

STRATEGIC HOUSING FINANCE CORPORATION

Financial Statements & Independent Auditors' Report

For the Year Ended December 31, 2022



Strategic Housing Finance Corporation

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For the Year Ended December 31, 2022

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Board of Commissioners

Strategic Housing Finance Corporation
Austin, TX

Independent Auditors' Report

Report on the Audit of the Financial Statements

Opinions

We have audited the business-type activities financial statements of Strategic Housing Finance Corporation, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the basic financial statements of Strategic Housing Finance Corporation’s primary government as listed in the table of contents.

Summary of Opinions

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Qualified

Unmodified Opinions on Business-Type Activities

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for Strategic Housing Finance Corporation, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion on the Aggregate Discretely Presented Component Units

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units section, the accompanying financial statements present fairly, in all material respects, as of December 31, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 Strategic Housing Finance Corporation and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.



Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements referred to above include only the primary government of Strategic Housing Finance Corporation, which consists of all funds that comprise Strategic Housing Finance Corporation's legal entity. The financial statements do not include financial data for Strategic Housing Finance Corporation's legally separate discretely presented component units, which accounting principles generally accepted in the United States of America require to be presented with the financial data of Strategic Housing Finance Corporation.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Strategic Housing Finance 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Strategic Housing Finance 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 Strategic Housing Finance Corporation's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Strategic Housing Finance Corporation's basic financial statements. The Combining Statement of Net Position - Primary Government and Combining Statement of Revenues, Expenses, and Changes in Net Position - Primary Government are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position - Primary Government and Combining Statement of Revenues, Expenses, and Changes in Net Position - Primary Government 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. Such 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 above information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

July 25, 2023

Strategic Housing Finance Corporation

Statement of Net Position

December 31, 2022

Current Assets

Cash and equivalents		
Unrestricted	\$	8,757,680
Restricted		380,481
Subtotal		9,138,161
Investments		1,013,411
Accounts receivable, net		1,999,040
Prepaid expenses		130,918
Total Current Assets		12,281,530

Non-Current Assets

Capital assets, net		38,098,535
Notes receivable		434,695
Total Non-Current Assets		38,533,230

Total Assets		50,814,760
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Deferred Outflows of Resources		-
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Current Liabilities

Accounts payable		8,003,133
Accrued liabilities		615,973
Other liabilities		102,197
Unearned revenue		94,163
Compensated absences - current		5,519
Lease liability - current		2,376
Tenant security deposits		51,731
Total Current Liabilities		8,875,092

Non-Current Liabilities

Compensated absences - non-current		22,074
Debt		35,002,987
Total Non-Current Liabilities		35,025,061
Total Liabilities		43,900,153

Deferred Inflows of Resources		-
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Net Position

Net investment in capital assets		3,093,172
Restricted		328,750
Unrestricted		3,492,685
Total Net Position		\$ 6,914,607

Strategic Housing Finance Corporation
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2022

<u>Operating Revenues</u>	
Dwelling rent, net of collection loss	\$ 1,993,408
Government grants	216,351
Other income	5,342,910
Total Operating Revenues	<u>7,552,669</u>
<u>Operating Expenses</u>	
Administration	1,162,391
Tenant services	589,877
Utilities	234,041
Maintenance and operations	743,434
Protective services	71,497
Insurance expense	142,754
Depreciation and amortization	608,406
Other expenses	2,359,172
Total Operating Expenses	<u>5,911,572</u>
OPERATING INCOME (LOSS)	<u>1,641,097</u>
<u>Non-Operating Revenues (Expenses)</u>	
Interest income	28,838
Interest expense	(1,647,005)
Total Non-Operating Revenues (Expenses)	<u>(1,618,167)</u>
CHANGE IN NET POSITION	22,930
BEGINNING NET POSITION	<u>6,891,677</u>
ENDING NET POSITION	<u>\$ 6,914,607</u>

Strategic Housing Finance Corporation

Statement of Cash Flows

For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tenants	\$ 8,211,654
Cash received from notes receivable	1,126,305
Cash received from operating grants	216,351
Cash paid for goods and services	(4,080,074)
Cash paid to and on behalf of employees	(789,739)
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,684,497</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of additional capital assets	278,230
Proceeds from additional capital debt	2,376
Interest payments on capital debt	(1,600,159)
NET CASH FLOW PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,319,553)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(1,003,383)
Interest earned on investments	28,838
NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(974,545)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS **2,390,399**

BEGINNING CASH AND CASH EQUIVALENTS **6,747,762**

ENDING CASH AND CASH EQUIVALENTS **\$ 9,138,161**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ 1,641,097
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Non-Cash Adjustment

Depreciation	608,406
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Change in Assets and Liabilities

Accounts receivable	969,037
Notes receivable	1,126,305
Inventory and prepaid	(42,997)
Accounts payable	562,782
Accrued liabilities	(28,546)
Compensated absences	(31,216)
Tenant security deposits	(11,303)
Unearned revenue	(109,068)

Total Adjustments **3,043,400**

Net Cash Provided (Used) by Operating Activities **\$ 4,684,497**

NOTE 01 – SUMMARY OF ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING ENTITY

Reporting Entity

Strategic Housing Finance Corporation (SHFC) was formed under the Texas Housing Finance Corporation Act of Texas Local Government Code - Chapter 394. Corporations created under Chapter 394 are public instrumentalities performing essential government functions. A Texas Local Government Code Chapter 394 corporation can issue housing finance corporate bonds and notes. These are limited obligation bonds and notes that are only payable from pledged revenues derived from projects that are financed by such bonds. In September 2019, SHFC acquired a multifamily apartment complex known as Rosemond at Oak Valley.

The board members of SHFC (the Board of Directors) are appointed by the County Commissioners of Travis County, Texas (the County). The Board of Directors has governance responsibility over all activities related to SHFC. The basic financial statements as listed in the table of contents present SHFC (the primary government) and its component units (collectively the Organization), entities for which Strategic Housing Finance Corporation (the Organization) is considered to be financially accountable and which serve as SHFC's instruments to enhance its purpose to build and maintain affordable housing to low-income and moderate-income individuals and families.

A component unit is a legally separate entity for which the primary government is financially accountable. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, the primary government is financially accountable for a legally separate entity in the following circumstances:

- The primary government appoints a voting majority of the legally separate entity's governing body and (1) it is able to impose its will on that entity or (2) there is a potential for that entity to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
- The legally separate entity is fiscally dependent on and there is a potential for that entity to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether that legally separate entity has (1) a separate elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards* and Statement No. 14 and No. 61 of the *Government Accounting Standards Board, the Financial Reporting Entity*.

- the Organization is legally separate (can sue and be sued in their own name);
- the Organization holds the corporate powers of the Organization;
- the Organization appoints a voting majority;
- the Organization is able to impose its will on the Organization;
- the Organization has the potential to impose a financial benefit/burden on the Organization; or
- there is fiscal dependency by the organization on the Organization.

Based on the aforementioned criteria, and the control and relationship between SHFC and the component units, SHFC has determined that the following entities are considered component units of SHFC and are required to be blended within the SHFC's financial statements.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the SHFC's Board of Commissioners or the component units provide services entirely to SHFC. These component units' funds are blended into those of the SHFC's by appropriate activity type to compose the primary government presentation.

Name of Limited Liability Company	Partnership Name
SHFC Cambridge Villas, L.L.C.	Cambridge Villas Apartments Limited Partnership
SHFC Parker 70 General Partner, L.L.C.	Parker Lane Seniors Apartments, L.P.
SHFC Parker Holdings, L.L.C.	Parker Lane Seniors Apartments, L.P.
SHFC Southpark, L.L.C.	A.T. South First-Slaughter, L.P.
SHFCTC Parmer Place, L.L.C.	Pedcor Investments-2012-CXXX,L.P.
SHFCTC William Cannon, L.L.C.	Pedcor Investments-2012-CXXXI,L.P.
SHFCTC Silver Springs, L.L.C.	SS Affordable Housing, L.P.
SHRCTC Forest Park, L.L.C.	FP Affordable Housing, L.P.
SHFC ASL, L.L.C.	None
SHFC Paddock, L.L.C.	LDG Norwood, L.P.
Austin Colorado Creek GP L.L.C.	Austin Colorado Creek Apartments, L.P.
SHFC CC Land L.L.C.	Austin Colorado Creek Apartments, L.P.
SHFC DV GP L.L.C.	Del Valle 969 Apartments, Ltd.
SHFC Del Valle Land L.L.C.	Del Valle 969 Apartments, Ltd.
SHFCTC PP II L.L.C.	Pedcor Investments-2016-CLVIII, L.P.
SHFC Parmer Land L.L.C.	Pedcor Investments-2016-CLVIII, L.P.
SHFC Creekview Austin GP, L.L.C.	TX Creekview Austin, L.P.
SHFC Creekview Land L.L.C.	TX Creekview Austin, L.P.
LDG Commons at Manor Village GP, L.L.C.	LDG Commons at Manor Village, L.P.
SHFC Manor Land L.L.C.	LDG Commons at Manor Village, L.P.
SHFCTC GP Manchaca L.L.C.	LDG Manchaca Commons, L.P.
SHFC Manchaca Land L.L.C.	LDG Manchaca Commons, L.P.
TX Parmer Austin CCF GP, L.L.C.	TX Parmer Austin CCF, L.P.
SHFC Parmer/Boyce Land L.L.C.	TX Parmer Austin CCF, L.P.
TX Parmer Austin II GP, L.L.C.	None
TX Austin Manor GP, L.L.C.	TX Austin Manor, L.P.
SHFC Austin Manor Land L.L.C.	TX Austin Manor, L.P.
TX Lakeway Apartments GP, L.L.C.	TX Lakeway Apartments, L.P.
SHFC Lakeway Land, L.L.C.	TX Lakeway Apartments, L.P.
SHFC Oak Valley L.L.C.	None
SHFC DL GP L.L.C.	Decker Lofts Ltd.
SHFC DL Land L.L.C.	Decker Lofts Ltd.
SHFC Yager GP L.L.C.	ECG Yager, L.P.
SHFC Wildhorse Land L.L.C.	ECG Yager, L.P.
SHFC Wildhorse GP L.L.C.	ECG Wildhorse, L.P.
SHFC Wildhorse Land L.L.C.	ECG Wildhorse, L.P.
SHFC Lowden, L.L.C.	None

Discretely Presented Component Units

Austin Colorado Creek GP L.L.C. (ACC GP) with its sole member being SHFC, is the general partner of Austin Colorado Creek Apartments, L.P. (ACC Partnership) with 0.005% ownership interest. ACC GP has made certain guarantees on behalf of the ACC Partnership. As a result, ACC Partnership is a discretely presented component unit of SHFC.

Austin Colorado Creek Apartments, L.P. was formed as a Texas limited partnership in November of 2015 for the purpose of acquiring, constructing, and operating a rental housing project using tax exempt bonds and tax credits under Section 42. The ACC Partnership consists of 264 units located in Del Valle, Texas and will operate under the name of Colorado Creek Apartments (ACC). Operating profits, losses and federal low-income housing tax credits are allocated in accordance with a Limited Partnership Agreement dated March 31, 2016. ACC is situated on 11.861 acres of land and is leased from SHFC under a 99-year ground lease. ACC's construction is completed, and the audit for 2021 is underway, and is being performed in conjunction with the cost certification.

SHFC has excluded its discretely presented component units from the Organization's financial statements as of and for the year ended December 31, 2022.

Limited Partnerships – Joint Ventures

The limited partnerships described under the section of "blended component units" are considered joint ventures of SHFC. A joint venture is an organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility.

Investments by SHFC in the limited partnerships are accounted for as joint ventures under the equity method. The Organization recognizes its share of the operating results of the limited partnerships based on its ownership share in the limited partnerships in accordance with the limited partnership agreements.

Under this method, the investment is initially recorded at cost and then increased or decreased by the proportionate share of the limited partnerships' net earnings or losses, additional investments and for cash distributions from the limited partnerships. The Organization has no obligation to fund liabilities of the limited partnerships beyond its investments other than under certain conditions as specified in the limited partnership agreements (see Note 08). Accordingly, the investments by SHFC in the limited partnerships will continue to reflect on its shares of losses in excess of its investment, including loans and advances, to the extent of commitments to the limited partnerships under the limited partnership agreements.

Each limited liability company, as the general partner of the respective limited partnership, has the duty to use its best efforts to ensure that the limited partnership qualifies for the maximum lawful low-income housing tax credits (LIHTC). SHFC, as the sole member of the limited liability companies, shall not be liable for the debts, obligations, or liabilities of the limited liability companies per the limited liability companies' Regulation or the Company Agreement, as amended (see Note 08).

Separately issued financial statements with year-end at December 31, 2022, for A.T. South First-Slaughter, L.P., Cambridge Villas Apartment, L.P., Del Valle 969 Apartments, Ltd., FP Affordable Housing, L.P., LDG Manchaca Commons, L.P., LDG Norwood, L.P., Parker Lane Senior Apartments, L.P., Pedcor Investments-2012-CXXX, L.P., Pedcor Investments-2016-CLVIII, L.P., SS Affordable Housing, L.P., Austin Colorado Creek Apartments, L.P., and TX Creekview Austin, L.P., may be obtained at SHFC's administrative office located at 502 East Highland Mall Blvd., Suite 106-B, Austin, Texas 78752. There are no separate financial statements issued for other limited partnerships listed above as of and for the year ended December 31, 2022.

Basis of Presentation, Basis of Accounting and Measurement Focus

Basis of Accounting – SHFC uses the accrual basis of accounting in the proprietary funds. Under this method, revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Basis of Presentation – The financial statements of SHFC are presented from a fund perspective. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain SHFC functions. The fund is a separate accounting entity with a self-balancing set of accounts. The accounting and financial reporting method applied by a fund is determined by the fund’s measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with the Proprietary Fund’s activities are included in the statement of net position. In the Statement of Net Position, equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets.
- b) *Restricted net position* – Consists of assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other assets that do not meet the definition of “restricted” or “net investment in capital assets”.

Proprietary Fund

Enterprise fund - This type of fund is reported using an economic resources measurement focus. Additionally, it is used to account for operations that are financed and operated in a manner similar to private businesses where a fee is charged to external users for services provided. When both restricted and unrestricted net positions are available for use, generally it is SHFC’s policy to use restricted resources first.

Intercompany Transactions

Intercompany receivables, payables, revenues, expenses, and transfers have been eliminated in the basic financial statements.

Revenues and Expenses

Revenues and expenses are recognized in essentially the same manner as used in commercial accounting. Revenues relating to SHFC, are operating activities including rental related income, interest income and other sources of revenues are recognized in the accounting period in which they are earned.

In accordance with GASB standards dwelling income has been netted with bad debt expense category of \$2,194,234. Bad debt expense is made up of bad debt of \$44,174, and vacancy loss and rent concessions due the rehab to Rosemont at Oak Valley of \$2,147,616. Collection losses on accounts receivable are expensed, in the appropriate fund, on the specific write-off method.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of SHFC are charges to customers for rent. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Subsidies received from grantor agencies, for operating purposes, are recorded as operating revenue in the operating statement while capital grant funds are added to the net position below the non-operating revenue and expense.

Revenue Recognition

Bonds annual administrative fees: A trust indenture is entered into when a bond is issued. Bonds annual administrative fees are recorded as earned in accordance with the underlying trust indenture.

Bond closing fees: SHFC records the bond closing fees at the time the bond closes with the respective borrower through a title company.

Bond redemption fees: SHFC records the bond redemption fees at the time the bond is redeemed.

Bond application fees: SHFC records the bond application fees at the time the application for the issuance of the bond is submitted.

Incentive and partnership management fees: The Organization records the incentive management and partnership management fees in accordance with the respective underlying incentive/partnership management and partnership agreements. The incentive management and partnership management fees are to be paid from the net cash flows as defined by the respective underlying agreement (see Note 08). As a result, the Organization records the incentive management and partnership management fees when receiving the payments.

Rental income: Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases Rosemond and tenants of the respective properties are operating leases.

Developer fees: The Organization records developer fees in accordance with the underlying development and partnership agreement. Developer fees are to be paid from the net cash flows as defined by the development agreement (see Note 08). As a result, the Organization records developer fees when receiving the payments.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates relate to depreciation and useful lives, and allowance for bad debt.

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Cash and Investments

SFHC’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments in TexPool have readily determinable fair values and are stated at fair value.

Accounts Receivable

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

The allowance of doubtful accounts for accounts receivable – related party and notes receivable – related party is estimated and recorded based on the Organization’s historical bad debt experience and management’s judgment.

Capital Assets and Depreciation

Capital assets are stated at historical cost. Donated capital assets are stated at their fair value on the date donated. This includes site acquisition and improvement, structures, and equipment. Depreciation of exhaustible capital assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position. If the initial cost of a piece of equipment and/or other personal property is three thousand dollars (\$3,000) or more and the anticipated life or useful value of said equipment or property is more than one (1) year, the purchased property/equipment will be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

The estimated useful lives for each major class of depreciable capital assets are as follows:

Buildings and improvements	15-40 years
Furniture, fixtures, and equipment	3-10 years

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. SHFC had no deferred outflows of resources.

Also, in addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. SHFC had no deferred inflows of resources.

Compensated Absences

Compensated absences are absences for which an employee will be paid, i.e., sick leave, vacation, and other approved leaves. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, SHFC accrues the liability for those absences as the employee earns the right to the benefits. Accrued amounts are based on the current salary rates, excluding bonuses.

Full-time, permanent employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure with the Organization. Employees also earn annual sick leave at established rates. Vacation and sick leave pay are recorded as an expense and related liability in the year earned by employees.

Income Taxes

SHFC is a special-purpose governmental entity and is not subject to federal or state income taxes. However, some of the blended component units are subject to federal income tax and state franchise tax.

Fair Market Value

Accounting pronouncements define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. These pronouncements established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair value of SHFC's financial instruments has been determined by management, using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that SHFC could be realized in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, receivables, payables, and accrued liabilities are a reasonable estimate of their fair value, due to their short-term nature and method of computation.

All financial assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. All of SHFC's investments consist of investments in the TexPool Prime investment portfolio which are valued using Level 2 inputs.

Impairment of Long-Lived Assets

The management of SHFC reviews their rental property for impairment whenever events or changes in circumstances suggest that the service utility of the assets may have significantly and unexpectedly declined. Management then tests the assets for impairment when such events or circumstances occur by determining (i) whether the magnitude of the decline in service utility is significant and (ii) whether the decline in service utility is unexpected. When an impairment is determined to have occurred, management measures the impairment using the method described below that most appropriately reflects the decline in service utility of the asset. In February 2021, Texas experienced a prolonged and severe winter storm. The City of Austin and surrounding areas were severely affected by this storm with many areas without power for multiple days and major breakages to water lines. Due to the storm, Rosemont Apartments incurred severe damages resulting in an asset impairment. Total rehabilitation costs are currently estimated at \$16,000,000 with insurance so far reimbursing \$5,990,633. Currently, all expenses and revenues are being tracked within the construction in progress fixed asset account. Once all rehabilitation has been completed, either an extraordinary gain or loss will be recognized, using the most appropriate impairment approach, in the fiscal year rehabilitation is completed.

Restoration Cost Approach

Under this approach, the amount of impairment is derived from the estimated costs to restore the utility of the asset. The restoration cost is then converted to historical cost using a cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the asset.

Service Units' Approach

This approach isolates the historical cost of the service utility of the asset that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the asset before and after the event or change in circumstance.

Deflated Depreciated Replacement Cost Approach

This approach replicates the historical cost of the service produced. The current cost for an asset to replace the current level of service is estimated, depreciated to reflect that the asset is not new, and deflated to convert it to historical cost.

Subsequent Events

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes.

It is important to note that the property, Rosemont at Oak Valley was sold on April 27, 2023, for \$43.5 million.

Management evaluated the activity of SHFC through July 25, 2023, (the date the financial statements were available to be issued) and concluded that other than the event listed above, no other subsequent events have occurred that would require recognition in the financial statements.

NOTE 02 – CASH AND CASH EQUIVALENTS

At December 31, 2022, SHFC's deposit amounted to \$9,138,161. Of the bank balances held in various financial institutions, \$250,000 was covered by federal depository insurance and the deposits may exceed FDIC insurance at times. All funds over the \$250,000 covered by the FDIC are collateralized by the bank.

SHFC's Board of Directors adopted a resolution to set aside a minimum of fifty percent (50%) of all proceeds generated via issuance of Multifamily Housing Revenue Bonds to support the development of extremely low-income, deeply affordable housing units and ten percent (10%) of proceeds generated from new real estate transactions to support development. At December 31, 2022, the Organization has set aside \$- to support development.

Investments

Investments consist of investments in the TexPool investment portfolio and Certificates of Deposit. TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated Money Market funds.

TexPool is rated AAA by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool, like its participants, is governed by the Texas Public Funds Investment Act, and is in full compliance with the Act.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

Restricted Cash and Reserves

In accordance with a Loan Agreement and a Trust Indenture (see Note 05), SHFC maintains certain reserve accounts associated with the long-term debt and tenant security deposits. As of December 31, 2022, restricted cash and reserves totaled \$380,481.

Risks

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, SHFC typically limits its investment portfolio to maturities of 12 months or less. SHFC has no specific policy regarding interest rate risk.

Credit risk: SHFC's policy does not address credit risk. SHFC's investments consist of investments in TexPool. SHFC's investments in the TexPool investment pool carried a credit rating of AAA by Standard & Poor's as of December 31, 2022.

Custodial credit risk: This is the risk that in the event of a bank or other financial institution failure, SHFC's deposits and investments may not be returned to it. As of December 31, 2022, investments in TexPool investment pool deposits were fully collateralized with securities held by the pledging financial institution in the Organization's name.

Cash and cash equivalents were comprised of the following as of December 31, 2022:

Unrestricted:

Checking and Money Market accounts	\$ 8,757,177
Petty cash	<u>503</u>
Subtotal	<u>8,757,680</u>

Restricted:

Tenant security deposits	51,731
Restricted reserves	<u>328,750</u>
Subtotal	<u>380,481</u>
Total Cash and Cash Equivalents	<u><u>\$ 9,138,161</u></u>

Texpool Prime	<u><u>\$ 1,013,411</u></u>
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NOTE 03 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2022, consisted of the following:

Tenant rent receivables	\$ 298,166
Related party receivables	<u>1,700,874</u>
Accounts receivable, net	<u><u>\$ 1,999,040</u></u>

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Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 04 – CAPITAL ASSETS

A summary of changes in capital assets were as follows:

	Balance at 01/01/22	Additions	Deletions	Balance at 12/31/22
Capital assets not being depreciated:				
Land	\$ 7,187,500	\$ -	\$ -	\$ 7,187,500
Construction in progress	9,121,435	-	(298,733)	8,822,702
Total capital assets not being depreciated	<u>16,308,935</u>	<u>-</u>	<u>(298,733)</u>	<u>16,010,202</u>
Capital assets being depreciated:				
Buildings and improvements	24,062,500	-	-	24,062,500
Furniture and equipment	5,940	15,075	-	21,015
Lease Equipment	-	5,428	-	5,428
Total assets being depreciated	<u>24,068,440</u>	<u>20,503</u>	<u>-</u>	<u>24,088,943</u>
Accumulated depreciation	(1,392,204)	(605,354)	-	(1,997,558)
Accumulated amortization	-	(3,052)	-	(3,052)
Net capital assets being depreciated:	<u>22,676,236</u>	<u>(587,903)</u>	<u>-</u>	<u>22,088,333</u>
Capital assets, net	<u>\$ 38,985,171</u>	<u>\$ (587,903)</u>	<u>\$ (298,733)</u>	<u>\$ 38,098,535</u>

For the year ended December 31, 2022, SHFC reported depreciation expense of \$605,354 and amortization expense of \$3,052.

NOTE 05 – DEBT

Long-term debt at December 31, 2022, consists of the following:

Multifamily Housing Revenue Bonds Series 2019A at 5% per annum, with interest only payment commencing on February 1, 2020, payable semiannually, maturing August 1, 2024; secured by Multifamily Deed of Trust.	\$ 30,000,000
Multifamily Housing Revenue Bonds Series 2019B at 6% per annum, with interest and principal due on August 1, 2024; secured by Multifamily Deed of Trust.	3,002,987
Multifamily Housing Revenue Bonds Series 2021 at 5% per annum, with interest and principal due on August 1, 2024; secured by Multifamily Deed of Trust.	2,000,000
Total Debt	<u>\$ 35,002,987</u>

The aggregate annual maturities of debt are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	\$ -	\$ 1,721,846	\$ 1,721,846
2024	35,002,987	1,004,410	36,007,397
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028-2032	-	-	-
Total	<u>\$ 35,002,987</u>	<u>\$ 2,726,256</u>	<u>\$ 37,729,243</u>

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 06 – OTHER NON-CURRENT LIABILITIES

The following is a summary of the activity for non-current liabilities for the year ended December 31, 2022:

	Balance at 01/01/22	Additions	Deletions	Balance at 12/31/22
Compensated absences	\$ 45,443	\$ (19,415)	\$ (3,954)	\$ 22,074
Debt	35,002,987	-	-	35,002,987
Total	<u>\$ 35,048,430</u>	<u>\$ (19,415)</u>	<u>\$ (3,954)</u>	<u>\$ 35,025,061</u>

NOTE 07 – COMMITMENTS AND CONTINGENCIES

Legal: SFHC is party to no pending or threatened legal actions arising from the normal course of its operations.

NOTE 08 – RELATED PARTY TRANSACTIONS

Investments by the Organization in the limited partnerships are summarized as follows:

Parker Lane Senior Apartments, L.P.

Parker Lane Senior Apartments, L.P., (Cityview Partnership) was organized in August 2005, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 70-unit multifamily residential rental project in Austin, Texas, known as Cityview at the Park.

SHFC Parker 70 General Partner, L.L.C., (Cityview L.L.C.), a Texas limited liability company, is the general partner of Cityview Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Cityview Partnership are allocated to Cityview L.L.C.

Cambridge Villas Apartments Limited Partnership

Cambridge Villas Apartments Limited Partnership (Cambridge Partnership) was organized in October 2005, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 208-unit multifamily residential rental project in Pflugerville, Texas, known as Cambridge Villas Apartments.

SHFC Cambridge Villas, L.L.C., (Cambridge L.L.C.) a Texas limited liability company, is the general partner of Cambridge Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Cambridge Partnership are allocated to Cambridge L.L.C.

A.T. South First-Slaughter, L.P.

A.T. South First-Slaughter, L.P., (Southpark Partnership) was organized in March 2006, as a Texas limited partnership and has received allocations of LIHTC through Texas Department of Housing and Community Affairs (TDHCA), pursuant to Internal Revenue Code Section 42 (IRC Section 42), for the purpose of acquiring, constructing, and operating a 192-unit multifamily residential rental project in Austin, Texas, known as Southpark Apartments.

SHFC Southpark, L.L.C., (Southpark L.L.C.) a Texas limited liability company is the general partner of Southpark Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Southpark Partnership are allocated to Southpark L.L.C.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

FP Affordable Housing, L.P.

FP Affordable Housing, L.P., (Forest Partnership) was organized in March 2006, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 228-unit multifamily residential rental project in Austin, Texas, known as Forest Park Apartments.

SHFCTC Forest Park, L.L.C., (Forest L.L.C.) a Texas limited liability company, is the general partner of Forest Partnership with 0.004% ownership. Accordingly, 0.004% of profits and losses from operations of Forest Partnership are allocated to Forest L.L.C.

SS Affordable Housing, L.P.

SS Affordable Housing, L.P., (Silver Springs Partnership) was organized in June 2012, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 360-unit multifamily residential rental project in Austin, Texas, known as Silver Springs Apartments.

SHFCTC Silver Springs, L.L.C., (Silver Springs L.L.C.) a Texas limited liability company is the general partner of Silver Springs Partnership with 0.004% ownership. Accordingly, 0.004% of profits and losses from operations of Silver Springs Partnership are allocated to Silver Springs L.L.C.

Pedcor Investments-2012-CXXX, L.P.

Pedcor Investments-2012-CXXX, L.P., (Parmer Heights Partnership) was organized in September 2012, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 252-unit multifamily residential rental project in Austin, Texas, known as Heights on Parmer Apartments.

SHFCTC Parmer Place, L.L.C., (Parmer Heights L.L.C.) a Texas limited liability company is the general partner of Parmer Heights Partnership with 0.005% ownership. Accordingly, 0.005% of profits and losses from operations of Parmer Heights Partnership are allocated to Parmer Heights L.L.C.

Pedcor Investments-2012-CXXXI, L.P.

Pedcor Investments-2012-CXXXI, L.P., (William Cannon Partnership) was organized in September 2012, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 252-unit multifamily residential rental project in Austin, Texas, known as William Cannon Apartments.

SHFCTC – William Cannon, L.L.C., (William Cannon L.L.C.) a Texas limited liability company is the general partner of William Cannon Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of William Cannon Partnership are allocated to William Cannon L.L.C.

LDG Norwood, L.P.

LDG Norwood, L.P., (Norwood Partnership) was organized in February 2013, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 228-unit multifamily residential rental project in Austin, Texas, known as Paddock at Norwood.

SHFC Paddock, L.L.C., (Norwood L.L.C.) a Texas limited liability company is the general partner of Norwood Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Norwood Partnership are allocated to Norwood L.L.C.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

Austin Colorado Creek, L.P.

Austin Colorado Creek Apartments L.P., (ACC Partnership) was organized in November 2015, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 240-unit multifamily residential rental project to be known as Colorado Creek Apartments and located in Austin, Texas.

SHFC GP Austin Colorado Creek, L.L.C., (Austin Colorado Creek L.L.C.) a Texas limited liability company is the general partner of ACC Partnership with 0.0025% ownership. Accordingly, 0.0025% of profits and losses from operations of ACC partnership are allocated to Austin Colorado Creek L.L.C.

Pedcor Investments-2016-CLVIII, L.P.

Pedcor Investments-2016-CLVIII, L.P., (Parmer Heights II Partnership) was organized in September 2016, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating an 80-unit multifamily residential rental project in Austin, Texas, known as Heights on Parmer Phase Two Apartments.

Heights on Parmer Phase Two, L.L.C., (Parmer Heights II L.L.C.) a Texas limited liability company is the general partner of Parmer Heights II Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Parmer Heights II Partnership are allocated to Parmer Heights II L.L.C.

Del Valle 969 Apartments, Ltd

Del Valle 969 Apartments, Ltd., (Del Valle Partnership) was organized in November 2016, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 302-unit multifamily residential rental project in Austin, Texas, known as Del Valle Apartments.

SHFC DV GP L.L.C., (Del Valle L.L.C.) a Texas limited liability company is the general partner of Del Valle Partnership with 0.0051% ownership. Accordingly, 0.0051% of profits and losses from operations of Del Valle Partnership are allocated to Del Valle L.L.C.

LDG Manchaca Commons, L.P.

LDG Manchaca Commons, L.P., (Manchaca Partnership) was organized in May 2017, as a Texas limited partnership and has received allocations of LIHTC through TDHCA, pursuant to IRC Section 42, for the purpose of acquiring, constructing, and operating a 240-unit multifamily residential rental project in Austin, Texas, known as Manchaca Commons.

SHFCTC GP Manchaca, L.L.C., (Manchaca L.L.C.) a Texas limited liability company is the general partner of Manchaca Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Manchaca Partnership are allocated to Manchaca L.L.C.

TX Creekview Austin, L.P.

TX Creekview Austin, L.P., (Creekview Partnership) was organized in June 2017, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 264-unit multifamily residential rental project to be known as Austin Creekview Apartments and located in Austin, Texas.

SHFC Creekview Austin GP, L.L.C., (TX Creekview Austin L.L.C.) a Texas limited liability company is the general partner of Creekview Partnership with 0.0025% ownership. Accordingly, 0.0025% of profits and losses from operations of Creekview partnership are allocated to TX Creekview Austin L.L.C.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

TX Parmer Austin CCF, L.P.

TX Parmer Austin CCF, L.P., (Parmer CCF Partnership) was organized in March 2018 as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 280-unit garden style, mixed income residential rental project to be known as Austin Boyce Apartment Homes located in Austin, Texas.

TX Parmer Austin CCF GP, L.L.C., (Parmer CCF L.L.C.) a Texas limited liability company is the general partner of Parmer CCF Partnership with 0.005% ownership. Accordingly, 0.005% of profits and losses from operations of Parmer CCF partnership are allocated to Parmer CCF L.L.C.

LDG Commons at Manor Village, L.P.

LDG Commons at Manor Village, L.P., (Commons at Manor Partnership) was organized in November 2018, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 172-unit multifamily residential rental project to be known as Commons at Manor Village Apartments and located in Travis County, Texas.

LDG Commons at Manor Village GP, L.L.C.

LDG Commons at Manor Village GP, L.L.C., (Commons at Manor L.L.C.) a Texas limited liability company is the general partner of Commons at Manor Partnership with 0.01% ownership. Accordingly, 0.01% of profits and losses from operations of Commons at Manor Partnership are allocated to Commons at Manor L.L.C.

TX Lakeway Apartments, L.P.

TX Lakeway Apartments L.P., (Lakeway Partnership) was organized in June 2019, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 180-unit multifamily residential rental project to be known as Lakeway Apartment Homes and located in Travis County, Texas.

TX Lakeway Apartments GP, L.L.C.

TX Lakeway Apartments GP, L.L.C., (TX Lakeway Apartments L.L.C.) a Texas limited liability company is the general partner of Lakeway Partnership with 0.0025% ownership. Accordingly, 0.0025% of profits and losses from operations of Lakeway Partnership are allocated to TX Lakeway Apartments L.L.C.

Decker Lofts Ltd.

Decker Lofts Ltd., (Decker Partnership) was organized in December 2019, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 262-unit multifamily residential rental project to be known as Decker Lofts and located in Austin, Texas.

SHFC DL GP L.L.C., a Texas limited liability company, is the general partner of Decker Partnership with 0.0051% ownership. Accordingly, 0.0051% of profits and losses from operations of Decker Partnership are allocated to SHFC DL GP L.L.C.

TX Austin Manor, L.P.

TX Austin Manor, L.P., (Austin Manor Partnership) was organized in January 2020, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 280-unit multifamily residential rental project to be known as Austin Manor Apartments and located in Austin, Texas.

TX Austin Manor GP, L.L.C.

TX Austin Manor GP, L.L.C., (Austin Manor L.L.C.) a Texas limited liability company is the general partner of Austin Manor Partnership with 0.0025% ownership. Accordingly, 0.0025% of profits and losses from operations of Austin Manor Partnership are allocated to Austin Manor L.L.C.

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

ECG Wildhorse, L.P.

ECG Wildhorse, L.P., (Wildhorse Partnership) was organized in July 2020, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 310-unit multifamily residential rental project to be known as Wildhorse Flats Apartments and located in Travis County, Texas.

SHFC Wildhorse GP L.L.C.

SHFC Wildhorse GP L.L.C., (Wildhorse L.L.C.) a Texas limited liability company is the general partner of Wildhorse Partnership with 0.0051% ownership. Accordingly, 0.0051% of profits and losses from operations of Wildhorse Partnership are allocated to Wildhorse L.L.C.

ECG Yager, L.P.

ECG Yager, L.P., (Yager Partnership) was organized in August 2021, as a Texas limited partnership and receives allocations of LIHTC through TDHCA, pursuant to IRC Section 42 for the purpose of acquiring, constructing, and operating a 300-unit multifamily residential rental project to be known as Yager Flats and located in Austin, Texas.

SHFC Yager GP L.L.C.

SHFC Yager GP L.L.C., (Yager L.L.C.) a Texas limited liability company is the general partner of Yager Partnership with 0.0046% ownership. Accordingly, 0.0046% profits and losses from operations of Yager Partnership are allocated to Yager L.L.C.

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Notes to Financial Statements
For the Year Ended December 31, 2022

Fees Earned by General Partner:

SHFC or its blended component units as the general partners of the respective limited partnerships are entitled to receive certain fees through sub-development agreements or as defined by the respective limited partnership agreement. Certain fees are dependent on net cash flow and may be cumulative or non-cumulative. On certain partnerships, SHFC also entered into a construction agreement, with SHFC earning a construction management fee. During the year ended December 31, 2022, the Organization received fees payments from the respective partnerships as follows:

SHFC Revenues by Partnership	Revenue	Fee Description
LDG Norwood, LP., aka Paddock at Norwood	\$ 201,786	Annual Issuer Fee, Incentive Management Fee & Cash Flow Distribution
CityView at the Park	2,586,900	Sale of partnership interest
LDG Manchanca Commons LP	693,173	Developer Fee
Commons at Manor Village	19,000	Annual Issuer Fee
FP Affordable Housing LP, aka Forest Park	239,989	Developer Fee & Partnership Management Fees
AT South First - Slaughter, LP Southpark	260,590	Annual Issuer Fee, Incentive Management Fee & Cash Flow Distribution
Pedcor Investments 2012 - CXXX, LP Heights at Parmer	47,740	Cash Flow Distribution
Pedcor Investments 2012 - CXXXI, LP William Cannon Apts	189,776	Cash Flow Distribution
Pedcor Investments 2012 - 2016 CLVIII, LP Heights at Parmer Ph II	14,230	Cash Flow Distribution
Decker Lofts Ltd	38,600	Annual Issuer Fee
ECG Wildhorse LP	297,237	Issuer Fee & Construction Management Fee
ECG Yager LP	114,570	Construction Management Fee
Villages at Fiskville	518,681	Developer Fee
Other	62,000	
Total Fee Revenue	<u>\$ 5,284,272</u>	

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Strategic Housing Finance Corporation

Notes to Financial Statements

For the Year Ended December 31, 2022

Land Lease:

SHFC entered into ground lease agreements with certain partnerships for the lease of the land to construct and operate rental projects, comprised of rental units. SHFC was given title to the land by these partnerships, but the partnerships retained certain rights, such as right to use, right to sale and to operate the affordable housing development on the land. Based on the guidance from GASB, the value of the land value will be recognized if and when the full rights are available to SHFC. The terms of the ground lease and the value of the land are listed below.

<u>Partnership Name</u>	<u>Ground Lease Commencement</u>	<u>Land Lease Length</u>	<u>Land Lease Value</u>
Cambridge Villa Apts, L.P.	10/1/2005	75	\$ 1,863,282
Parker Lane Senior Apts, L.P.	12/26/2006	99	431,141
A.T. South First - Slaughter, .L.P (South Park Ranch Apts)	12/1/2006	75	2,010,000
LDG Norwood, L.P.	6/1/2013	75	2,547,588
SS Affordable Housing, L.P. / FP Affordable Housing, L.P.	8/1/2013	65	5,780,000
Pedcor Investments-2012-CXXXI, L.P.	9/23/2014	99	3,350,000
Austin Colorado Creek Apartments, L.P.	3/31/2016	99	1,900,000
Pedcor Investments-2016-CLVIII, L.P.	11/1/2017	99	550,000
Creek View Austin Apts, L.P.	6/1/2017	99	2,000,000
Del Valle 969 Apartments, Ltd.	7/1/2018	99	1,799,250
LDG Commons at Manor Village, L.P.	11/1/2018	75	1,131,253
LDG Manchaca Commons, L.P.	4/1/2019	75	2,506,130
TX Lakeway Apts, L.P.	7/1/2019	99	2,265,000
Decker Lofts Ltd.	12/20/2019	99	3,260,000
TX Austin Manor, L.P.	1/1/2020	75	3,735,000
ECG Wildhorse, L.P.	1/1/2021	99	2,920,202
ECG Yager, L.P.	8/1/2021	99	1,938,350
			<u>\$ 39,987,196</u>

Inter-Local Government Agreement:

SHFC is managed by the management of the Housing Authority of Travis County, Texas (HATC) under the provisions of an inter-local agreement which stresses a "contractual" relationship between the two entities. Under the provisions of the inter-local agreement between HATC and SHFC, 1) the SHFC is not an instrumentality of HATC; 2) HATC had no rights to the SHFC's assets and 3) HATC's management of SHFC was performed as a "contracted service".

Related Party Receivable:

HATC uses a concentrated account depository as the common paymaster for most of its programs including SHFC. Cash settlements are made monthly with SHFC. SHFC, at times, upon requests advances with SHFC to help. with ongoing development projects. For the year ended December 31, 2022, SHFC cumulatively advanced \$1,700,874 to HATC for the rehabilitation of a property owned by HATC. The funds will be paid back to SHFC once the reimbursement is processed by the Texas Department of Housing and Community Affairs (TDCHA).

Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

Note Receivable:

SHFC entered into a promissory note with HATC in the original amount of \$1,561,000. The proceeds were used to set up a replacement reserve account for the HATC's RAD conversion. The loan which bears no interest, except in the event of default, is due on September 30, 2046, and is secured by real property. There is no change in the note receivable amount during the year ended December 31, 2022.

In 2019, SHFC entered into an unsecured promissory note with HATC totaling \$179,702 which bears 1% per annum. In 2020, SHFC advanced \$199,035 to HATC. In December 2020, SHFC's management set up an allowance for uncollectible notes receivable – related party in the amount of \$378,737. During the year ended December 31, 2020, SHFC entered into another unsecured promissory note, with HATC totaling \$102,000, which bears 1% per annum, and has set up an allowance for the full amount of the promissory note with HATC. These advances will be settled when there is net cash flow available from a partnership that is an affiliate of HATC. SHFC, in 2020, advanced \$357,231 to SEA RAD L.P., a partnership that is an affiliate of HATC, and SHFC set up an allowance for the full amount.

Related Party Contributions:

SHFC at times makes contributions to HATC to help with either ongoing development Projects or operating deficits. During the year ended December 31, 2022, SHFC made contributions to HATC in the amount of \$1,176,696, of which, \$1,092,388 was to cover HATC operational expenses to meet its mission, and \$51,868 was for a set-aside reserve to fund deeply affordable units.

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Strategic Housing Finance Corporation

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 09 – CONDUIT (NON-COMMITMENT) DEBT

SHFC issues tax-exempt bonds for the financing of residential developments for low- and moderate-income individuals and families. The bonds are secured by the underlying property financed and are payable solely from, and secured by, a pledge of rental receipts. The bonds do not constitute a debt or pledge of the faith and credit of SHFC and, accordingly, have not been reported in the accompanying financial statements. As of December 31, 2022, the following is a list of the bond series outstanding.

<u>Bond Description</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Balance</u>
Creekview*	6/1/2017	2/1/2035	\$ 28,500,000
SouthPark	12/1/2006	12/1/2049	12,845,000
Austin Boyce Lane (Tx Parmer)	1/11/2018	12/1/2035	37,000,000
Lakeway-Series A*	7/3/2019	6/1/2037	20,000,000
Lakeway-Series B*	7/3/2019	6/1/2037	10,000,000
Austin Manor Series A*	1/31/2020	1/1/2038	35,000,000
Austin Manor Series B*	1/31/2020	1/1/2038	10,000,000
Limstone Canyon Ridge	12/15/2020	12/1/2060	32,500,000
Parkside Crossing	12/15/2020	12/1/2060	29,500,000
Marquis at Shoreline Series 2016A	6/30/2016	7/1/2056	20,000,000
Marquis at Shoreline Series 2016B	6/30/2016	7/1/2056	5,000,000
Rosemont at Oak Valley*	9/10/2019	8/1/2024	30,000,000
Rosemont at Oak Valley*	9/10/2019	8/1/2024	4,010,000
Commons at Manor Village *	11/29/2018	11/1/2036	19,000,000
Decker Lofts*	12/20/2019	1/1/2040	38,600,000
Heights on Parmer Phase II*	11/9/2017	9/15/2059	10,829,400
Del Valle*	6/8/2018	7/1/2036	29,354,000
Manchaca Commons*	4/5/2019	1/1/2062	34,565,000
Paddock at Norwood*	6/19/2013	7/1/2046	18,373,707
Rosemont at Oak Valley*	9/23/2021	8/1/2024	2,000,000
Yager Flats	8/10/2021	9/1/2041	43,545,000
Wildhorse Flats Apts*	1/1/2021	2/1/2054	49,950,000
			<u>\$520,572,107</u>

The bond series proceeds marked with * were used for making a loan to non-government Texas limited partnerships for acquisition, development and equipping of the aforementioned multifamily residential projects (see Note 08, Investments in Limited Partnership).

NOTE 10 – NET POSITION

SHFC has the following net positions as December 31, 2022:

Capital assets	\$ 38,098,535
Related debt	<u>(35,005,363)</u>
Net Investment in Capital Assets	<u>\$ 3,093,172</u>
Restricted cash	\$ 380,481
Security deposits liability	<u>(51,731)</u>
Restricted Net Position	<u>\$ 328,750</u>

NOTE 11 – TRAVIS COUNTY RENTAL ASSISTANCE

During the fiscal year end December 31, 2022, Travis County provided funding in the amount of \$169,569 directly to residents at Silver Springs and Forest Park to assist tenants as rental assistance and concessions support.

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Strategic Housing Finance Corporation
Combining Statement of Net Position - Primary Government
December 31, 2022

ASSETS	Strategic Housing Finance Corporation	Relocation Assistance	Rosemont Apartments	Eliminations	Primary Government Total
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 8,742,965	\$ -	\$ 14,715	\$ -	\$ 8,757,680
Restricted	-	-	380,481	-	380,481
Subtotal	8,742,965	-	395,196	-	9,138,161
Investments	1,013,411	-	-	-	1,013,411
Accounts receivable, net	1,700,874	-	298,166	-	1,999,040
Prepaid expenses	-	-	130,918	-	130,918
Interfund due from	1,126,305	-	415,308	(1,541,613)	-
Total Current Assets	12,583,555	-	1,239,588	(1,541,613)	12,281,530
Non-Current Assets					
Capital assets, net	1,566	-	38,096,969	-	38,098,535
Notes receivable	434,695	-	-	-	434,695
Total Non-Current Assets	436,261	-	38,096,969	-	38,533,230
TOTAL ASSETS	13,019,816	-	39,336,557	(1,541,613)	50,814,760
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-

Strategic Housing Finance Corporation
Combining Statement of Net Position - Primary Government
December 31, 2022

<u>LIABILITIES</u>	Strategic Housing Finance Corporation	Relocation Assistance	Rosemont Apartments	Eliminations	Primary Government Total
Current Liabilities					
Accounts payable	1,638	-	8,001,495	-	8,003,133
Accrued liabilities	5,321	-	610,652	-	615,973
Other liabilities	102,197	-	-	-	102,197
Unearned revenue	-	-	94,163	-	94,163
Compensated absences - current	5,519	-	-	-	5,519
Lease liability - current	-	-	2,376	-	2,376
Tenant security deposits	-	-	51,731	-	51,731
Interfund due to	415,308	-	1,126,305	(1,541,613)	-
Total Current Liabilities	529,983	-	9,886,722	(1,541,613)	8,875,092
Non-Current Liabilities					
Compensated absences - non-current	22,074	-	-	-	22,074
Debt	-	-	35,002,987	-	35,002,987
Total Non-Current Liabilities	22,074	-	35,002,987	-	35,025,061
TOTAL LIABILITIES	552,057	-	44,889,709	(1,541,613)	43,900,153
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-
Net Position					
Net investment in capital assets	1,566	-	3,091,606	-	3,093,172
Restricted	-	-	328,750	-	328,750
Unrestricted	12,466,193	-	(8,973,508)	-	3,492,685
TOTAL NET POSITION	\$ 12,467,759	\$ -	\$ (5,553,152)	\$ -	\$ 6,914,607

Strategic Housing Finance Corporation

Combining Statement of Revenues, Expenses, and Changes in Net Position - Primary Government

For the Year Ended December 31, 2022

	Strategic Housing Finance Corporation	Relocation Assistance	Rosemont Apartments	Eliminations	Primary Government Total
<u>Operating Revenues</u>					
Rental revenues, net	\$ -	\$ -	\$ 1,993,408	\$ -	\$ 1,993,408
Government grants	169,569	46,782	-	-	216,351
Other income	5,285,914	-	56,996	-	5,342,910
Total Operating Revenues	<u>5,455,483</u>	<u>46,782</u>	<u>2,050,404</u>	<u>-</u>	<u>7,552,669</u>
<u>Operating Expenses</u>					
Administration	708,833	-	453,558	-	1,162,391
Tenant services	169,569	378,777	41,531	-	589,877
Utilities	-	-	234,041	-	234,041
Maintenance and operations	-	-	743,434	-	743,434
Protective services	-	-	71,497	-	71,497
Insurance expense	2,146	-	140,608	-	142,754
Depreciation and amortization	777	-	607,629	-	608,406
Other expenses	2,354,869	-	4,303	-	2,359,172
Total Operating Expenses	<u>3,236,194</u>	<u>378,777</u>	<u>2,296,601</u>	<u>-</u>	<u>5,911,572</u>
OPERATING INCOME (LOSS)	<u>2,219,289</u>	<u>(331,995)</u>	<u>(246,197)</u>	<u>-</u>	<u>1,641,097</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest income	28,838	-	-	-	28,838
Interest expense	-	-	(1,647,005)	-	(1,647,005)
Total Non-Operating Revenues (Expenses)	<u>28,838</u>	<u>-</u>	<u>(1,647,005)</u>	<u>-</u>	<u>(1,618,167)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>2,248,127</u>	<u>(331,995)</u>	<u>(1,893,202)</u>	<u>-</u>	<u>22,930</u>
CHANGE IN NET POSITION	2,091,504	(175,372)	(1,893,202)	-	22,930
BEGINNING NET POSITION	10,376,255	175,372	(3,659,950)	-	6,891,677
ENDING NET POSITION	<u>\$ 12,467,759</u>	<u>\$ -</u>	<u>\$ (5,553,152)</u>	<u>\$ -</u>	<u>\$ 6,914,607</u>