
HARRIS COUNTY HOUSING AUTHORITY

REPORT ON FINANCIAL STATEMENTS

(With Supplemental Material)

FOR THE YEAR ENDED MARCH 31, 2008

BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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RICHARD W. BREEDLOVE, CPA
President

INDEPENDENT AUDITORS' REPORT

June 16, 2008

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited the accompanying financial statements of the business-type activities of the Harris County Housing Authority, as of and for the year ended March 31, 2008, which collectively comprise the PHA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the PHA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of Cornerstone Village Apartments, L.P., Louetta Village Apartments 45, L.P., Baybrook Park Retirement Center, Ltd., TX Bammel Housing, L.P., Waterside Court, Ltd., and Olive Grove Manor, Ltd., which are included in the discretely presented component unit, were audited in accordance with generally accepted standards, but were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PHA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the component units of Harris County Housing Authority, as of March 31, 2008, and the respective changes in financial position (and respective cash flows, where applicable) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Budget Comparison are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2008, on our consideration of the Harris County Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Harris County Housing Authority taken as a whole. The accompanying financial data schedule and the other supplemental information, as well as the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis or as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sweeney & Co., P.C.

Harris County Housing Authority
Management’s Discussion and Analysis (MD&A)
March 31, 2008

As management of the Harris County Housing Authority (the “PHA”), we offer the readers of the PHA’s financial statements this narrative overview and analysis of our financial activities for the year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the PHA’s financial statements.

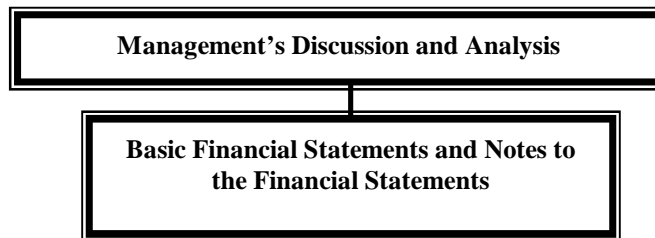
The PHA is a special purpose government operating in Harris County, Texas, (the “County”). The PHA administers federal Department of Housing and Urban Development (HUD) Section 8 housing assistance grants. The PHA was authorized to operate by the County through adoption of an order and resolution of the County Commissioners Court (the “Court”) on March 20, 1975. Texas statute provides for the creation and operation of the PHA under Local Government Code (LGC) Chapter 392 - *HOUSING AUTHORITIES ESTABLISHED BY MUNICIPALITIES AND COUNTIES*. Under LGC Chapter 392, the PHA is a unit of government and its functions are essential for the wellbeing of the community.

The PHA operates under an Interlocal Agreement between the PHA and the County, providing for the staffing of the PHA with County employees and continuing reimbursement to the County of all associated costs. The Interlocal Agreement additionally provides for the provision of office space and telecommunications services by the County. The Interlocal Agreement is reviewed and updated annually.

Based on criteria prescribed by accounting principles generally accepted in the United States of America, the PHA is considered a component unit of the County. The County presents the PHA as a discretely presented component unit under the provisions of Government Accounting Standards Board (GASB) Statement No. 14. The PHA’s financial statements and significant disclosures are also included in the County’s annual financial report. The primary criterion that provides for the PHA’s inclusion in the County’s financial statements as a discretely presented component unit is that the Court appoints all of the PHA commissioners and may remove commissioners under LGC Chapter 392. Appointment and removal options related to the PHA’s commissioners give the Court the ability to impose its will on the PHA’s operations.

The PHA presents this discussion and analysis of its financial performance during the fiscal year (FY) ended March 31, 2008, to assist the reader in focusing on significant issues and concerns.

The PHA’s FY2008 annual financial report consists of two parts – the management’s discussion and analysis, and the basic financial statements (which include notes to those financial statements).



The primary focus of the PHA’s financial statements is on the financial statements of a single business-type activity that combines all programs administered by the PHA. A separate column in the financial statements shows the combined transactions of the PHA’s real estate limited partnership component units.

The financial results of the discretely presented component units are not addressed in this discussion and analysis.

Harris County Housing Authority
Management's Discussion and Analysis (MD&A)
March 31, 2008

Financial Highlights for FY2008

- The PHA's assets exceeded its liabilities as of March 31, 2008 by \$21,449,092 (net assets).
- Unrestricted Cash and Investments as of March 31, 2008 were \$26,762,795.
- The PHA had \$54,571,333 in HUD grant revenue for the year ended March 31, 2008.
- The PHA had total expenses of \$47,339,453 for the year ended March 31, 2008, of which \$33,240,026 was for Housing Assistance Payments (HAP).
- The PHA's total net assets increased by \$9,660,317 during the year primarily due to the Disaster Housing Assistance Program (DHAP).

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the PHA's basic financial statements. The basic financial statements included in this report are those of a special purpose government engaged only in business-type activities and includes two enterprise funds. The PHA's funds record transactions related to HUD Section 8 housing assistance grants and the investment in affordable housing projects. The basic financial statements are briefly described below.

- **Statement of Net Assets** – reports the PHA's current financial assets and liabilities (short term spend able resources), along with restricted assets, fixed assets and long-term obligations.
- **Statement of Revenues, Expenses and Changes in Net Assets** – reports the PHA's operating revenues, by major source along with operating expenses.
- **Statement of Cash Flows** – reports the PHA's cash flows from operating, investing, capital and non-capital activities.
- **Notes to the financial statements** - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

PHA Financial Analysis

Over time, significant changes in the net assets are an indicator of whether the PHA's financial health is improving or deteriorating. Assets exceed liabilities by \$21,449,092 at the close of the fiscal year ended March 31, 2008, an overall improvement in the PHA's financial health from the prior year.

Harris County Housing Authority
Management's Discussion and Analysis (MD&A)
March 31, 2008
Net Assets

Description	March 31, 2008	March 31, 2007	Increase (Decrease)
Current Assets	\$ 32,455,546	\$ 4,205,254	\$ 28,250,292
Restricted Assets	1,190,861	710,043	480,818
Non Current Assets			
Fixed assets	<u>11,951,156</u>	<u>9,063,160</u>	<u>2,887,996</u>
Total assets	<u>45,597,563</u>	<u>13,978,457</u>	<u>31,619,106</u>
Noncurrent liabilities	117,802	114,995	2,807
Current liabilities	<u>24,030,669</u>	<u>2,074,687</u>	<u>21,955,982</u>
Total liabilities	<u>24,148,471</u>	<u>2,189,682</u>	<u>21,958,789</u>
Net assets	<u>\$ 21,449,092</u>	<u>\$ 11,788,775</u>	<u>\$ 9,660,317</u>

Net Asset Categories

Description	March 31, 2008	March 31, 2007	Increase (Decrease)
Invested in capital assets	\$ 7,507,035	\$ 5,304,240	\$ 2,202,795
Restricted for program costs	1,087,200	293,214	793,986
Unrestricted	<u>12,854,857</u>	<u>6,191,321</u>	<u>6,663,536</u>
Total net assets	<u>\$ 21,449,092</u>	<u>\$ 11,788,775</u>	<u>\$ 9,660,317</u>

The PHA's Affordable Housing Division was created to facilitate the expansion of its mission to promote innovative housing communities and encourage clients to achieve self-sufficiency. The Affordable Housing Division is committed to the development and operation of safe and affordable housing communities with enhanced access to social services, job training and transportation.

The PHA is committed to building new affordable housing using the Low Income Housing Tax Credit Program with HOME dollars provided by the Harris County Community and Economic Development Department. This unique public/public partnership is well positioned to meet the needs of affordable housing in the unincorporated areas of Harris County. This has enabled the PHA to develop six (6) senior Low Income Housing Tax Credit developments.

The largest portions of the PHA's increase in net assets were the results of Disaster Housing Assistance Program (DHAP). DHAP began on September 1, 2007 and provides funds for Rental Housing Assistance and Case Management Services to help displaced families rebuild their lives and return to self-sufficiency. The PHA's fixed assets consist of leasehold improvements, automobiles and business equipment and are being depreciated over three to ten years depending on assets type. The PHA has no debt related to these fixed assets.

Harris County Housing Authority
Management's Discussion and Analysis (MD&A)
March 31, 2008
Change in Net Assets
(000's)

Description	March 31, 2008	March 31, 2007	Increase (Decrease)
Revenues - operating			
HUD PHA Grants	\$ 23,333	\$ 24,552	\$ (1,219)
HOME grants		500	(500)
Other Revenue	31,853	637	31,216
Interest and investment income	766	460	306
Loss on disposal of fixed assets	0	(1)	1
Ground lease revenue	70	565	(495)
Other Revenue	977	0	977
Total operating revenues	56,999	26,713	30,286
Expenses			
Housing assistance payments	33,240	21,369	11,871
Salaries and benefits	1,837	1,467	370
Office expense	9,702	1,117	8,585
Tenant services	2,319	28	2,291
Maintenance	1	56	(55)
General	40	155	(115)
Depreciation	200	35	165
Total expenses	47,339	24,227	23,112
Increase (Decrease) in net assets	9,660	2,486	7,174
Net assets April 1	11,789	9,303	2,486
Net assets March 31	\$ 21,449	\$ 11,789	\$ 9,660

Budgets

The PHA adopts an annual operating budget for all programs. Program budgets for the HUD programs that the PHA administers are approved annually by the Board of Commissioners and HUD; on a basis consistent with the grant applications covering HAP programs. The PHA budgets based on the HUD awarded units.

Section 8 Occupancy Report Information	March, 2008	March, 2007
HUD Awarded Units		
HCVP Unit Months Available	22,578	22,080
Moderate rehabilitation-Unit Months Available	96	96
Total awarded/budgeted	22,176	22,176
Leased Units		
HCVP Unit Months Leased	22,892	21,952
Moderate rehabilitation Unit Months Leased	96	96
Total actual	22,988	21,864
Year to date average percentage leased	101%	99%
Difference - awarded/budgeted vs. leased	313	(136)

Harris County Housing Authority
Management's Discussion and Analysis (MD&A)
March 31, 2008

Fixed Assets

The PHA's fixed assets consist of land for affordable housing projects and leasehold improvements, automobiles and business equipment used in administering the HUD grants and affordable housing projects. The leasehold improvements and equipment used in administering the HUD grants and affordable housing projects and are being depreciated over three to ten years depending on asset type. The large increase in the PHA's fixed assets during the year was related to the purchase of land related to the affordable housing program.

Fixed Assets

Description	March 31, 2007	Net Additions/(Deletions)	March 31, 2008
Land	\$ 5,180,778	\$	\$ 5,180,778
Buildings	30,478	1,930,519	1,960,997
Furniture and Equipment	221,190	45,604	693,819
Accumulated Depreciation	<u>(128,206)</u>	<u>(8,217)</u>	<u>(328,558)</u>
Total	<u>\$ 5,304,240</u>	<u>\$ 37,387</u>	<u>\$ 7,507,036</u>

Additional information on the PHA's fixed assets can be found in the notes to the PHA's basic financial statements for the year ended March 31, 2008.

Economic Factors and Next Year's Budget

Significant economic factors affecting the PHA are as follows:

- Federal funding of the U.S. Department of Housing and Urban Development
- Disaster Housing Assistance Program (DHAP)
- Local labor supply and demand, which can affect salary and wages rates
- Local inflationary, recession, and employment trends, which can affect resident incomes and therefore the amount of Housing Assistance Payments
- Inflationary pressure on utility rates, supplies, and other costs.

<u>Section 8 Occupancy Report Information</u>	<u>Apr - June 2008</u>
<i>HUD Awarded Units</i>	
HCVP Unit Months Available	6,018
Moderate rehabilitation-Unit Months Available	<u>24</u>
Total awarded/budgeted	<u>6,042</u>
<i>Leased Units</i>	
HCVP Unit Months Leased	6,450
Moderate rehabilitation Unit Months Leased	<u>22</u>
Total actual	<u>6,472</u>
Year to date average percentage leased	108%
Difference - awarded/budgeted vs. leased	430

Harris County Housing Authority
Management's Discussion and Analysis (MD&A)
March 31, 2008

The Section 8 Management Assessment Program (SEMAP) is HUD's assessment program to annually and remotely measure the performance of all public housing authorities that administer the HCVP. SEMAP enables HUD to better manage the Section 8 housing assistance programs administered by the PHA by identifying capabilities and deficiencies in program operations. The SEMAP score is based on 15 specific operations indicators. The PHA has had the highest rating under SEMAP for the past six (6) years.

Contacting the PHA's Financial Management

The financial report is designed to provide a general overview of the PHA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Harris County Housing Authority, 8410 Lantern Point Dr., Houston, TX 77054, (713) 578-2134.

HARRIS COUNTY HOUSING AUTHORITY

STATEMENT OF NET ASSETS MARCH 31, 2008

ASSETS	Housing Enterprise <u>Fund</u>	Component <u>Units</u>
Current Assets		
Cash and cash equivalents	\$ 26 762 795	\$ 1 501 736
Accounts receivable	10 163	59 112
Accounts receivable -security deposits	168 991	-
Accounts receivable - HUD	1 484	-
Accounts receivable - misc	5 035 831	17 064
Allowance for doubtful accounts	(10 163)	-
Accrued interest receivable from Component Units	486 445	-
Prepaid assets	-	2 061 829
Other assets	-	236 452
Total current assets	32 455 546	3 876 193
Restricted assets		
Cash and cash equivalents - restricted	1 190 861	1 111 822
Total restricted assets	1 190 861	1 111 822
Noncurrent assets		
Notes receivable - Component Units	4 444 121	-
Intangible assets net of accumulated amortization	-	2 610 153
Fixed assets net of accumulated depreciation	7 507 035	57 324 674
Construction in progress	-	12 080 869
Total noncurrent assets	11 951 156	72 015 696
Total Assets	\$ 45 597 563	\$ 77 003 711
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1 597 578	\$ 3 620 120
Due to Harris County, primary government, for accrued personnel costs including benefits	372 158	-
Housing assistance payable	415 815	-
Accrued interest payable to HCHA	-	411 751
Deferred revenue	21 645 118	-
Total current liabilities	24 030 669	4 031 871
Noncurrent liabilities		
Family self sufficiency liabilities	103 662	-
Due to Harris County, primary government, for accrued compensated absences	14 140	-
Mortgage notes payable-HCHA	-	4,376,420
Mortgage notes payable	-	46 865 132
Total noncurrent liabilities	117 802	51 241 552
Total Liabilities	24 148 471	55 273 423
Net Assets		
Invested in capital assets, net of related debt	7 507 035	20 774 144
Restricted	1 087 200	-
Unrestricted	12 854 857	956 144
Total Net Assets	21 449 092	21 730 288
Total Liabilities and Net Assets	\$ 45 597 563	\$ 77 003 711

See the Accompanying Notes to Financial Statements

HARRIS COUNTY HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008

	Housing Enterprise Fund	Component Units
Operating Revenues		
Rental income	\$ -	\$ 3 783 332
HUD PHA grants	23 333 358	-
Ground lease revenues	70 000	-
Other government grants	31 853 176	-
Other revenues	976 825	93 391
Total Operating Revenues	56 233 359	3 876 723
 Operating Expenses		
Housing assistance payments	33 240 026	-
Salaries and benefits	1 837 350	730 626
Office expense	9 701 719	108 333
Tenant services	2 318 644	391 617
Maintenance	990	387 171
General	40 372	1 613 092
Interest expense-mortgages	-	1 694 444
Depreciation	200 352	2 199 233
Total Operating Expenses	47 339 453	7 124 516
 Net Income (Loss) from Operations	8 893 906	(3 247 793)
 Non-operating revenues (expenses)		
Interest income-unrestricted	607 261	51 433
Interest income-unrestricted from Component Units	159 150	-
Total Non-operating revenues (expenses)	766 411	51 433
 Change in Net Assets	9 660 317	(3 196 360)
 Total Net Assets-Beginning of Period	11 788 775	8 978 437
Capital Contributions	-	15 948 211
 Total Net Assets - End of Period	\$ 21 449 092	\$ 21 730 288

See the Accompanying Notes to Financial Statements

HARRIS COUNTY HOUSING AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2008

	<u>Housing Enterprise Fund</u>
Cash Flows from Operating Activities:	
Cash Received:	
Receipts from HUD - grants	\$ 23 333 358
Other government grants	31 853 176
Ground lease revenue	70 000
Other revenue	976 825
Deferred Revenue	16 107 400
Cash paid:	
Administrative and general	(10 605 059)
Salaries and benefits	(1 789 209)
Maintenance	(990)
Housing assistance payments	<u>(33 240 026)</u>
Net cash provided by operating activities	<u>26 705 475</u>
Cash Flow from Capital and Related Financing Activities:	
Net fixed asset additions	<u>(4 729 911)</u>
Net cash used for capital and related financing activities	<u>(4 729 911)</u>
Cash Flow from Investing Activities	
Cash received for interest income-unrestricted	766 411
Cash paid as loans to Partnerships	<u>(844 350)</u>
Net cash used by investing activities	<u>(77 939)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	21 897 625
Cash and Cash Equivalents At Beginning of Year	<u>3 752 658</u>
Cash and Cash Equivalents At End of Year	<u>\$ 25 650 283</u>

See the Accompanying Notes to Financial Statements

HARRIS COUNTY HOUSING AUTHORITY

**STATEMENT OF CASH FLOWS – CONTINUED
FOR THE YEAR ENDED MARCH 31, 2008**

	Housing Enterprise Fund <u>(memo only)</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Net Income (Loss) from Operations	\$ 8 893 906
Noncash Changes to Income:	
Depreciation	200 352
Changes in Assets and Liabilities:	
Net (Increase) Decrease in Assets:	
Accounts receivable-net	(4 384 075)
Other assets	13 113
Net Increase (Decrease) in Liabilities:	
Accounts payable	1 434 291
Accrued personnel costs, including benefits	48 141
Deferred revenue	20 496 183
Noncurrent liabilities	<u>(19 826)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 26 682 085</u>

See the Accompanying Notes to Financial Statements

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Housing Authority (the “PHA”) was authorized to transact business and exercise all powers conferred under Texas statute by Harris County, Texas, (the “County”) through adoption of an order and resolution of the County Commissioners Court (the “Court”) on March 20, 1975.

Texas statute provides for the creation and operation of the PHA under Local Government Code (LGC) Chapter 392 - *HOUSING AUTHORITIES ESTABLISHED BY MUNICIPALITIES AND COUNTIES*. Under LGC Chapter 392, the PHA is a unit of government and its functions are essential for the wellbeing of the community.

The March 20, 1975 Court order and resolution activated the PHA in accordance with LGC Chapter 392 by declaring the following:

- (1) There is unsanitary or unsafe inhabited housing in the County;
- (2) There is a shortage of safe or sanitary housing in the County available to persons of low income at rentals that they can afford; and
- (3) There is need for a public housing authority to function in the County.

The Court’s March 20, 1975 order and resolution also appointed commissioners of the PHA in accordance with LGC Chapter 392. There are five commissioners governing the PHA serving staggered two year terms. The staggered two year terms apply to two and three of the PHA’s five commissioners, respectively, every other year. The Court appoints all PHA commissioners when terms expire.

On March 29, 1994, the Court merged the PHA with the County’s Community Development Department (CDD). The PHA’s grant contracts with the federal Department of Housing and Urban Development (HUD) were subsequently assumed by CDD and the PHA’s commissioners were not reappointed by the Court.

On July 2, 2002, the Court approved a plan whereby the PHA would be reestablished and returned to its previous status as an independent entity. On March 1, 2003, the separation was completed and the Court appointed five new commissioners to govern the PHA.

On March 4, 2003, an Interlocal Agreement between the PHA and the County was approved by the Court, providing for the staffing of the PHA and continuing reimbursement to the County of all associated costs.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008
(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization (continued) - The agreement additionally provided for the provision of office space and telecommunications services by the County. The Interlocal Agreement has been extended through February 28, 2009, with updates and modifications.

See **Note 5** following for additional disclosure related to the Interlocal Agreement.

Reporting Entity - The PHA's financial statements include all of its accounts and activities. Under LGC Chapter 392, the PHA is a separate unit of government. Based on criteria prescribed by accounting principles generally accepted in the United States of America, the PHA is considered a component unit of the County. The County issues its own financial statements for all the County's activities that include the PHA. The County presents the PHA as a discretely presented component unit under the provisions of Government Accounting Standards Board (GASB) Statement No. 14. The primary criterion that provides for the PHA's inclusion in the County's financial statements as a discretely presented component unit is that the Court appoints all PHA commissioners and may remove commissioners under LGC Chapter 392. Appointment and removal options related to the PHA's commissioners gives the Court the ability to impose its will on the PHA's operations.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the financial reporting entity are based on criteria prescribed by accounting principles generally accepted in the United States of America. These same criteria are evaluated in considering whether the PHA is a part of any other governmental or other type of reporting entity. As noted above, the PHA is considered a component unit of the County.

The PHA's operations are fully funded from the following federal grant sources through HUD:

- Section 8 Housing Choice Voucher Program –
CFDA No. 14.871 - Grant number - TX441V00043053
- Lower Income Housing Assistance Program
Section 8 Moderate Rehabilitation –
CFDA No. 14.856 – Grant number - TX441MR0003
- Section 8 Moderate Rehabilitation
Single Room Occupancy (SRO) Program –
CFDA No. 14.182 – Grant number – TX441SR0001
- HOME Investment Partnerships Program (passed through the County) –
CFDA No. 14.239 – Grant number – C0558CF010
Grant number – C0558CF801
Grant number – C0558CFH01
Grant number – C0558CFJ01
Grant number – C0517CF120

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued) – All programs are accounted for in the Housing Enterprise Fund. See **Note 6** following for additional disclosure related to compliance with these HUD grants.

For the fiscal year ending March 31, 2008, the PHA also received additional funding under the Disaster Voucher Program, and various Disaster Housing Assistance Programs. These are also accounted for in the Housing Enterprise Fund.

The criteria for including organizations as component units within the PHA's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- a. The organization is legally separate (can be sued in their own name).
- b. The PHA holds the corporate powers of the organization.
- c. The PHA appoints a voting majority of the organization's board.
- d. The organization has the potential to impose a financial benefit/burden on the PHA.
- e. There is fiscal dependency by the organization on the PHA.

Harris County Housing Authority has formed Limited Liability Companies (LLC's) that participate in Limited Partnerships for the development and construction of affordable housing. Each of the LLC's formed by the PHA is the General Partner of the Limited Partnership. The financial statements of the limited partnerships are combined and reported as a discretely presented component unit based on these considerations.

Discretely Presented Component Units. – The component unit column in the basic financial statements includes the financial data of the PHA's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the PHA and are governed by separate Boards. See Note 11 for additional details relating to the PHA's relationship with the component units.

The Partnerships' included in the component units column include: Cornerstone Village Apartments, L.P, Louetta Village Apartments 45, L.P, Baybrook Park Retirement Center, Ltd., TX Bammel Housing L.P., Waterside Court, Ltd., and Olive Grove Manor, Ltd. Each partnership has developed apartment complexes and has set aside a predetermined number of units specifically for low to moderate income housing. The fiscal year-end for the discretely presented component units is December 31, 2007. As the general partner of the partnerships, the PHA receives the audited financial statements for the partnerships. Therefore, complete financial statements for each of the Limited Partnerships can be obtained from Chief Financial Officer, Harris County Housing Authority, 8410 Lantern Point Drive, Houston, TX 77054.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation – Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The PHA's activities are business-type in nature and the PHA does not engage in any governmental-type activities. As a result, government-wide financial statements which distinguish between governmental and business-type activities are not required. Accordingly, the basic financial statements and required supplementary information (RSI) of the PHA consist of Management's Discussion and Analysis (MD&A), Statement of Net Assets, Statement of Revenues, Expenses and Change in Net Assets, Statement of Cash Flows, Notes to the Financial Statements and Budget Comparison.

Measurement Focus and Basis of Accounting – The PHA uses the Proprietary fund method of accounting as prescribed by GASB. The Proprietary fund method uses the economic resources measurement focus. The accounting objectives are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the proprietary fund's activities are included on the Statement of Net Assets. Proprietary net assets are segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets.

The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recognized in the period incurred. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the PHA are the moneys provided by the U.S. Department of Housing and Urban Development (HUD) and other government grants. The PHA's operating expenses consist primarily of Housing Assistance Payments (HAP) and related administrative costs for the HUD Section 8 and Disaster Housing Assistance Programs, including depreciation and allocations of overhead costs to the affordable housing operation.

The PHA applies all applicable GASB pronouncements. The new GASB pronouncements applicable to the current fiscal year are as follows:

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The PHA leases their employees from Harris County so they are not affected by this pronouncement.

GASB 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* establishes criteria that governments will use to record and report sales of future revenues and specific receivables. The PHA does not sell their future revenues or receivables so are not affected by this pronouncement at this time.

The PHA has no long-term debt.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. All investments are recorded at fair value based upon quoted market prices as of the PHA's fiscal year end, with the difference between the purchase price and market price being recorded as interest income.

Restricted Assets – Certain assets of the PHA are required to be segregated based on HUD Section 8 grant requirements. These assets are legally restricted for certain purposes, including HUD Family Self-Sufficiency program deposits and certain HAP payments currently pending the outcome of an outreach program to identify the holders of old outstanding checks. The PHA will be performing the outreach program in the subsequent fiscal period and will gain the approval of HUD prior to using the HAP payments currently pending for program operations.

In the financial statements, restricted net assets are reported for amounts that are externally restricted by: 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments; or, 2) law through constitutional provision or enabling legislation. These assets are generally unavailable to pay current liabilities of the PHA's HUD Section 8 grant programs.

Fixed Assets – Fixed assets include leasehold improvements made to the County owned building that the PHA uses and equipment used in the PHA's operations that benefit more than a single fiscal year. It also includes leasehold improvements made on the Disaster Housing Assistance facility's in Houston and in New Orleans. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other fixed assets. The PHA has no infrastructure assets.

Fixed assets of the PHA are defined as assets with individual costs of \$1,000 or more and estimated useful lives in excess of one year. All fixed assets are stated at historical cost or estimated fair market value at the date of purchase. Donated fixed assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 3 to 10 years. Leasehold improvements are depreciated over a 10-year useful life. Equipment is depreciated over 3 to 5 years, depending on the type. The PHA has no property within any fixed asset category that includes capitalized interest.

Impairment of Long-Lived Assets – In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Housing PHA reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset impairment losses have been recognized during the year ended March 31, 2008.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets – The PHA’s Finance Policies and Procedures provide for budget preparation annually primarily to satisfy HUD compliance requirements. The HUD Section 8 housing programs generate income through administrative fees paid by HUD to cover the PHA’s costs to administer these programs and the affordable housing program generates ground lease revenue available for other housing programs. The annual administrative operating budget for the HUD Section 8 and affordable housing programs are incorporated into the PHA’s overall annual operating budget that includes HAP and costs related to providing affordable housing to senior citizens. The revised budget column in the Required Supplementary Information includes budgeting for the additional revenue and expenses for the Disaster Housing Assistance Program. The annual budget process starts prior to the subsequent fiscal year. The PHA’s Finance department projects the subsequent fiscal year’s housing assistance payment obligations and the related income from administrative fees for the HUD Section 8 and affordable housing programs. The administrative budget is used to track actual expenses against those budgeted throughout the fiscal year. Annual budgets for administrative costs and HAP are approved by the PHA’s Board of Commissioners and by HUD. Necessary changes to the budget are also approved by the PHA’s Board of Commissioners and by HUD throughout the year. The PHA’s Finance department presents detailed administrative budget reports along with financial information on HAP affordable housing and other program costs to the PHA’s Board of Commissioners for review at each board meeting.

Risk Management - The PHA’s risk-of-loss exposure includes exposure to liability and accidental loss of real and personal property. The PHA insures for vehicle and property insurance, professional liability insurance and crime and fidelity policies through the Housing Authority Insurance Group.

All employees of the PHA are County employees and are covered by the Harris County workers’ compensation program. The County is self-insured for workers’ compensation medical and indemnity payments. Claims adjusting services are provided by a third-party administrative claims adjusting service. Interfund premiums on workers’ compensation are determined by position class code, at actuarially determined rates.

Through the County, the PHA provides medical, dental, vision and basic life and disability insurance to eligible employees and retirees. The PHA pays the full cost of employee and retiree coverage and 50% of the cost of dependent premiums. The disability insurance will pay up to 50% of an employee’s salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

The PHA’s group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid into the County’s Risk Management Internal Service Fund, which in turn makes disbursements to contracted insurance providers based upon monthly enrollment and premium calculations.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences - Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee. The amounts recorded are based on amounts billed by the County on a periodic basis. Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. Unused sick leave benefits are not paid at termination. Employees with more than one year of service accrue from two to four weeks of vacation per year, depending on years of service. Unused vacation benefits lapse at calendar year end and upon termination except for exempt employees who may convert such benefits to compensatory time, subject to a 240-hour maximum. A liability for vacation earned, but not taken, has been recorded.

Nonexempt employees earn compensatory time at one-and-a-half times their full pay times the excess of 40 hours worked. The compensatory time balance for nonexempt employees may not exceed 240 hours. Hours in excess of the 240-hour maximum must be paid to the nonexempt employee at the rate of one-and-a-half times the regular rate. Upon termination, compensatory time is calculated at the current rate of pay.

Exempt employees earn compensatory time at one times their full pay times the excess of 40 hours worked. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the current wage rate. Compensatory time is carried forward indefinitely. Accordingly, a liability for compensatory time earned has been recorded.

Statements of Cash Flows - All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant Concentrations – Economic Dependency – Most of the PHA's revenues are provided by HUD grants and related revenues. The PHA is economically dependent on these HUD grant funds for their normal operations, including costs associated with administering these HUD grant programs. A significant decrease in HUD grant funding would negatively impact the PHA's ability to meet its operating and related administrative expenses under its current operating structure.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (2) DEPOSITS AND INVESTMENTS

Deposits:

Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of \$100,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available. In accordance with the Sweep Agreement with Amegy Bank all funds are transferred to a Money Market Mutual Fund account on a daily basis

Investments:

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the PHA to invest excess funds in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, investment grade commercial paper, money market mutual funds and fully collateralized repurchase agreements pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The PHA's Investment policy is reviewed and approved annually by the Board of Commissioners. The Investment Policy includes a list of authorized investment instruments. From February 22, 2007 through October 4, 2007, the PHA used a Money Market Mutual Fund Sweep Agreement with Amegy Bank. Under the agreement the PHA's daily balance was used to purchase shares in Fidelity Institutional Money Market Funds. On October 5, 2007, the PHA updated the agreement with Amegy Bank. The PHA's daily balance is used to purchase shares in Fidelity Government Money Market Fund (SPAXX). Fidelity Government Money Market Fund is ranked by Lipper as #6 out of 117 .S. Government Money Market Funds for its one year performance, #3 out of 98 funds for its five year performance and #3 out of 70 funds for its 10 year performance.

AUTHORIZED INVESTMENTS:

The PHA's funds may be invested in the following investment instruments provided that such instruments meet the guidelines of the investment policy:

1. Direct obligations of the Federal Government which are backed by the full faith and credit of the United States.
2. Obligations of Federal Government Agencies.
3. Securities of Federal Government sponsored Agencies.
4. Demand and savings deposits at commercial banks, mutual savings banks, savings and loan associations and credit unions if deposits are insured by either the Federal Insurance Fund (NCUSIF).

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (2) DEPOSITS AND INVESTMENTS (continued)

AUTHORIZED INVESTMENTS-(continued):

5. Municipal depository fund or local government investment pool established by the State of Texas or other State chartered municipality as long as the securities purchased.
6. Money market deposit accounts not to exceed 30 percent of invested funds at depository institutions that may not be insured fully by the FDIC or NCUSIF.
7. Super NOW accounts as long as they meet the insurance and collateral requirements.
8. Certificates of deposit issued by institutions that are insured by an agency of the Federal Government.
9. Repurchase agreements for a term not to exceed 30 days when issued by a federally insured depositories for securities insured by the U.S Government and provided that the seller meets the additional requirements of HUD Notice PIH 96-33.
10. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
11. Sweep accounts provided that the agreements include all the requirements applicable to any of the above.

Cash and Investments:

The PHA had cash and investments which are also considered cash equivalents of \$27,953,654 as of March 31, 2008. The cash equivalents are part of the sweep investment account. In accordance with the Money Market Mutual Fund Agreement with Amegy Bank, the entire amount purchases shares in the Fidelity Government Fund. This portfolio invests at least 80% of assets in U.S. Government securities and repurchase agreements for those securities, issued by entities that are chartered or sponsored by Congress but whose securities are neither issued nor guaranteed by the U.S. Treasury. Amegy bank has provided assurance that the funds are invested in accordance with the PHA's investment policy. The PHA has cash on hand in a petty cash fund of \$200 as of March 31, 2008.

Restricted Cash:

The PHA had \$1,190,861 in restricted cash at March 31, 2008. The balance consists of \$1,087,200 restricted for future Housing Assistance Payments (see NOTE 10) and \$103,662 restricted for payment of the liability for Family Self-sufficiency.

RISK DISCLOSURES

Interest Rate Risk: All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the PHA manages its exposure to interest rate risk is by investing in overnight instruments.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008
(Continued)

NOTE (3) FIXED ASSETS

Fixed asset activity, for the year ended March 31, 2008, was as follows:

Harris County Housing Authority

	Balances	Additions		Balances
	Beginning of Year	(Dispositions)	Depreciation	End of Year
Land	\$ 5 180 778	\$ -	\$ -	\$ 5 180 778
Leasehold Improvements	30 478	1 930 519	-	1 960 997
Furniture and Equipment	221 190	472 629	-	693 819
Accumulated Depreciation	<u>(128 206)</u>	<u>-</u>	<u>(200 353)</u>	<u>(328 559)</u>
Totals	<u>\$ 5 304 240</u>	<u>\$ 2 403 148</u>	<u>\$ (200 353)</u>	<u>\$ 7 507 035</u>
Housing Vouchers				\$ 87 477
Disaster Housing Assistance Program				2 209 441
Disaster Voucher Program				17 890
Affordable Housing				<u>5 192 227</u>
				<u>\$ 7 507 035</u>

Depreciation expense, for the year ended March 31, 2008, totaled \$200,353.

Component Units

	Balances	Additions		Balances
	Beginning of Year	(Dispositions)	Depreciation	End of Year
Land	\$ 170 305	\$ -	\$ -	\$ 170 305
Land Improvements	6 212 505	2 578 104	-	8 790 609
Buildings	35 766 612	12 530 829	-	48 297 441
Furniture and Equipment	3 012 750	617 835	-	3 630 585
Construction in progress	-	12 080 869	-	12 080 869
Intangible Assets Net of Amortization	2 610 156			2 610 156
Accumulated Depreciation	<u>(1 492 936)</u>	<u>-</u>	<u>(2 071 333)</u>	<u>(3 564 269)</u>
Totals	<u>\$ 46 279 392</u>	<u>\$ 27 807 637</u>	<u>\$ (2 071 333)</u>	<u>\$ 72 015 696</u>

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (4) COMPENSATED ABSENCES PAYABLE

The total of accrued compensated absences increased for the year ended March 31, 2008 by \$14,033 to a total of \$70,700. \$56,560 of the total is considered due within one year.

NOTE (5) INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS

On March 4, 2003, pursuant to the Interlocal Cooperation Act, Chapter 791 Texas Government Code, an Interlocal Agreement between the PHA and the County was approved by the Court pertaining to the basic operations of the PHA. This Interlocal Agreement has subsequently been extended through February 28, 2009.

Significant provisions of the extended agreement are described below.

PHA's Board to Hire Personnel – The PHA's Board of Commissioners may delegate a power or duty to an agent or employee as it considers proper. The Board may employ a secretary, who shall serve as executive director, and may employ technical experts and other officers, agents and employees, permanent or temporary, that the Board considers necessary. The Board shall determine the qualifications, duties and compensation of the persons employed.

Personnel – The parties will agree on staffing at the time of execution of the Interlocal Agreement and any extensions. Any additional staffing will require the prior approval of both the PHA and the County. The staff, as agreed on by the PHA and the County will administer all aspects of the PHA's daily operations. It is expressly understood and agreed that the individuals who fill such positions are nominally Housing PHA Employees employed through the County. The PHA shall reimburse the County for the time that the staff spends on PHA business only. Within the first 10 days of each month, the Harris County Auditor shall prepare a statement and proper backup showing the actual staff salary and benefits expenses incurred by the County for staffing the PHA's operations during the previous calendar month. The PHA shall promptly pay the total due to the County upon receipt of a correct and verified statement.

The PHA shall also reimburse the County for other incurred staffing charges of County personnel as may be applicable for the conduct of the PHA's operations. These incurred overhead charges include by way of example, but not limited to, information systems and payroll services. Within the first ten (10) days of each month, the Harris County Auditor shall prepare a statement showing the incurred staffing overhead charges for the PHA's operations during the previous calendar month.

The County will report incurred overhead staffing charges using an accounting and/or auditing basis that is reasonably acceptable and reliable in government grant accounting practices and applications. The PHA shall promptly pay the total due to the County upon receipt of a correct and verified statement.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (5) INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (continued)

Personnel (continued) – PHA personnel that supervise and conduct the PHA’s daily operations will follow County personnel rules and regulations. The County is not obligated to provide personnel and other incurred overhead charges in excess of the amount that the PHA is willing reimburse to the County.

Legal services – The PHA will retain its own legal counsel. It is understood that the Harris County Attorney’s Office (HCAO) represents Harris County, Texas. If and to the extent HCAO may have purportedly represented the PHA in the past, the PHA does not disqualify, and consents to, HCAO representing the County against the PHA. Future representation of the PHA by HCAO does not constitute a waiver of any matters privileged prior to HCAO’s representation of the PHA.

Transfer of initial funds pertaining to grants administered by the PHA - Within 90 days of the approval of the Interlocal Agreement by the County, in cooperation and with the assistance of the Harris County Auditor and the County’s Department of Financial Services, the County shall provide the PHA an accurate final accounting of any funds that the County holds that are the property of the PHA.

The PHA had recorded a receivable from the County as of March 31, 2007 for remaining funds not transferred of \$516,639. Included in that amount were pending HAP of \$416,829 that were not available for HUD Section 8 programs without further review by PHA staff and specific approval of HUD.

This amount represented outstanding checks to housing assistance payment recipients that have never been cashed. Once the PHA’s staff has reviewed and exhausted all efforts to find the recipients of these outstanding checks, any remaining amounts will be added back to the program in accordance with HUD guidelines. The remaining \$99,810 due from the County represented interest income on funds not transferred to the PHA from the County since March 1, 2003 and is available for HUD Section 8 program operations when received by the PHA. The County remitted these funds to the PHA in March 2008. The total amount received was \$537,237 which included \$120,408 of interest.

Insurance – The County self-insures in worker’s compensation matters. The PHA will reimburse the County for expenses related to handling of an PHA staff worker’s compensation claim.

The PHA participates in the County’s worker’s compensation insurance program to cover the claims of its staff. In addition to overhead charges, the PHA will reimburse the County for worker’s compensation-related losses and payouts the County incurs for the PHA’s staff.

The PHA will obtain and maintain in effect insurance on its vehicles as required by the motor vehicle insurance laws of the State of Texas.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (5) INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (continued)

Sublease agreement – The PHA rents its administrative offices from the County through a sublease at 8410 Lantern Point Drive in Houston, Texas. The PHA pays \$1 per month as rent for the facilities, including utilities that have been provided by the County and telecommunications services. The PHA shall pay for any special modifications or alterations that it desires in the rented space. The PHA has capitalized leasehold improvements to this space in the amount of \$30,478 and is depreciating these improvements over a 10 year period. The PHA has obtained, and maintains in effect, insurance coverage required by the County's landlord at 8410 Lantern Point Drive in Houston, Texas.

NOTE (6) HOUSING AND URBAN DEVELOPMENT PROGRAMS

SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

A majority of the PHA's operations are funded from HUD Section 8 Housing Choice Voucher Program (HCVP) grant funds. For the fiscal year ended March 31, 2008, the PHA had total HUD Section 8 grant revenues of \$23,333,358 of which \$22,939,159 was for HCVP including revenues related to the Disaster Voucher Program (DVP). The PHA's total HAP payments for the fiscal year ended March 31, 2008 were \$20,487,294 of which \$20,142,283 was for HCVP including HAP payments related to the Disaster Voucher Program (DVP). For the current year, the PHA has \$51,086 in unclaimed HAP checks to qualified recipients. The PHA also has a liability for \$103,662 for the Family Self Sufficiency program of HCVP that was discontinued in the fiscal year ending March 31, 2005.

AFFORDABLE HOUSING AND HOME GRANT FUNDS

Compliance with HCVP grant requirements is a significant part of the PHA's administrative activities. OMB Circular A-133 provides detail of the compliance requirements.

The County's Community and Economic Development Department has awarded the PHA over \$2.5 million from the HUD HOME Investment Partnerships Program for the purpose of acquiring and co-developing affordable housing for seniors and families using the federal Low Income Housing Tax Credit program. The PHA anticipates participating with for-profit developers to create more than 120 units of affordable Intergenerational Housing in the unincorporated areas of the County over the next 24 months or by December 2009. The objectives of the PHA in participating in this program are to facilitate affordable housing and provide additional revenue to support housing programs from ground lease revenue and rental on the facilities after an initial development recovery period.

The general objectives of the HUD HOME Investment Partnerships Program are: (1) To expand the supply of affordable housing, particularly rental housing, for low and very low income Americans; (2) to strengthen the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) to provide both financial and technical

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (6) HOUSING AND URBAN DEVELOPMENT PROGRAMS

AFFORDABLE HOUSING AND HOME GRANT FUNDS – (continued)

assistance to participating jurisdictions, including the development of model programs for developing affordable low income housing; and (4) to extend and strengthen partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing. The HOME regulations, guidelines, and literature are found in 24 CFR Part 92.

The federal tax credit program is a means of directing private capital toward the creation of affordable rental housing. Owners and investors in qualified affordable multifamily residential developments can use the tax credits as a dollar-for-dollar reduction of federal income tax liability. The value associated with the tax credits allows residences to be leased to qualified families at below market rate rents. The Texas Department of Housing and Community Affairs administers this program in Texas. To qualify for tax credits, the proposed development must involve new construction or undergo substantial rehabilitation of residential units (at least \$6,000/unit). The credit amount a development may receive depends on the total amount of depreciable capital improvements and the funding sources available to finance the total development cost.

DISASTER HOUSING ASSISTANCE PROGRAMS (DHAP)

In late 2007, the Department of Housing and Urban Development (HUD) took over disaster housing assistance from the Federal Emergency Management Agency (FEMA). HUD contracted with Harris County Housing Authority to administer 6,667 of these vouchers in the Houston area. The PHA identifies this program as DHAP-HCHA. The agreement allows the PHA to receive \$1,000 (One-thousand dollars) per voucher for placement fees in addition to case management fees, administrative fees and reimbursement for housing assistance payments. As of March 31, 2008, the PHA has recognized income of \$9,487,332 in administrative fees including \$5,833,000 of placement fees. The other \$834,000 of placement fees are included in deferred revenue and will be recognized as the PHA locates and completes processing of the final 834 tenants. The PHA has also recognized income of \$12,454,330 for reimbursement of housing assistance payments and \$4,258,980 of case management reimbursements. A total of \$8,685,753 of payments received from HUD for the operation of the Disaster Housing Assistance Program has not yet been earned by the PHA and is included in deferred revenue.

In addition to the vouchers issued by HUD for disaster assistance in the Houston area, the PHA also agreed to administer approximately 994 disaster vouchers for victims that have relocated to other parts of the United States. The PHA identifies this program as DHAP-USA. The agreement with HUD for administration of this program is the same as the agreement for administering the Houston area program. As of March 31, 2008, the PHA has recognized income of \$972,683 in administrative fees including \$366,000 of placement fees. The other \$628,000 of placement fees are included in deferred revenue and will be recognized as the PHA locates and completes processing of the final

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (6) HOUSING AND URBAN DEVELOPMENT PROGRAMS-(continued)

DISASTER HOUSING ASSISTANCE PROGRAMS-(continued)

628 tenants. The PHA has also recognized income of \$298,402 for reimbursement of housing assistance payments reimbursements and \$266,248 of case management reimbursements. A total of \$3,888,572 of payments received from HUD for the operation of the DHAP-USA has not yet been earned by the PHA and is included in deferred revenue.

The PHA entered into an agreement with the Housing Authority of New Orleans to administer their Disaster Housing Assistance Vouchers. The PHA identifies this program as DHAP-HANO. Under the terms of the agreement, the PHA receives Housing Assistance Payment (HAP) administrative fees at 90%, 95% of case management fees, 95% of placement fees and 90% of any other fees provided for operation of the DHAP program. As of March 31, 2008, the PHA has recognized \$3,500,000 in revenue from this agreement and expended \$2,891,031 in costs to administer the program.

At March 31, 2008, the PHA has also entered into agreements with the Housing Authority's of Slidell, Jefferson Parish, and St. Bernard Parish to administer their Disaster Housing Assistance Program. As of March 31, 2008 the PHA has received \$809,067, \$2,982,033 and \$1,008,965 respectively to administer the program. No activity occurred during the current fiscal year and these amounts are recorded as deferred revenue in the Housing Enterprise Fund.

NOTE (7) DISASTER HOUSING ASSISTANCE PROGRAM ADMINISTRATION AGREEMENT

The PHA has entered into an agreement with Mir, Fox & Rodriguez, P.C., for project management of the DHAP programs for the PHA. Under the agreement, Mir, Fox & Rodriguez implemented project management components including, planning and designing the social service and case management core processes, coordinating education, communication and training, monitoring and control of the program among other things. The PHA has advanced fees to Mir, Fox, & Rodriguez to carry out their objectives under the agreement. As of March 31, 2008 the PHA has advances outstanding of \$422,006 for administrative fees and \$4,571,779 for Housing Assistance Payments. These amounts are included in Accounts Receivable-Misc in the Housing Enterprise Fund.

NOTE (8) LEASES

Effective September 1, 2007, the PHA entered into a lease for office space at 8933 Interchange Dr., Houston, TX to operate the Disaster Housing Assistance Program. The lease term is sixty (60) months and expires August 31, 2012. Mir, Fox & Rodriguez, P.C. is making the payments on the lease in accordance with the administrative contract as described in Note 9. For the year ending March 31, 2008 the base rent was \$18,476 per month.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (8) LEASES- (continued)

Future minimum lease payments not including increases for basic building operating costs are as follows:

<u>Year ending March 30,</u>	
2009	\$ 238 960
2010	268 522
2011	298 084
2012	327 645
2013	<u>141 651</u>
Total	<u>\$ 1 274 862</u>

Effective March 1, 2008 the PHA entered into a lease for office space at 3600 MacArthur Blvd., New Orleans, LA to operate the Disaster Housing Assistance Program in Louisiana as per their agreement with the Housing Authority of the City of New Orleans. The lease term is twenty-four (24) months and expires February 28, 2010. Mir, Fox & Rodriguez, P.C. is making the payments on the lease in accordance with the administrative contract as described in Note 9. For the year ending March 31, 2008 the base rent was \$19,250 per month.

Future minimum lease payments not including increases for basic building operating costs are as follows:

<u>Year ending March 30,</u>	
2009	\$ 231 000
2010	<u>211 750</u>
Total	<u>\$ 442 750</u>

NOTE (9) NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE

The PHA has Subordinate Promissory Notes with the Partnerships that were funded with pass through funds from HOME Grants. The loans accrue interest on the outstanding balances at the applicable federal interest rate (AFR) in effect at the time of the loan and mature on varying dates between the years of 2027 and 2038. As of March 31, 2008, total outstanding principal and accrued interest on these loans were \$4,444,121 and \$486,445, respectively.

NOTE (10) RESTRICTED NET ASSETS

The PHA has recorded \$1,087,200 in restricted net assets for the year ending March 31, 2008. This amount reflects the difference in Housing Assistance Payment revenue received from HUD and the amount of Housing Assistance Payments made for eligible vouchers. These funds are restricted for future payments of eligible vouchers.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (11) COMPONENT UNITS

HCHA Cornerstone, LLC is a partner in Cornerstone Village Apartments, L.P.; HCHA Bammel, LLC is a partner in TX Bammel Housing, L.P.; HCHA Louetta, LLC, is a partner in Louetta Village Apartments 45, L.P.; HCHA Baybrook Park, LLC is a partner in Baybrook Park Retirement Center, Ltd.; and HCHA Olive Grove, LLC is a partner in Olive Grove Manor, Ltd. Harris County Housing Authority is the sole member of each of the HCHA LLCs and each HCHA LLC is a .01% partner and the general partner of the partnership.

HCHA Cornerstone, LLC has contributed capital of \$336 in Cornerstone Village Apartments, L.P. Harris County Housing Authority and Cornerstone Village Apartments, L.P. has a sixty-five (65) year land lease agreement signed August 12, 2004. Cornerstone Village Apartments, L.P. prepaid twelve years of rent in 2005 which is being amortized at a rate of Sixty-Five thousand (\$65,000) per year. Harris County Housing Authority (HCHA) and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of \$700,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Cornerstone Village Apartments, L.P. The PHA received \$540,000 of the funds related to the development agreement in the current fiscal year. Harris County Housing Authority has a Note Receivable from Cornerstone Village Apartments, L.P. in the amount of \$1,390,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Bammel, LLC has contributed capital of \$522 in TX Bammel Housing, L.P. Harris County Housing Authority and TX Bammel Housing, L.P. have a sixty-five (65) year land lease agreement signed January 1, 2005. Under the terms of the lease, the annual lease amount for TX Bammel Housing, L.P. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Southwest Housing Development Company, Inc. have a developer fee sharing agreement wherein Southwest Housing Development Company, Inc. will pay a total of \$600,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of TX Bammel Housing, L.P. The PHA has not received funds related to the development agreement as of March 31, 2008. Harris County Housing Authority has a Note Receivable from TX Bammel Housing, L.P. in the amount of \$731,420. The funds for the loan were a HOME Grant from Harris County.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (11) COMPONENT UNITS (continued)

HCHA Louetta, LLC has contributed capital of \$100 in Louetta Village Apartments 45, L.P. Harris County Housing Authority and Louetta Village Apartments 45, L.P. have a sixty-five (65) year land lease agreement signed January 12, 2005. Under the terms of the lease, the annual lease amount for Louetta Village Apartments 45, L.P. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of \$403,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Louetta Village Apartments 45, L.P. The PHA has received \$173,810 of the funds related to the development agreement in the current fiscal year. Harris County Housing Authority has a Note Receivable from Louetta Village Apartments 45, L.P. in the amount of \$550,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Baybrook Park Retirement Center, Ltd. has contributed capital of \$10 in Baybrook Park Retirement Center, Ltd. Harris County Housing Authority and Baybrook Park Retirement Center, Ltd. have a sixty-five (65) year land lease agreement signed June 21, 2005. Under the terms of the lease, the annual lease amount for Baybrook Park Retirement Center, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Hettig Development Group XI, Ltd. have a developer fee sharing agreement wherein Hettig Development Group XI, Ltd. will pay a total of \$406,000 to HCHA in exchange for services. The first \$150,000 was paid at the closing of the construction loan on June 17, 2005. The PHA received an additional \$162,500 of the funds related to the development agreement in the current fiscal year. The balance of payments of the development fees are predicated on the receipt of development fees paid from, or on behalf of Baybrook Park Retirement Center, Ltd. Harris County Housing Authority has a Note Receivable from Baybrook Park Retirement Center, Ltd. in the amount of \$625,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Olive Grove, LLC has contributed capital of \$10 in Olive Grove Manor, Ltd. Harris County Housing Authority and Olive Grove Manor, Ltd. have an amended forty-five (45) year land lease agreement signed December 21, 2006. Under the terms of the lease, the annual lease amount for Olive Grove Manor, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Artisan/American Corp. have a developer fee sharing agreement wherein Artisan/American Corp. will pay a total of \$840,000 to HCHA in exchange for services. The first \$250,000 was paid at the closing of the construction loan December 22, 2006. The balance of the payments of the development fees are predicated on the receipt of development fees paid from, or on the behalf of Olive Grove Manor, Ltd. Harris County Housing Authority has a Note Receivable from Olive Grove Manor, Ltd. in the amount of \$700,000. As of March 31, 2008, a total of \$668,021 of this Note has been funded with HOME funds.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

(Continued)

NOTE (11) COMPONENT UNITS (continued)

HCHA Waterside, LLC has contributed capital of \$10 in Waterside Court, Ltd. Harris County Housing Authority and Waterside Court, Ltd. have a forty-five (45) year land lease agreement signed June 22, 2006. Under the terms of the lease, the annual lease amount for Waterside Court, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Hettig Development Group X, Ltd. have a developer fee sharing agreement wherein Hettig Development Group X, Ltd. will pay a total of \$980,110 to HCHA in exchange for services. The first \$250,000 was paid at the closing of the construction loan June 17, 2006. The balance of the payments of the development fees are predicated on the receipt of development fees paid from, or on the behalf of Waterside Court, Ltd. Harris County Housing Authority has a Note Receivable from Waterside Court, Ltd. in the amount of \$462,500. The funds for the loan were a HOME Grant from Harris County.

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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RICHARD W. BREEDLOVE, CPA
President

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

June 16, 2008

Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited the general purpose financial statements of the Harris County Housing Authority as of and for the year ended March 31, 2008, and have issued our report thereon dated June 16, 2008. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

The management of the Harris County Housing Authority is responsible for establishing and maintaining effective internal control. In planning and performing our audit, we considered the Harris County Housing Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PHA's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the PHA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the PHA's financial statements that is more than inconsequential will not be prevented or detected by the PHA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the PHA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harris County Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, commissioner's court and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seidman & Co., P.C.

BREEDLOVE & CO., P.C.

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RICHARD W. BREEDLOVE, CPA
President

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 16, 2008

Board of Commissioners
Harris County Housing Authority
Houston, Texas

Compliance

We have audited the compliance of the Harris County Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2008. The Harris County Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Harris County Housing Authority's management. Our responsibility is to express an opinion of their compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harris County Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Harris County Housing Authority's compliance with those requirements.

In our opinion, the Harris County Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2008.

Internal Control over Compliance

The management of the Harris County Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Harris County Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harris County Housing Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seecher & Co., P.C.

REQUIRED SUPPLEMENTARY INFORMATION

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HARRIS COUNTY HOUSING AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION-BUDGET COMPARISON
MARCH 31, 2008**

	All Programs			
	Original	Revised		Variance
	Budget	Budget	Actual	Positive
	<u>Budget</u>	<u>as of 3/31/07</u>	<u>Actual</u>	<u>(Negative)</u>
Operating Revenues				
HUD PHA Grants-Administrative & Placement Fees Earned	\$ 1 816 965	\$13 239 965	\$ 15 718 879	\$ 2 478 914
HUD PHA Grants-Case Management Fees		4 570 000	4 525 228	(44 772)
Co-Developer Fee	1 075 000	1 075 000	876 310	(198 690)
Other Revenues	-	-	784 440	784 440
Interest Income	75 000	620 000	767 687	147 687
Total Operating Revenues	<u>2 966 965</u>	<u>19 504 965</u>	<u>22 672 544</u>	<u>3 167 579</u>
Operating Expenses				
Salaries	1 210 756	1 510 756	1 553 013	(42 257)
Employee Benefit Contributions	401 057	424 557	284 338	140 219
Consulting & Professional Services	107 500	9 393 500	8 624 060	769 440
Auditing Fees	64 900	89 900	65 276	24 624
Sundry Items	10 000	10 000	27 852	(17 852)
Bad Debt Expense	-	-	-	-
Bank Service charges	18 000	23 000	11 120	11 880
Insurance	20 000	70 000	36 802	33 198
Case Management Fees	-	-	2 318 644	(2 318 644)
Maintenance & Repairs	-	-	974	(974)
Membership Dues & Subscriptions	13 000	13 000	12 780	220
Printing & Reproduction	35 440	65 440	28 511	36 929
Postage	50 000	50 000	38 913	11 087
Telephone	12 000	12 000	6 065	5 935
Temporary Personnel	97 000	197 000	192 619	4 381
Vehicle Gas, Oil and Maintenance	19 000	19 000	9 275	9 725
Legal	84 000	349 000	347 507	1 493
Staff Travel & Training	95 500	185 500	205 697	(20 197)
Board of Commissioners Travel & Training	25 000	26 600	6 294	20 306
Office Supplies	41 200	92 200	90 934	1 266
Other General Expenses-Port Out Admin Fees	12 000	12 000	3 570	8 430
Computer Equipment & Software Maintenance	38 000	55 000	34 835	20 165
Total Administrative Expenses	<u>2 354 353</u>	<u>12 598 453</u>	<u>13 899 079</u>	<u>(1 300 626)</u>
Non-Routine Expenses:				
Additions to Buildings	-	-	-	-
Additions to Vehicles	25 000	25 000	20 109	4 891
Total Non-Routine Expenses	<u>25 000</u>	<u>25 000</u>	<u>20 109</u>	<u>4 891</u>
Total Operating Expenses	<u>2 379 353</u>	<u>12 623 453</u>	<u>13 919 188</u>	<u>(1 295 735)</u>
Residual Receipts (Deficit)	<u>\$ 587 612</u>	<u>\$ 6 881 512</u>	<u>\$ 8 753 356</u>	<u>\$ 1 871 844</u>

See the accompanying Independent Auditors' Report

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SUPPLEMENTAL SCHEDULES

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HARRIS COUNTY HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARCH 31, 2008

SUMMARY OF AUDITORS RESULTS

1. We issued an unqualified opinion on the financial statements for the fiscal year ended March 31, 2008.
2. There are no significant deficiencies in internal control that are disclosed by our audit of the financial statements that are considered material weaknesses.
3. Our audit did not disclose any noncompliance that is material to the financial statements.
4. There are no significant deficiencies in internal control over major programs disclosed by our audit that are considered material weaknesses.
5. Our report on compliance for major programs was unqualified.
6. Our audit disclosed no findings required to be reported by Section 510(a) of OMB Circular A-133.
7. The Housing Choice Vouchers Program and the Disaster Housing Assistance Program were identified as major programs.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$1,657,696.
9. The auditee qualified as a low-risk auditee.

STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

The prior audit report did not contain any findings or questioned costs.

CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs in the current audit.

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
MARCH 31, 2008

	<u>CFDA #</u>	<u>IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Housing and Urban Development:			
DIRECT Lower Income Housing Assistance			
Program--Section 8 Moderate Rehabilitation	14.856	TX441MR0003	\$ 54 511
N/C S/R Section 8 Programs	14.182	TX441SRO001	339 688
DIRECT Section 8 - Housing Choice Vouchers	14.871	TX 441VO0043053	16 338 774
DIRECT Housing Choice Vouchers-Disaster Voucher Program	14.871	TX441DH	<u>6 600 385</u>
			<u>23 333 358</u>
Department of Homeland Security			
DIRECT Disaster Housing Assistance Program	97.109		31 237 975
Passed through Harris County, Texas:			
HOME Investment Partnership Program	14.239	C0558CF010	263 466
		C0558CF801	252 304
		C0558CFH01	147 251
		C0517CFJ01	5 000
		C0517CF120	17 180
			<u>685 201</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 55 256 534</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Harris County Housing Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Harris County Housing Authority
Financial Data Schedule-Balance Sheet
March 31, 2008

Account Description	N/C S/R Section 8 Programs 14.182	Section 8 MOD Rehab. 14.856	Housing Choice Vouchers 14.871	Disaster Housing Assistance Program Grant 97.109	DVP 14.DVP	Business Activities	Component Units	TOTAL
Line Item #								
ASSETS:								
CURRENT ASSETS:								
Cash:								
111	36,371	2,045	2,235,729	22,001,360	2,045,972	441,318	1,501,736	28,264,531
112	-	-	-	-	-	-	-	-
113	-	-	1,190,861	-	-	-	1,111,822	2,302,683
114	-	-	-	-	-	-	-	-
115	-	-	-	-	-	-	-	-
100	36,371	2,045	3,426,590	22,001,360	2,045,972	441,318	2,613,558	30,567,214
Accounts and notes receivables:								
121	-	-	10,163	-	-	-	-	10,163
122	-	1,484	-	-	-	-	-	1,484
124	-	-	-	-	-	-	-	-
125	-	-	16,350	5,003,784	168,991	15,697	17,064	5,221,886
126	-	-	-	-	-	-	59,112	59,112
126.1	-	-	-	-	-	-	-	-
126.2	-	-	(10,163)	-	-	-	-	(10,163)
127	-	-	-	-	-	-	-	-
128	-	-	-	-	-	-	-	-
128.1	-	-	-	-	-	-	-	-
129	-	-	-	-	-	486,445	-	486,445
120	-	1,484	16,350	5,003,784	168,991	502,142	76,176	5,768,927
Current investments								
131	-	-	-	-	-	-	-	-
132	-	-	-	-	-	-	-	-
135	-	-	-	-	-	-	-	-
142	-	-	-	-	-	-	2,061,829	2,061,829
143	-	-	-	-	-	-	-	-
143.1	-	-	-	-	-	-	-	-
144	-	-	-	-	-	-	-	-
145	-	-	-	-	-	-	-	-
146	-	-	-	-	-	-	-	-
150	36,371	3,529	3,442,940	27,005,144	2,214,963	943,460	4,751,563	38,397,970
NONCURRENT ASSETS:								
Fixed assets:								
161	-	-	-	-	-	5,180,778	-	5,180,778
162	-	-	-	-	-	-	60,888,943	60,888,943
163	-	-	-	-	-	-	-	-
164	-	-	217,350	434,151	22,208	20,110	-	693,819
165	-	-	30,478	1,930,519	-	-	-	1,960,997
168	-	-	-	-	-	-	2,610,153	2,610,153
166	-	-	(160,351)	(155,229)	(4,318)	(8,661)	(3,564,269)	(3,892,828)
167	-	-	-	-	-	-	12,080,869	12,080,869
160	-	-	87,477	2,209,441	17,890	5,192,227	72,015,696	79,522,731
Other Non Current Assets								
171	-	-	-	-	-	4,444,121	-	4,444,121
172	-	-	-	-	-	-	-	-
173	-	-	-	-	-	-	-	-
174	-	-	-	-	-	-	236,452	236,452
176	-	-	-	-	-	-	-	-
180	-	-	87,477	2,209,441	17,890	9,636,348	72,252,148	84,203,304
190	36,371	3,529	3,530,417	29,214,585	2,232,853	10,579,808	77,003,711	122,601,274

See the accompanying Independent Auditor's Report

	Account Description	N/C S/R Section 8 Programs 14.182	Section 8 MOD Rehab. 14.856	Housing Choice Vouchers 14.871	Disaster Housing Assistance Program Grant 97.109	DVP 14.DVP	Business Activities	Component Units	TOTAL
	LIABILITIES AND EQUITY:								
	LIABILITIES:								
	Current Liabilities								
311	Bank overdraft	-	-	-	-	-	-	-	-
312	Accounts payable ≤ 90 days	-	-	14,085	1,508,971	8,212	15,224	3,620,120	5,166,612
313	Accounts payable > 90 days past due	-	-	-	-	-	-	-	-
321	Accrued wage/payroll taxes payable	143	295	239,381	33,505	32,690	9,584	-	315,598
322	Accrued compensated absences - current portion	-	-	56,560	-	-	-	-	56,560
324	Accrued contingency liability	-	-	-	-	-	-	-	-
325	Accrued interest payable	-	-	-	-	-	-	411,751	411,751
331	Accounts payable - HUD PHA programs	-	-	-	-	-	-	-	-
332	Accounts Payable - PHA Projects	-	-	-	-	-	-	-	-
333	Accounts payable - other government	-	-	-	-	-	-	-	-
341	Tenant security deposits	-	-	-	-	-	-	-	-
342	Deferred revenues	32,237	-	-	20,656,845	436,036	520,000	-	21,645,118
343	Current portion of Long-Term debt - capital projects/mortgage revenue bonds	-	-	-	-	-	-	-	-
344	Current portion of Long-Term debt - operating borrowings	-	-	-	-	-	-	-	-
345	Other current liabilities	-	-	415,815	-	-	-	-	415,815
346	Accrued liabilities - other	-	-	51,086	-	-	-	-	51,086
347	Inter-program - due to	-	-	-	-	-	-	-	-
348	Loan Liability - current	-	-	-	-	-	-	-	-
310	TOTAL CURRENT LIABILITIES	32,380	295	776,927	22,199,321	476,938	544,808	4,031,871	28,062,540
	Non Current Liabilities								
351	Long-term debt, net of current- capital projects/ mortgage revenue bonds	-	-	-	-	-	-	51,241,552	51,241,552
352	Long-term debt, net of current- operating borrowings	-	-	-	-	-	-	-	-
353	Noncurrent liabilities- other	-	-	103,662	-	-	-	-	103,662
354	Accrued Compensated Absences - non current	-	-	14,140	-	-	-	-	14,140
355	Loan Liability - non current	-	-	-	-	-	-	-	-
350	TOTAL NONCURRENT LIABILITIES	-	-	117,802	-	-	-	51,241,552	51,359,354
300	TOTAL LIABILITIES	32,380	295	894,729	22,199,321	476,938	544,808	55,273,423	79,421,894
	EQUITY:								
501	Investment in general fixed assets								
508.1	Invested in Capital Assets, Net of Related Debt	-	-	87,477	2,209,441	17,890	5,192,227	20,774,144	28,281,179
	Reserved fund balance:								
509	Reserved for operating activities	-	-	-	-	-	-	-	-
510	Reserved for capital activities	-	-	-	-	-	-	-	-
511	Total reserved fund balance	-	-	-	-	-	-	-	-
511.1	Restricted Net Assets	-	-	1,087,200	-	-	-	-	1,087,200
512	Undesignated fund balance/retained earnings	-	-	-	-	-	-	-	-
512.1	Unrestricted Net Assets	3,991	3,234	1,461,011	4,805,823	1,738,025	4,842,773	956,144	13,811,001
513	TOTAL EQUITY/NET ASSETS	3,991	3,234	2,635,688	7,015,264	1,755,915	10,035,000	21,730,288	43,179,380
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	36,371	3,529	3,530,417	29,214,585	2,232,853	10,579,808	77,003,711	122,601,274

Harris County Housing Authority
Financial Data Schedule-Revenue and Expenses
March 31, 2008

Account Description		N/C S/R Section 8 Programs 14.182	Section 8 MOD Rehab. 14.856	Housing Choice Vouchers 14.871	Disaster Housing Assistance Program Grant 97.109	DVP 14.DVP	Business Activities	Component Units	TOTAL
REVENUE:									
703	Net tenant rental revenue	-	-	-	-	-	-	3,783,332	3,783,332
704	Tenant revenue - other	-	-	-	-	-	-	-	-
705	Total tenant revenue	-	-	-	-	-	-	3,783,332	3,783,332
706	HUD PHA operating grants	339,688	54,511	16,338,774	-	6,600,385	-	-	23,333,358
706.1	Capital Grants	-	-	-	-	-	-	-	-
708	Other government grants	-	-	-	31,237,975	-	685,201	-	31,923,176
711	Investment income - unrestricted	3,022	198	159,146	366,686	66,490	170,869	51,433	817,844
712	Mortgage interest income	-	-	-	-	-	-	-	-
713	Proceeds from disposition of assets held for sale	-	-	-	-	-	-	-	-
713.1	Cost of sale of assets	-	-	-	-	-	-	-	-
714	Fraud recovery	-	-	-	-	-	-	-	-
715	Other revenue	-	-	1,276	-	-	975,549	93,391	1,070,216
716	Gain or loss on the sale of fixed assets	-	-	-	-	-	-	-	-
720	Investment income - restricted	-	-	-	-	-	-	-	-
700	TOTAL REVENUE	342,710	54,709	16,499,196	31,604,661	6,666,875	1,831,619	3,928,156	60,927,926
EXPENSES:									
Administrative									
911	Administrative salaries	40,536	3,361	784,409	327,167	172,808	210,698	730,626	2,269,605
912	Auditing fees	-	1,200	27,887	17,154	13,188	5,847	-	65,276
913	Outside management fees	-	-	-	-	-	-	-	-
914	Compensated absences	-	-	14,033	-	-	-	-	14,033
915	Employee benefit contributions- administrative	4,295	270	187,514	26,337	43,446	22,476	-	284,338
916	Other operating- administrative	1,221	-	368,070	8,615,283	269,078	382,791	108,333	9,744,776
	Subtotal	46,052	4,831	1,381,913	8,985,941	498,520	621,812	838,959	12,378,028
Tenant services									
921	Tenant services - salaries	-	-	-	-	-	-	-	-
922	Relocation costs	-	-	-	-	-	-	-	-
923	Employee benefit contributions- tenant services	-	-	-	-	-	-	-	-
924	Tenant services - other	-	-	-	2,318,644	-	-	-	2,318,644
	Subtotal	-	-	-	2,318,644	-	-	-	2,318,644
Utilities									
931	Water	-	-	-	-	-	-	391,617	391,617
932	Electricity	-	-	-	-	-	-	-	-
933	Gas	-	-	-	-	-	-	-	-
934	Fuel	-	-	-	-	-	-	-	-
935	Labor	-	-	-	-	-	-	-	-
937	Employee benefit contributions- utilities	-	-	-	-	-	-	-	-
938	Other utilities expense	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	391,617	391,617
Ordinary maintenance & operation									
941	Ordinary maintenance and operations - labor	-	-	-	-	-	-	-	-
942	Ordinary maintenance and operations - materials & other	-	-	85	-	-	16	387,171	387,272
943	Ordinary maintenance and operations - contract costs	-	-	-	-	-	889	-	889
945	Employee benefit contributions- ordinary maintenance	-	-	-	-	-	-	-	-
	Subtotal	-	-	85	-	-	905	387,171	388,161
Protective services									

See the accompanying Independent Auditor's Report

Account Description		N/C S/R Section 8 Programs 14.182	Section 8 MOD Rehab. 14.856	Housing Choice Vouchers 14.871	Disaster Housing Assistance Program Grant 97.109	DVP 14.DVP	Business Activities	Component Units	TOTAL
General expenses									
961	Insurance premiums	-	-	16,617	11,851	8,334	-	-	36,802
962	Other General Expenses	-	-	3,570	-	-	-	1,613,092	1,616,662
963	Payments in lieu of taxes	-	-	-	-	-	-	-	-
964	Bad debt - tenant rents	-	-	-	-	-	-	-	-
965	Bad debt- mortgages	-	-	-	-	-	-	-	-
966	Bad debt - other	-	-	-	-	-	-	-	-
967	Interest expense	-	-	-	-	-	-	1,694,444	1,694,444
968	Severance expense	-	-	-	-	-	-	-	-
	Subtotal	-	-	20,187	11,851	8,334	-	3,307,536	3,347,908
969	TOTAL OPERATING EXPENSES	46,052	4,831	1,402,185	11,316,436	506,854	622,717	4,925,283	18,824,358
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	296,658	49,878	15,097,011	20,288,225	6,160,021	1,208,902	(997,127)	42,103,568
971	Extraordinary maintenance	-	-	-	-	-	-	-	-
972	Casualty losses - non-capitalized	-	-	-	-	-	-	-	-
973	Housing assistance payments	296,491	48,520	14,178,966	12,752,732	5,963,317	-	-	33,240,026
974	Depreciation expense	-	-	34,102	155,229	4,318	6,703	2,199,233	2,399,585
975	Fraud losses	-	-	-	-	-	-	-	-
976	Capital outlays- governmental funds	-	-	-	-	-	-	-	-
977	Debt principal payment- governmental funds	-	-	-	-	-	-	-	-
978	Dwelling units rent expense	-	-	-	-	-	-	-	-
900	TOTAL EXPENSES	342,543	53,351	15,615,253	24,224,397	6,474,489	629,420	7,124,516	54,463,969
OTHER FINANCING SOURCES (USES)									
1001	Operating transfers in	-	-	365,000	-	-	-	-	365,000
1002	Operating transfers out	-	-	-	(365,000)	-	-	-	(365,000)
1003	Operating transfers from/to primary government	-	-	-	-	-	-	-	-
1004	Prior Period Adjustments, Equity/Net Assets	-	-	-	-	-	-	-	-
1005	Proceeds from notes, loans and bonds	-	-	-	-	-	-	-	-
1006	Proceeds from property sales	-	-	-	-	-	-	-	-
1007	Extraordinary Items (net gain/loss)	-	-	-	-	-	-	-	-
1008	Special Items (net gain/loss)	-	-	-	-	-	-	-	-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	365,000	(365,000)	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	167	1,358	1,248,943	7,015,264	192,386	1,202,199	(3,196,360)	6,463,957
MEMO account information									
1101	Capital contributions	-	-	-	-	-	-	15,948,211	15,948,211
1102	Debt principal payments- enterprise funds	-	-	-	-	-	-	-	-
1103	Beginning equity	3,824	1,876	1,386,745	-	1,563,529	8,832,801	8,978,437	20,767,212
1104	Prior period adjustments, equity transfers and correction of errors	-	-	-	-	-	-	-	-
1105	Changes in compensated absence liability balance (in the GLTDAG)	-	-	-	-	-	-	-	-
1106	Changes in contingent liability balance (in the GLTDAG)	-	-	-	-	-	-	-	-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)	-	-	-	-	-	-	-	-
1108	Changes in special term/severance benefits liability (in the GLTDAG)	-	-	-	-	-	-	-	-
1109	Changes in allowance for doubtful accounts - dwelling rents	-	-	-	-	-	-	-	-
1110	Changes in allowance for doubtful accounts - other	-	-	-	-	-	-	-	-
1112	Depreciation "add back"	-	-	-	-	-	-	-	-
1113	Maximum annual contributions commitment (per ACC)	-	-	-	-	-	-	-	-
1114	Prorata maximum annual contributions applicable to a period < 12 months	-	-	-	-	-	-	-	-
1115	Contingency reserve, ACC program reserve	-	-	-	-	-	-	-	-
1116	Total annual contributions available	-	-	-	-	-	-	-	-
1117	Administrative Fee Equity	-	-	87,558	-	-	-	-	-
1118	HAP Equity	-	-	2,548,129	-	-	-	-	-
1120	Unit months available	864	96	22,578	29,780	7,606	3,753	-	64,677
1121	Number of unit months leased	862	87	22,967	19,315	7,155	3,753	-	54,139

See the accompanying Independent Auditor's Report