees	<u>175,245</u>	<u>-</u>	<u>175,245</u>
Total program services	<u>175,245</u>	<u>-</u>	<u>175,245</u>
General and administrative:			
Board of director fees	13,800	-	13,800
Insurance	7,850	-	7,850
Miscellaneous	<u>18,002</u>	<u>3,839</u>	<u>21,841</u>
Total general and administrative	<u>39,652</u>	<u>3,839</u>	<u>43,491</u>
Total operating expenses	214,897	3,839	218,736
Change in net position	2,841,825	1,473,489	4,315,314
Net position, beginning of year	<u>7,149,719</u>	<u>104,598</u>	<u>7,254,317</u>
Net position, end of year	<u>\$ 9,991,544</u>	<u>\$ 1,578,087</u>	<u>\$ 11,569,631</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	<u>135,213</u>	<u>-</u>	<u>135,213</u>
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	<u>11,260</u>	<u>405</u>	<u>11,665</u>
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 CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Housing Finance Corporation</u>	<u>Community Land Trust</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 3,032,077	\$ 5,173	\$ 3,037,250
Cash paid to suppliers and employees	(217,057)	(3,839)	(220,896)
Net cash provided by operating activities	<u>2,815,020</u>	<u>1,334</u>	<u>2,816,354</u>
Cash flows from investing activities:			
Purchase of land	(2,160,000)	-	(2,160,000)
Purchase of investments	(69,844)	-	(69,844)
Net cash used by investing activities	<u>(2,229,844)</u>	<u>-</u>	<u>(2,229,844)</u>
Net increase in cash	585,176	1,334	586,510
Cash at beginning of year	<u>5,664,802</u>	<u>91,098</u>	<u>5,755,900</u>
Cash at end of year	<u>\$ 6,249,978</u>	<u>\$ 92,432</u>	<u>\$ 6,342,410</u>
Reconciliation of net income to net cash provided by operating activities			
Change in net position	\$ 2,841,825	\$ 1,473,489	\$ 4,315,314
Contribution of land	-	(1,472,000)	(1,472,000)
Adjustments to reconcile change in net position to net cash from operating activities:			
Change in program fee receivables	(24,645)	(155)	(24,800)
Change in accounts payable and accrued liabilities	(2,160)	-	(2,160)
Net cash provided by operating activities	<u>\$ 2,815,020</u>	<u>\$ 1,334</u>	<u>\$ 2,816,354</u>
Non-cash Transaction:			
Change in lease receivable	<u>\$ 565,434</u>	<u>\$ -</u>	<u>\$ 565,434</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 program fee receivable	(60,405)	(200)	(60,605)
Change 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

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, 2023.

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, 2023 and 2022, the Corporation had 15 and 14, respectively, multi-family bond issues and governmental notes outstanding, 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

Multifamily Project

The Corporation, through its partially owned subsidiary, partners with third-parties to facilitate the acquisition, rehabilitation and operation of low- and moderate-income multi-family apartment complexes located within the jurisdictions of the Corporation's sponsoring political subdivisions. The Corporation receives federal grant to fund the project. The Corporation serves as the general partner and landowner, through its wholly owned subsidiary, of the project and receive compensation in the form of lease revenue. The Corporation may also serve as the contractor for the rehabilitation of the project and receive developer fees and general contractor fees as compensation.

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.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Interfund Balances

In the ordinary course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” and “due to other funds”, respectively, are reported in the statement of net position.

Leases

The Corporation accounts for leases pursuant to the guidance of GASB Statement No. 87 – *Leases*, which requires lessees to establish a right-of-use (“ROU”) lease asset and corresponding lease liability for most operating leases. ROU lease assets are amortized over the term of the lease. Under GASB Statement No. 87, lessors are required to establish a lease receivable and corresponding deferred lease revenue to be recognized over the term of the lease.

Capital Assets, Land

Land is recorded at historical cost and are not depreciated since it is inexhaustible.

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 relate to parcels of contributed land to be used to maintain affordable housing in the City. See Notes 1, 4, and 6.
- 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 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, loan closing fees, developer fees, and general contractor 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 the multifamily project and 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.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to the performance of obligations in future periods and will not be recognized as revenues until the performance obligation has been fulfilled.

Deferred inflows consist of deferred lease revenue. Deferred lease revenue represents the discounted value of future payments pursuant to the terms of a lease pursuant to GASB 87. See Note 5. Leases relative to future payments for the use of land and are recognized over the term of the agreement.

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, 2023 and 2022, 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, 2023 and 2022, 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 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.

HARRIS COUNTY HOUSING FINANCE CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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. 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.

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 administer 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, 2023:

	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 643,988	46.0%	AAAm	44 days
Texas CLASS	755,188	54.0%	AAAm	21 days
Total investments	<u>\$ 1,399,176</u>	<u>100.0%</u>		

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

3. Investments, continued

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>		

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, 2023 and 2022, 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, 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.

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

5. Leases

On December 19, 2023, the HCEBL, as lessor, entered into a 99-year ground lease agreement (“The Ella Ground Lease”) with Houston Ella Boulevard, LTD. (“Ella Partnership”) to use a tract of land located in Houston, Texas for the purpose of development and operation upon the land of a multifamily residential development. Houston Ella Boulevard GP, LLC (“Ella GP”) is the general partner of Ella Partnership, and the Corporation owns 66% of Ella GP. The lease requires annual lease payments of \$35,040 on January 1, 2024 and each anniversary of the ground lease through maturity on January 1, 2122. As the interest rate implicit in the ground lease is not readily determinable, the Corporation estimates the interest rate utilizing the prevailing rates for similar instruments to discount the lease payments.

As of December 31, 2023, the Corporation has recorded lease a receivable and corresponding deferred inflows related to the Ella Ground lease of \$565,434. During the year ended December 31, 2023, the Corporation did not recognize lease revenue related to this lease.

Minimum lease payments receivable are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ 67	\$ 34,973	\$ 35,040
2025	72	34,968	35,040
2026	76	34,964	35,040
2027	81	34,959	35,040
2028	87	34,953	35,040
2029-2033	527	174,673	175,200
2034-2038	725	174,475	175,200
2039-2043	998	174,202	175,200
2044-2048	1,373	173,827	175,200
2049-2053	1,890	173,310	175,200
2054-2058	2,600	172,600	175,200
2059-2063	3,578	171,622	175,200
2064-2068	4,924	170,276	175,200
2069-2073	6,776	168,424	175,200
2074-2078	9,325	165,875	175,200
2079-2083	12,832	162,368	175,200
2084-2088	17,659	157,541	175,200
2089-2093	24,301	150,899	175,200
2094-2098	33,441	141,759	175,200
2099-2103	46,019	129,181	175,200
2104-2108	63,328	111,872	175,200
2109-2113	87,147	88,053	175,200
2114-2118	119,926	55,274	175,200
2119-2122	127,682	12,478	140,160
Total	<u>\$ 565,434</u>	<u>\$ 2,903,526</u>	<u>\$ 3,468,960</u>

6. Outstanding Bonds and Other Programs

In accordance with the Corporation’s adoption of GASB 91, 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.

HARRIS COUNTY HOUSING FINANCE CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS

6. Outstanding Bonds and Other Programs, continued

Outstanding issuances of bonds as of December 31, 2023, for specified multi-family housing projects, were as follows:

<u>Bond Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2023</u>
2004	Village at Corner Stone Apartments	\$ 5,615,000
2005	Louetta Village Apartments	4,880,000
2005	Primrose Apartments at Bammell	6,380,000
2006	Bayview Apartments	10,553,423
2006	Lafayette Village Apartments	11,015,000
2006	Gardens at Tomball Apartments	7,180,000
2007	Mansions at Hastings Green Apartments	12,230,550
2007	Mansions at Hastings Green Senior Apartments	11,531,660
2018	The Vireo Apartments	23,079,000
2020	Enclave at Lakepointe	14,200,000
		<u>\$ 106,664,633</u>

Outstanding issuances of governmental notes as of December 31, 2023, for specified multi-family housing projects, were as follows:

<u>Note Series</u>	<u>Project</u>	<u>Outstanding at December 31, 2023</u>
2019	Quail Chase Apartments	\$ 17,687,168
2020	Pinewood Apartments	23,582,000
2021	City Parc at West Oaks Apartments	19,970,364
		<u>\$ 61,239,532</u>

7. Related Party

On December 19, 2023, the Corporation, through its 66% ownership interest subsidiary Ella GP, entered into a partnership agreement with Ella Partnership and serves as the general partner. The Corporation also, through its wholly owned subsidiary HCHFC Ella Boulevard Landowner, LLC ("Ella Landowner"), leases a land to the Ella Partnership to facilitate the acquisition, rehabilitation and operation of low- and moderate-income multi-family apartment complexes located within the jurisdictions of the Corporation's sponsoring political subdivisions (collectively "Ella Project"). During the year ended December 31, 2023, the Corporation was awarded and entered into a subrecipient federal grant agreement for \$4.3 million to fund the Ella Project, of which \$2.2 million was funded and used to acquire the land to lease to the Ella Partnership. As of December 31, 2023, the Corporation recorded the capital assets, land of \$2.2 million in the statement of financial position. As of December 31, 2023, the remaining of \$2.1 million of the federal grant was not funded, and the \$2.1 million will be used to fund the construction costs for the Ella Project through a 30-year loan between the Corporation and Ella Partnership. See Notes 1 and 5.

HARRIS COUNTY HOUSING FINANCE CORPORATION NOTES TO BASIC FINANCIAL STATEMENTS

8. 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.

9. Subsequent Events

In January 2024, the Corporation received \$4.4 million of total \$9.0 million American Rescue Plan federal assistance program grant from Harris County, Texas for the purpose of developing a Multi-family (Senior) affordable housing development referred to as the New Hope Housing-Ennis project. As part of and participating in the development transaction, the HCHFC Ennis Landowner, LLC who purchased a tract of land for \$4.4 million which is being leased to a limited partnership who will provide for the construction of the affordable housing. Also, the Corporation created the HCHFC Ennis Manager, LLC which became a member of the limited liability partnership company. Construction on the development began in February of 2024.

In March 2024, the Corporation received \$3.9 million of total \$10 million American Rescue Plan federal assistance program grant from Harris County, Texas for the purpose of developing a Multi-family affordable housing development referred to as the Hartwood at Spring Shadows development. As part of, and participating in the development transaction, the Corporation created the HCHFC Spring Shadows Landowner, LLC who purchased a tract of land which has been leased to a limited liability partnership company who will provide for the construction of the affordable housing.

In March, 2024, the Corporation received \$3.8 million American Rescue Plan federal assistance program grant from Harris County, Texas for the purpose of developing a Multi-family affordable housing development referred to as the Avenue on 34th Street development. As part of, and participating in the development transaction, the Corporation created the HCHFC Avenue on 34th Landowner, LLC who purchased a tract of land which has been leased to a limited liability partnership company who will provide for the construction of the affordable housing.

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 other significant events to be reported.

SCHEDULE of EXPENDITURES OF FEDERAL AWARD

**HARRIS COUNTY HOUSING FINANCE CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
FOR THE YEAR ENDED DECEMBER 31, 2023**

Federal or State Grantor/Pass-through Grantor/ Program Title	Federal ALS Number	Pass-through Grantor Number	Expenditures
U.S. Department of Treasury Pass-Through Programs from Harris County, TX Coronavirus State and Local Fiscal Recovery Funds (ARPA)	21.027	JFMKAENLGN81	<u>2,160,000</u>
Total expenditures under federal grants			<u>\$ 2,160,000</u>

See accompanying note to schedule of expenditures of federal awards.

HARRIS COUNTY HOUSING CORPORATION
NOTES TO SCHEDULE of EXPENDITURES OF FEDERAL AWARD

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activities of the Corporation, under programs of the federal government for the year ended December 31, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Corporation. Therefore, amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rates

The Corporation did not elect to use the 10-percent de minimis indirect cost rate as allowed by Uniform Guidance.

PART II.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harris County Housing Finance Corporation (the "Corporation") a component unit of Harris County, Texas), which comprise the business-type activities and each major fund of the Corporation as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively which comprise the Corporation's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 12, 2024.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Hann, Langston & Brezina, LLP

Houston, Texas
April 12, 2024

PART III.

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE *UNIFORM GUIDANCE***

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Harris County Housing Finance Corporation's (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal program for the year ended December 31, 2023. The Corporation's major federal program is identified in the Summary of Independent Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("Government Auditing Standards"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contract or grant agreement applicable to the Corporation's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of each major federal program as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*, continued

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*, continued

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Corporation as of and for the year ended December 31, 2023, and have issued our report thereon dated April 12, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hamm, Langston & Brezina, LLP

Houston, Texas
April 12, 2024

PART IV.

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

**HARRIS COUNTY HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of independent auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? ___ Yes X No
- Significant deficiency identified that is not considered to be a material weakness? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness identified? ___ Yes X No
- Significant deficiency identified that is not considered to be a material weakness? ___ Yes X No

Type of independent auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with *Uniform Guidance* or *Uniform Grants Management Standards*? ___ Yes X No

Identification of major program:

<i>Name of Federal Program</i>	<i>CFDS Number</i>
U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds (ARPA)	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	___ Yes <u>X</u> No

HARRIS COUNTY HOUSING CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL AWARD FINDINGS

There were no findings related to the schedule of expenditures of federal and state awards which are required to be reported in accordance with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance).

FEDERAL AWARD QUESTIONED COSTS

There were no questioned costs related to the schedule of expenditures of federal and state awards which are required to be reported in accordance with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance).

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings related to the schedule of expenditures of federal awards for the year ended December 31, 2023 which are required to be reported in accordance with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance).