HARRIS COUNTY HOUSING AUTHORITY
Houston, Texas

FINANCIAL STATEMENTS
March 31, 2014

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CliftonLarsonAllen LLP
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Independent Auditors' Report

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund and the aggregate discretely presented component units of the Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of TX Bammel Housing, LP, Baybrook Park Retirement Center, Ltd., Louetta Village Apartments 45, LP, Waterside Court, Ltd., Olive Grove Manor, Ltd., Cornerstone Village Apartments, L.P., and Sierra Meadows, Ltd., which represent 100% of the assets, net position and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has 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 report 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 financial statements are free from material misstatement. The financial statements of all the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 enterprise fund and the aggregate discretely presented component units of the Authority as of March 31, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The financial data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The financial data schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 22, 2014

HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2014

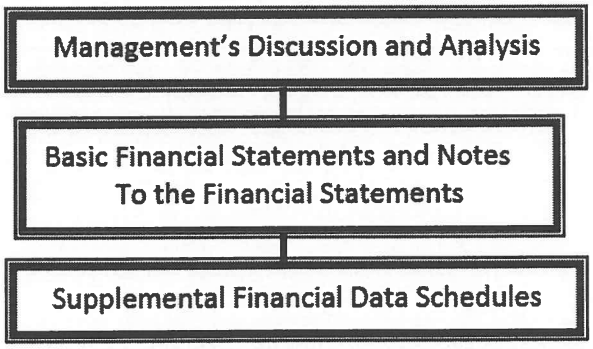
As management of the Harris County Housing Authority (the Authority), we offer the readers of the Authority's financial statements this narrative overview and analysis of our financial activities for the year ended March 31, 2014. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

The Authority is a special purpose government operating in Harris County, Texas (the County). The Authority administers federal Department of Housing and Urban Development (HUD) Section 8 housing assistance grants. The Authority 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 Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties.* Under LGC Chapter 392, the Authority is a unit of government and its functions are essential for the wellbeing of the community.

Based on criteria prescribed by accounting principles generally accepted in the United States of America, the Authority is not considered a component unit of any other entity. The County's Commissioners Court appoints all of the Authority's commissioners and may remove commissioners under LGC Chapter 392; however, the Authority has complete legislative and administrative authority and it recruits and employs personnel.

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended March 31, 2014, to assist the reader in focusing on significant issues and concerns.

The Authority's FY2014 annual financial report consists of three parts — the management's discussion and analysis, the basic financial statements (which includes notes to those financial statements) and the financial data schedules.



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

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

Financial Highlights for FY 2014.

- The Authority's assets exceeded its liabilities as of March 31, 2014 by $30,835,429 (net position).
- Cash and cash equivalents as of March 31, 2014 were $2,749,431.
- The Authority had $34,015,044 in HUD grant revenue for the year ended March 31, 2014. The Authority had total expenses of $39,750,195 for the year ended March 31, 2014, of which $35,304,041 was for Housing Assistance Payments (HAP).
- The Authority's total net position increased by $681,313 during the year.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Authority'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 Authority'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 Position** - reports the Authority's current financial assets and liabilities (short term spendable resources), along with restricted assets, fixed assets and long-term obligations.
- **Statement of Revenues, Expenses and Changes in Net Position** - reports the Authority's operating revenues by major source along with operating expenses.
- **Statement of Cash Flows** - reports the Authority'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.

Analysis of Entity Wide Net Position (Statement of Net Position)

During the FY2014, the Authority continued to modify policies and procedures as needed in order to improve accountability, efficiency and transparency in government. Not counting housing assistance payments or depreciation, operating expenses decreased by $1,365,972 from $5,182,324 to $3,816,352, representing a 26% reduction in spending.

Over time, significant changes in the net position are an indicator of whether the Authority's financial health is improving or deteriorating. Assets exceeded liabilities by $30,835,429 at the close of the fiscal year ended March 31, 2014, an overall increase of $681,313 from March 31, 2013.

Total Current Assets decreased by $357,667 from the prior year due mostly to a decrease in cash for $1,725,045 from a reimbursement to HUD and an increase in assets held for sale for $1,174,039.

Capital Assets, net of depreciation, decreased by $1,296,737 from the prior year. The decrease is primarily the result of moving construction in progress to assets held for sale for $826,999 and depreciation expense of $475,760.

Current Liabilities decreased by $2,310,965 from $7,268,819 for the year ended March 31, 2013 to $4,957,854 for the year ended March 31, 2014. The decrease is due to a DHAP reimbursement to HUD for $773,771, a reduction in amounts due HUD for $979,118 and a reduction of $429,813 in unearned revenues by recognizing the revenue in the current year.

Non-Current Liabilities decreased by $74,910 from $3,559,809 from the year ended March 31, 2013 to $3,484,899 for the year ended March 31, 2014. This decrease is due to payments on debt.

	2014	2013	Increase/ (Decrease)
Assets			
Current assets	$ 12,403,062	$ 12,760,729	$ (357,667)
Notes receivable	4,496,420	4,496,420	-
Investment in partnership	298,300	273,940	24,360
Capital assets	22,080,400	23,377,137	(1,296,737)
Other assets	-	74,518	(74,518)
Total assets	39,278,182	40,982,744	(1,704,562)
Liabilities			
Current liabilities	4,957,854	7,268,819	(2,310,965)
Noncurrent liabilities	3,484,899	3,559,809	(74,910)
Total liabilities	8,442,753	10,828,628	(2,385,875)
Net position	$ 30,835,429	$ 30,154,116	$ 681,313

Net Position Categories

	2014	2013	Increase/ (Decrease)
Net invested in capital assets	$ 18,632,973	$ 19,877,137	$ (1,244,164)
Restricted	3,493,987	8,269,250	(4,775,263)
Unrestricted	8,708,469	2,007,729	6,700,740
Total net position	$ 30,835,429	$ 30,154,116	$ 681,313

The Authority'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 Authority is committed to building new affordable housing using the Low Income Housing Tax Credit Program with HOME, Neighborhood Stabilization Program (NSP), and Community Development Block Grant funds provided by the Harris County Community Services 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 Authority to develop seven (7) senior Low Income Housing Tax Credit developments and one (1) CDBG/HOME development.

Analysis of Entity Wide Revenues (Statement of Revenues, Expenses and Change in Net Position)

The Authority administers the following programs, which generate revenues for the year 2014 as follows:

	2014	2013	Increase/ (Decrease)
Revenues - Operating			
HUD PHA grants	$ 34,015,044	$ 37,750,906	$ (3,735,862)
Other government grants	250,000	1,954,741	(1,704,741)
Ground lease revenue	29,763	29,763	-
Other revenue	6,110,100	1,261,068	4,849,032
Total operating revenues	40,404,907	40,996,478	(591,571)
Expenses			
Housing assistance payments	35,304,041	36,373,489	(1,069,448)
Salaries and benefits	2,332,935	2,642,523	(309,588)
Office expense	672,919	2,008,772	(1,335,853)
General	810,498	531,029	279,469
Depreciation	475,760	554,163	(78,403)
Total expenses	39,596,153	42,109,976	(2,513,823)
Net income (loss) from operations	808,754	(1,113,498)	1,922,252
Non-operating revenue (expenses)			
Interest income	26,601	164,913	(138,312)
Interest expense	(154,042)	(72,127)	(81,915)
Gain on sale of fixed assets	-	227,023	(227,023)
Total non-operating revenues	(127,441)	319,809	(447,250)
Change in net position	681,313	(793,689)	1,475,002
Net position, beginning of year	30,154,116	30,947,805	(793,689)
Net position, end of year	$ 30,835,429	$ 30,154,116	$ 681,313

Total operating revenues for the years ended March 31, 2014 and 2013 were $40,404,907 and $40,996,478, respectively. The change from 2014 to 2013 reflects a decrease of $591,571 as explained below.

HUD PHA grants decreased $3,735,862 from $37,750,906 in 2013 to $34,015,044 in 2014, due primarily to decreased Housing Choice Voucher program revenues for Housing Assistance Payments.

Other government grants decreased by $1,704,741 and other revenue increased by $4,849,032. This decrease is attributed to HCHA receiving no new grant funding for affordable housing development. The increase in other revenue is attributed to portability vouchers administered by the Housing Choice Voucher program.

Analysis of Entity Wide Expenses

Total expenses for the year ended March 31, 2014 amounted to $39,750,195 as compared to $42,182,103 for the year ended March 31, 2013, a decrease of $2,431,908. This decrease is attributed to a reduction in overall administrative operating costs from 2013 to 2014.

Housing assistance payments decreased by $1,069,448 primarily due to a decrease in occupancy from 2013 to 2014.

Salaries and benefits decreased by $309,588 primarily due to continued organization wide staff reductions and job task consolidations and efficiencies.

Office expense decreased by $1,335,853 primarily due to significant cuts to ongoing expenses.

Interest expense of $154,042 represents interest for a permanent loan for the full year for Cypresswood Estates (Other Business Activities).

The general expense increased by $279,469 due to increases in professional and consultant fees and HCV program port-out administrative fee costs.

Depreciation expense decreased by $78,403 primarily due to the fact that the Authority no longer depreciates DHAP leasehold improvements.

Capital Assets

The Authority's capital assets consist of land and buildings for affordable housing projects, leasehold improvements and business equipment used in administering the HUD grants and affordable housing projects.

The buildings are depreciated over thirty-nine years, leasehold improvements and equipment used in administering the HUD grants and affordable housing projects are being depreciated over three to ten years depending on asset type. The Authority's increase in capital assets during the year was primarily due to the completion of a development related to the affordable housing program.

Capital Assets

	March 31, 2013	Net Additions/ Deletions	March 31, 2014
Land	$ 7,812,569	$ -	$ 7,812,569
Buildings	15,223,273	-	15,223,273
Leasehold improvements	1,065,701	-	1,065,701
Furniture and equipment	525,229	1,022	526,251
Construction in progress	826,999	(821,999)	5,000
Accumulated depreciation	(2,076,634)	(475,760)	(2,552,394)
Total	$ 23,377,137	$ (1,296,737)	$ 22,080,400

Additional information on the Authority's capital assets can be found in the notes to the Authority's basic financial statements for the year ended March 31, 2014.

Economic Factors and Next Year's Budget

Significant economic factors affecting the Authority are as follows:

- Debt of more than $7 million due to HUD as a result of misspending or over-spending that occurred prior to FY2013
- An amount, yet to be finalized, which the Authority may owe back to HUD due the Authority's mismanagement of funds prior to FY2013
- Level of federal funding from the U.S. Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage 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

Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority'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 Executive Officer, Harris County Housing Authority, 8933 Interchange Dr., Houston, TX 77054, (713) 669-4549.

FINANCIAL STATEMENTS

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF NET POSITION
March 31, 2014

	Enterprise Fund	Component Units	Total Reporting Entity
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,492,854	$ 761,610	$ 3,254,464
Cash and cash equivalents - restricted	256,577	3,476,797	3,733,374
Accounts receivable - tenants, net	-	24,810	24,810
Accounts receivable - miscellaneous	164,483	34,353	198,836
Accrued interest receivable from component units	1,778,704	-	1,778,704
Prepaid assets	36,405	1,943,984	1,980,389
Other assets	7,674,039	2,897,274	10,571,313
Total current assets	12,403,062	9,138,828	21,541,890
NONCURRENT ASSETS			
Investment in partnerships	298,300	-	298,300
Notes receivable - component units	4,496,420	-	4,496,420
Capital assets net of accumulated depreciation	22,080,400	65,817,193	87,897,593
Total noncurrent assets	26,875,120	65,817,193	92,692,313
TOTAL ASSETS	$ 39,278,182	$ 74,956,021	$ 114,234,203
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$ 3,096,099	$ 588,120	$ 3,684,219
Accrued wages and payroll taxes payable	51,205	-	51,205
Accrued compensated absences, current	32,939	-	32,939
Accrued interest payable	-	318,233	318,233
Accrued interest payable to HCHA	-	1,788,618	1,788,618
Current portion of mortgage notes payable	-	563,953	563,953
Current portion of notes payable	61,345	-	61,345
Unearned revenue	-	1,001,214	1,001,214
Deferred ground lease revenue	1,716,266	-	1,716,266
Total current liabilities	4,957,854	4,260,138	9,217,992
NONCURRENT LIABILITIES			
Accrued compensated absences	98,817	-	98,817
Mortgage notes payable, net of current portion	-	46,839,964	46,839,964
Notes payable, net of current portion	3,386,082	-	3,386,082
Mortgage notes payable - HCHA	-	4,496,420	4,496,420
Noncurrent liabilities - other	-	1,153,136	1,153,136
Total noncurrent liabilities	3,484,899	52,489,520	55,974,419
Total liabilities	8,442,753	56,749,658	65,192,411
NET POSITION			
Net investment in capital assets	18,632,973	13,916,856	32,549,829
Restricted	3,493,987	3,476,797	6,970,784
Unrestricted	8,708,469	812,710	9,521,179
Total net position	30,835,429	18,206,363	49,041,792
TOTAL LIABILITIES AND NET POSITION	$ 39,278,182	$ 74,956,021	$ 114,234,203

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended March 31, 2014

	Enterprise Fund	Component Units	Total Reporting Entity
OPERATING REVENUES			
Rental income	$ 764,478	$ 7,917,668	$ 8,682,146
HUD PHA grants	34,015,044	-	34,015,044
Ground lease revenues	29,763	-	29,763
Other government grants	250,000	-	250,000
Other revenues	5,345,622	231,615	5,577,237
Total operating revenues	40,404,907	8,149,283	48,554,190
OPERATING EXPENSES			
Administrative	3,005,854	2,136,191	5,142,045
Utilities	95,440	626,682	722,122
Ordinary maintenance and operations	176,828	1,392,675	1,569,503
General	538,230	972,589	1,510,819
Asset management fee	-	39,458	39,458
Tenant services	-	103,514	103,514
Housing assistance payments	35,304,041	-	35,304,041
Total operating expenses	39,120,393	5,271,109	44,391,502
Operating income before depreciation	1,284,514	2,878,174	4,162,688
Depreciation	475,760	2,645,205	3,120,965
Total operating income	808,754	232,969	1,041,723
NON-OPERATING REVENUES (EXPENSES)			
Interest income	26,601	3,598	30,199
Interest expense	(154,042)	(1,365,621)	(1,519,663)
Total nonoperating revenues (expenses), net	(127,441)	(1,362,023)	(1,489,464)
CHANGE IN NET POSITION	681,313	(1,129,054)	(447,741)
DISTRIBUTIONS	-	(196,869)	(196,869)
TOTAL NET POSITION, BEGINNING OF YEAR	30,154,116	19,532,286	49,686,402
TOTAL NET POSITION, END OF YEAR	$ 30,835,429	$ 18,206,363	$ 49,041,792

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended March 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
HUD subsidies	$	34,015,044
Governmental grants		250,000
Ground lease revenue		29,763
Other revenue		5,220,996
Administration and general		(2,164,041)
Salaries and benefits		(3,005,854)
Housing operations and tenant services		(367,032)
Housing assistance payments		(35,304,041)
Net cash flows used in operating activities		(1,325,165)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on notes payable		(52,573)
Interest paid on notes payable		(154,042)
Acquistion of capital assets		(6,022)
Net cash flows used in capital and related financing activities		(212,637)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		(187,243)
DECREASE IN CASH AND CASH EQUIVALENTS		(1,725,045)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		4,474,476
CASH AND CASH EQUIVALENTS, END OF YEAR	$	2,749,431
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$	808,754
Adjustments to reconcile cash and cash equivalents used in operating activities		
Depreciation		475,760
Effects of changes in operating assets and liabilities:		
Accounts receivable		(362,968)
Prepaid assets		36,433
Other assets		74,518
Accounts payable and accrued expenses		(1,855,970)
Accrued wages and payroll tax payable		66
Accrued compensated absences		24,378
Unearned revenue		(526,136)
NET CASH USED IN OPERATING ACTIVITIES	$	(1,325,165)

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
COMBINING STATEMENT OF NET POSITION – DISCRETELY PRESENTED COMPONENT UNITS
March 31, 2014

	TX Bammel	Baybrook Park	Louetta Village	Waterside Court	Olive Grove	Cornerstone Village	Sierra Meadows	Total Component Units
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 119,626	$ 124,018	$ 48,545	$ 69,246	$ 247,567	$ 75,488	$ 77,120	$ 761,610
Cash and cash equivalents - restricted	566,840	411,429	363,016	720,113	569,763	532,259	313,377	3,476,797
Accounts receivable - tenants, net	14,584	-	4,485	-	-	3,641	2,100	24,810
Accounts receivable - miscellaneous	9,564	-	15,645	-	-	8,373	771	34,353
Prepaid assets	292,474	536,485	330,226	25,060	28,491	697,142	34,106	1,943,984
Other assets	854,570	83,799	400,002	300,422	361,691	539,678	357,112	2,897,274
Total current assets	1,857,658	1,155,731	1,161,919	1,114,841	1,207,512	1,856,581	784,586	9,138,828
NONCURRENT ASSETS								
Capital assets net of accumulated depreciation	11,388,888	4,960,574	7,053,679	12,043,361	11,804,691	8,651,892	9,914,108	65,817,193
Total noncurrent assets	11,388,888	4,960,574	7,053,679	12,043,361	11,804,691	8,651,892	9,914,108	65,817,193
TOTAL ASSETS	$ 13,246,546	$ 6,116,305	$ 8,215,598	$ 13,158,202	$ 13,012,203	$ 10,508,473	$ 10,698,694	$ 74,956,021
LIABILITIES AND NET POSITION								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	$ 150,878	$ 42,638	$ 88,517	$ 142,984	$ 66,012	$ 55,075	$ 42,016	$ 588,120
Accrued interest payable	494	-	121,535	-	-	183,597	12,607	318,233
Accrued interest payable to HCHA	281,086	219,495	244,329	200,192	240,832	602,684	-	1,788,618
Current portion of mortgage notes payable	128,122	54,017	127,458	67,115	56,548	100,000	30,693	563,953
Unearned revenue	10,216	-	1,656	-	-	3,805	985,537	1,001,214
Total current liabilities	570,796	316,150	583,495	410,291	363,392	945,161	1,070,853	4,260,138
NONCURRENT LIABILITIES								
Mortgage notes payable, net of current portion	11,397,528	2,978,816	6,517,082	4,429,456	3,735,132	7,841,440	9,940,510	46,839,964
Mortgage notes payable - HCHA	731,420	625,000	550,000	500,000	700,000	1,390,000	-	4,496,420
Noncurrent liabilities - other	1,031,193	-	-	-	-	-	121,943	1,153,136
Total noncurrent liabilities	13,160,141	3,603,816	7,067,082	4,929,456	4,435,132	9,231,440	10,062,453	52,489,520
Total liabilities	13,730,937	3,919,966	7,650,577	5,339,747	4,798,524	10,176,601	11,133,306	56,749,658
NET POSITION								
Net investment in capital assets	(868,182)	1,302,741	(140,861)	7,046,790	7,313,011	(679,548)	(57,095)	13,916,856
Restricted	566,840	411,429	363,016	720,113	569,763	532,259	313,377	3,476,797
Unrestricted	(183,049)	482,169	342,866	51,552	330,905	479,161	(690,894)	812,710
Total net position	(484,391)	2,196,339	565,021	7,818,455	8,213,679	331,872	(434,612)	18,206,363
TOTAL LIABILITIES AND NET POSITION	$ 13,246,546	$ 6,116,305	$ 8,215,598	$ 13,158,202	$ 13,012,203	$ 10,508,473	$ 10,698,694	$ 74,956,021

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – DISCRETELY PRESENTED COMPONENT UNITS
March 31, 2014

	TX Bammel	Baybrook Park	Louetta Village	Waterside Court	Olive Grove	Cornerstone Village	Sierra Meadows	Total Component Units
OPERATING REVENUES								
Rental income	$ 1,536,079	$ 817,367	$ 1,035,791	$ 1,308,863	$ 1,235,407	$ 1,227,085	$ 757,076	$ 7,917,668
Other revenues	4,000	-	-	-	-	-	227,615	231,615
Total operating revenues	1,540,079	817,367	1,035,791	1,308,863	1,235,407	1,227,085	984,691	8,149,283
OPERATING EXPENSES								
Administrative	329,719	205,248	293,327	363,593	344,244	451,719	148,341	2,136,191
Utilities	100,236	37,536	71,432	123,467	105,571	92,071	96,369	626,682
Ordinary maintenance and operations	360,585	132,547	135,330	276,390	230,763	157,824	99,236	1,392,675
General	326,353	76,012	87,026	98,448	101,731	231,094	51,925	972,589
Asset management fee	11,678	6,098	7,584	-	-	9,598	4,500	39,458
Tenant services	34,696	9,250	-	17,136	22,776	19,656	-	103,514
Total operating expenses	1,163,267	466,691	594,699	879,034	805,085	961,962	400,371	5,271,109
Operating income (loss) before depreciation	376,812	350,676	441,092	429,829	430,322	265,123	584,320	2,878,174
Depreciation and amortization	488,889	231,629	248,820	485,350	455,893	326,722	407,902	2,645,205
Total operating income (loss)	(112,077)	119,047	192,272	(55,521)	(25,571)	(61,599)	176,418	232,969
NON-OPERATING REVENUES (EXPENSES)								
Interest income	140	965	6	1,759	624	6	98	3,598
Interest expense	(97,912)	(221,764)	(150,489)	(357,993)	(296,011)	(92,546)	(148,906)	(1,365,621)
Gain (loss) on sale of fixed assets	-	-	-	-	-	-	-	-
Total nonoperating revenues (expenses), net	(97,772)	(220,799)	(150,483)	(356,234)	(295,387)	(92,540)	(148,808)	(1,362,023)
CHANGE IN NET POSITION	(209,849)	(101,752)	41,789	(411,755)	(320,958)	(154,139)	27,610	(1,129,054)
DISTRIBUTIONS	(5,841)	(3,700)	(131,000)	(42,328)	-	(14,000)	-	(196,869)
TOTAL NET POSITION, BEGINNING OF YEAR	(268,701)	2,301,791	654,232	8,272,538	8,534,637	500,011	(462,222)	19,532,286
TOTAL NET POSITION, END OF YEAR	$ (484,391)	$ 2,196,339	$ 565,021	$ 7,818,455	$ 8,213,679	$ 331,872	$ (434,612)	$ 18,206,363

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Harris County Housing Authority (the Authority) 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 Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties.* Under LGC Chapter 392, the Authority 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 Authority in accordance with LGC Chapter 392 by declaring the following:

- There is unsanitary or unsafe inhabited housing in the County;
- 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
- 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 Authority in accordance with LGC Chapter 392. There are five commissioners governing the Authority serving staggered two year terms. The staggered two year terms apply to two and three of the Authority's five commissioners, respectively, every other year. The Court appoints all Authority commissioners when terms expire.

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

On July 2, 2002, the Court approved a plan whereby the Authority 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 Authority.

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

The agreement additionally provided for the provision of office space and telecommunications services by the County. The Interlocal Agreement was extended through February 28, 2010, with updates and modifications. At February 28, 2010, the Interlocal Agreement was not extended.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include all of its accounts and activities. Under LGC Chapter 392, the Authority is a separate unit of government. Based on criteria prescribed by accounting principles generally accepted in the United States of America, the Authority is no longer considered a component unit of the County or any other entity. The Court appoints all Authority Commissioners and may remove commissioners under LGC Chapter 392, however, the Authority has complete legislative and administrative authority and it recruits and employs personnel. 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 Authority is a part of any other governmental or other type of reporting entity. As noted above, the Authority is not considered a component unit of any other entity.

The criteria for including organizations as component units within the Authority'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:

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

The 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 Authority 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 Authority's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the Authority and are governed by separate Boards. See Note 8 for additional details relating to the Authority'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., Olive Grove Manor, Ltd and Sierra Meadows, 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, 2013. As the general partner of the partnerships, the Authority receives the audited financial statements for the partnerships. Therefore, complete financial statements for each of the Limited Partnerships can be obtained from the Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Drive, Houston, TX 77054.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

Blended Component Units - In the fiscal year ended March 31, 2013, the Authority formed an LLC for the development of Cypresswood Estates. For financial reporting purposes, Cypresswood Estates is included in the operations and activities of the Authority as a blended component unit.

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.

Basis of Presentation

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authority's activities are business-type in nature and the Authority 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 Authority consist of Management's Discussion and Analysis (MD&A), Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and Notes to the Financial Statements.

Measurement Focus and Basis of Accounting

The Authority 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 position, financial position, and cash flows. All assets and liabilities associated with the proprietary fund's activities are included on the Statement of Net Position. Proprietary net position are segregated into Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

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 non-operating revenues and expenses. The principal operating revenues of the Authority are the moneys provided by the U.S. Department of HUD and other government grants. The Authority'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.

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. Certificates of Deposit are considered cash equivalents regardless of their maturity date. All investments are recorded at fair value based upon quoted market prices as of the Authority'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 Authority 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.

In the financial statements, restricted net position is 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 Authority's HUD Section 8 grant programs.

Accounts Receivable

Accounts receivable consist of payments due from HUD and related affiliates, payments from tenants and other miscellaneous receivables arising from the normal course of operations. A reserve for uncollectible accounts is established based on management's estimates.

Prepaid Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

Investment in Partnerships

The Authority has made contributions to the partnerships and has recognized the amount based on the fair value of the amount contributed.

Capital Assets

Capital assets of the Authority are defined as assets with individual costs of $1,000 or more and estimated useful lives in excess of one year. All capital assets are stated at historical cost or estimated fair market value at the date of purchase. Donated capital 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 39 years. Buildings are depreciated over a 39-year useful life. Leasehold improvements are depreciated over a 10-year useful life. Equipment is depreciated over 3 to 5 years, depending on the type.

Capital assets include leasehold improvements made to the building the Authority is leasing and equipment used in the Authority's operations that benefit more than a single fiscal year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Authority 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, 2014.

Compensated Absences

Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee. Eligible employees earn 10 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 60 calendar days of sick leave benefits. Unused sick leave benefits are not paid at termination. Eligible employees accrue from two to five weeks of vacation per year, depending on years of service. Employees may accumulate up to two times the annual vacation amount. Employees will be paid for unused vacation time upon termination. 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, nonexempt employees are paid one-half of the compensatory time earned at the current wage rate.

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.

Net Position

Certain assets may be classified as restricted net position on the Statement of Net Position because their use is restricted for specific purposes. It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Net position is displayed in three components:

Net Investment in Capital Assets This component of net position consists of all capital assets reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (continued)

Restricted Net Position: This component of net position consists of restricted assets when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. The Authority's restricted net position consist of escrows held for debt service, investments in projects, program income, reserve accounts, and excess housing assistance payments, as applicable.

Unrestricted Net Position: This component consists of net position that does not meet the definition of "Net Investment in Capital Assets," or "Restricted Net Position."

Budgets

The Authority'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 Authority's costs to administer these programs. The affordable housing program generates ground lease revenue and developer fee revenue available for other housing programs. The annual administrative operating budget for the HUD Section 8 and affordable housing programs are incorporated into the Authority's overall annual operating budget that includes HAP and costs related to providing affordable housing to senior citizens. The annual budget process starts prior to the subsequent fiscal year. The Authority'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, Disaster Housing Assistance Programs 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 Authority's Board of Commissioners and by HUD. Necessary changes to the budget are also approved by the Authority's Board of Commissioners and by HUD throughout the year. The Authority's finance department presents detailed administrative budget reports along with financial information on HAP affordable housing and other program costs to the Authority's Board of Commissioners for review at each board meeting.

Risk Management

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

All employees of the Authority are covered by workers' compensation program insurance. Premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The Authority provides medical, dental, vision and basic life and disability insurance to eligible employees. The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid to contracted insurance providers based upon monthly enrollment and premium calculations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In fiscal year 2014, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement improve financial reporting by clarifying the appropriate use of the financial statement elements' deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement had no impact on the Authority's financial statements.

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) currently is available for funds deposited at any one financial institution up to a maximum of $250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. Noninterest-bearing accounts are fully insured, regardless of the balance of the account at all FDIC insured institutions. 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. As of March 31, 2014, $94,621 held with Capital One Bank is not collateralized.

Investments

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the Authority 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 Authority's Investment policy is reviewed and approved annually by the Board of Commissioners. The Investment Policy includes a list of authorized investment instruments. In accordance with the Money Market Mutual Fund agreement with Amegy bank, the Authority's daily balance is used to purchase shares of Fidelity Institutional Money Market Government Portfolio Class I. Fidelity Institutional Money Market Government Portfolio Class I is ranked by Lipper as No. 29 out of 164 U.S. Government Money Market Funds for its one year performance, No. 4 out of 126 funds for its five year performance and No. 5 out of 77 funds for its 10 year performance. It is ranked Aaa by Moody's.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Investments

The Authority's cash and cash equivalents had a carrying value of $2,749,431 and a bank balance of $2,824,097 as of March 31, 2014. In accordance with the Money Market Mutual Fund Agreement with Amegy Bank, the entire amount in the sweep investment account purchases shares in Fidelity Institutional Money Market Government Portfolio Class I 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 Authority's investment policy.

Restricted Cash

$256,577 of the Authority's cash is restricted at March 31, 2014.

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 Authority manages its exposure to interest rate risk is by investing in overnight instruments.

Concentration of Credit Risk

At March 31, 2014, the Authority had a sweep agreement which invested more than 30 percent of funds in a Money Market Mutual Fund. All deposits were fully collateralized as of March 31, 2014.

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the Authority's $2,749,431 in cash and cash equivalents at March 31, 2014, the entire balance is held in an account with one counterparty.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014, was as follows:

	Balance 2013	Additions	Transfers & Disposals	Balance 2014
Capital assets, not being depreciated:				
Land	$ 7,812,569	$ -	$ -	$ 7,812,569
Construction in progress	826,999	5,000	(826,999)	5,000
Total capital assets not being depreciated	8,639,568	5,000	(826,999)	7,817,569
Depreciable capital assets:				
Building	15,223,273	-	-	15,223,273
Leasehold improvements	1,065,701	-	-	1,065,701
Furniture and equipment	525,229	1,022	-	526,251
Total depreciable capital assets	16,814,203	1,022	-	16,815,225
Less accumulated depreciation	(2,076,634)	(475,760)	-	(2,552,394)
Total capital assets, being depreciated, net	14,737,569	(474,738)	-	14,262,831
Total capital assets, net	$ 23,377,137	$ (469,738)	$ (826,999)	$ 22,080,400

Capital asset activity for the component units was as follows:

	Capital Assets	Accumulated Depreciation	Net Book Value
Louetta Village Apartments 45, LP	$ 9,381,133	$ (2,327,454)	$ 7,053,679
Baybrook Park Retirement Center, Ltd	7,643,730	(2,683,156)	4,960,574
TX Bammel Housing, LP	16,452,719	(5,063,831)	11,388,888
Cornerstone Village Apartments, LP	11,801,188	(3,149,296)	8,651,892
Waterside Court, Ltd	15,735,011	(3,691,650)	12,043,361
Olive Grove Manor, Ltd	14,284,000	(2,479,309)	11,804,691
Sierra Meadows, Ltd	11,013,617	(1,099,509)	9,914,108
Totals	$ 86,311,398	$ (20,494,205)	$ 65,817,193

NOTE 4 – NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE

The Authority 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 in effect at the time of the loan and mature on varying dates between the years of 2027 and 2038. As of March 31, 2014, total outstanding principal and accrued interest on these loans were $4,496,420 and $1,778,704, respectively.

NOTE 4 – NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE (CONTINUED)

Borrower	Loan Amount	Date of Loan	Interest Rate	Balance 3/31/2014	Accrued Interest Receivable
Louetta Village Apartments 45, LP	$ 550,000	1/1/2005	4.27%	$ 550,000	$ 244,329
Baybrook Park Retirement Center, Ltd	625,000	6/21/2005	4.57%	625,000	219,495
TX Bammel Housing, LP	731,420	1/18/2005	4.27%	731,420	281,086
Cornerstone Village Apartments, LP	1,400,000	4/30/2005	5.00%	1,390,000	602,684
Waterside Court, Ltd	500,000	6/22/2006	5.32%	500,000	200,192
Olive Grove Manor, Ltd	700,000	12/21/2006	4.90%	700,000	240,832
Total				$ 4,496,420	$ 1,788,618

NOTE 5 – NOTES PAYABLE

On March 31, 2013, the Authority entered into an agreement with Community Bank of Texas for $3,500,000 at an interest rate of 4.25%. The first payment on the loan was on May 1, 2013 and the note is due on March 8, 2018. Monthly principal and interest payments are $17,218 and the entire unpaid balance will be due upon the maturity date.

Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
$ 3,500,000	$ -	$ 52,573	$ 3,447,427	$ 61,345

Annual debt service for principal and interest over the next five years are as follows:

	Principal	Interest	Total
2015	$ 61,345	$ 145,269	$ 206,614
2016	64,004	142,611	206,615
2017	66,778	139,837	206,615
2018	3,255,300	139,539	3,394,839
Total	$ 3,447,427	$ 567,256	$ 4,014,683

NOTE 5 – NOTES PAYABLE (CONTINUED)

Notes payable activity for the component units was as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Louetta Village Apartments 45, LP	$ 7,294,540	$ -	$ (100,000)	$ 7,194,540	$ 127,458
Baybrook Park Retirement Center, Ltd	3,715,827	-	(57,994)	3,657,833	54,017
TX Bammel Housing, LP	12,362,326	-	(105,256)	12,257,070	128,122
Cornerstone Village Apartments, LP	9,501,440	-	(170,000)	9,331,440	100,000
Waterside Court, Ltd	5,067,387	-	(70,816)	4,996,571	67,115
Olive Grove Manor, Ltd	4,544,495	-	(52,815)	4,491,680	56,548
Sierra Meadows, Ltd.	10,588,414	-	(617,211)	9,971,203	30,693
Totals	$ 53,074,429	$ -	$ (1,174,092)	$ 51,900,337	$ 563,953

NOTE 6 – OTHER LIABILITIES

The summary of changes in noncurrent liabilities is as follows:

	Balance March 31, 2013	Additions	Redemptions	Balance March 31, 2014	Due Within One Year
Family self-sufficiency escrow	$ 94,764	$ -	$ (94,764)	$ -	$ -
Accrued compensated absences	107,378	24,378	-	131,756	32,939
Total	202,142	24,378	(94,764)	131,756	32,939

NOTE 7 – LEASES

Effective August 16, 2012, the Authority entered into a lease for office space at 8933 Interchange Dr., Houston, TX. The lease term is thirty seven (37) months and expires August 31, 2015. The Authority moved their administrative offices to this site in early 2010. For the year ending March 31, 2014, the base rent was $18,476.25 each month.

The following is a schedule by years of required future minimum lease payments:

Year Ending March 31:	
2015	$ 221,715
2016	92,381
Total minimum payments required	$ 314,096

NOTE 8 – COMPONENT UNITS

Blended Component Unit

HCHA Cypresswood Estates, LLC is the 100% owner of the Cypresswood Estates Development and was placed in service in June 2011. The Authority is the sole member of the LLC. The Authority received $14,354 of developer fees during the fiscal year ended March 31, 2014 and all developer fees have been paid.

Discretely Presented 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.; HCHA Olive Grove, LLC is a partner in Olive Grove Manor, Ltd.; HCHA Waterside, LLC is a partner in Waterside Court, Ltd; and HCHA Sierra Meadows, LLC, is a partner in Sierra Meadows, Ltd. The 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 negative equity of $289 in Cornerstone Village Apartments, L.P. at December 31, 2013. The Authority and Cornerstone Village Apartments, L.P. have 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. The Authority and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of $700,000 to the Authority 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 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 negative equity of $518 in TX Bammel Housing, L.P. at December 31, 2013. The 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. The 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.

HCHA Louetta, LLC has negative equity of $350,185 in Louetta Village Apartments 45, L.P. at December 31, 2013. The 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. The 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.

NOTE 8 – COMPONENT UNITS (CONTINUED)

Discretely Presented Component Units (continued)

HCHA Baybrook Park Retirement Center, Ltd. has negative equity of $143 in Baybrook Park Retirement Center, Ltd. at December 31, 2013. The 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. The 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 equity of $273,741 in Olive Grove Manor, Ltd. at December 31, 2013. The 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. The Authority has a Note Receivable from Olive Grove Manor, Ltd. in the amount of $700,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Waterside, LLC has negative equity of $351 in Waterside Court, Ltd. at December 31, 2013. The 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. The Authority has a Note Receivable from Waterside Court, Ltd. in the amount of $500,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Sierra Meadows, LLC has negative equity of $43 in Sierra Meadows, Ltd. at December 31, 2013. The Authority and Sierra Meadows, Ltd. have a 45-year ground lease agreement signed December 9, 2009. Under the terms of the lease, the annual lease amount for Sierra Meadows, Ltd. is seventy-five thousand ($75,000) 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.

NOTE 9 – RETIREMENT PLAN

Plan Description

The Authority provides retirement for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 nontraditional defined benefit pension plans.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the Authority has the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective March 1, 2010, the Authority adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 20-year amortization period which began March 1, 2010 using the entry age actuarial cost method. Monthly contributions by the Authority are based on the covered payroll and the employer contribution rate in effect. The Authority's contribution rate for 2013 was 10.12%. The contribution rate for 2014 is 8.31%.

The plan provisions were adopted by the Board of Commissioners of the Authority, within the options available in the state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive an employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the Authority.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by the Board of Commissioners, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The Authority has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the Authority is actuarially determined annually. The Authority contributed to the Plan using the actuarially determined rate of 8.31% for the year ended December 2013.

The contribution rate payable by the employee members for the fiscal year ended March 31, 2014 is 7% as adopted by the Board of Commissioners. The employee contribution rate and the employer contribution rate may be changed by the Board of Commissioners within the options available in the TCDRS Act.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the calendar year ending December 31, 2013, pension plan contributions by the Authority and the contributions by its employees were $173,718 and $122,231, respectively. The Authority's annual required contribution was determined through an actuarial valuation performed as of December 31, 2013. The Plan uses the entry age actuarial cost method and level percent of payroll to determine required contributions. Significant actuarial assumptions used to compute the annual contribution requirement are as follows:

Valuation Date	12/31/13
Actuarial Cost Method	Entry Age
Amortization Method	20 year period as a level percent of covered payroll
Remaining Amortization Period	20 years
Asset Valuation Method	10-year recognition of the difference between the expected and the actual interest credited to the Subdivision Accumulation Fund (SAF) for each year. An additional recognition is required when, after the 10-year recognition is applied, the actuarial value of the SAF is outside the corridor of 60%-140% of the fund value. The actuarial value of the ESF is equal to its fund value.

Economic Assumptions:	
TCDRS system-wide	
Real rate of return	4.5%
Inflation	3.5%
Long-term investment return	8.0%
Employer specific	
Growth in membership	0.0%
Payroll growth	5.4%

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
12/31/2013	$ 1,541,735	$ 1,297,393	$ (244,342)	118.83%	$ 1,812,063	-13.48%

For purposes of this schedule, the AAL for the Plan is determined using the entry age actuarial cost method.

NOTE 10 – ECONOMIC DEPENDENCY

Most of the Authority's revenues are provided by HUD grants and related revenues. The Authority 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 Authority's ability to meet its operating and related administrative expenses under its current operating structure.

NOTE 11 – CONTINGENCIES

The Authority is currently the defendant and counter-plaintiff in litigation against the former Chief Executive Officer (CEO) for breach of contract. The CEO is seeking a one-time severance payment of $137,000. The Authority has not paid the severance due to additional investigations being conducted by the U.S. Department of HUD and other regulatory agencies for possible mismanagement of funds by the CEO and third-party defendants. After the Texas Supreme Court denied the Authority's defense of sovereign immunity, the Authority filed an Amended Answer, Original Counterclaim and Original Third-Party Petition against four additional third-party defendants. The attorneys representing the Authority in this lawsuit will be paid on a contingency fee basis.

On May 30, 2014, the Authority signed into 5 repayment agreements with the U.S. Department of HUD based on the results of audit findings detailed in an OIG report dated June 19, 2013. All five of the repayment agreements are subject to quarterly payments to HUD totaling $15,000 each quarter for 10 years with a balloon payment of the full balance at the end of the 10 years. HCHA has also committed to paying up to the full amount of the net proceeds from the sale of the West Lake Houston property (a.k.a. Patriots by the Lake) within 60 days of the receipt of those funds. The repayment agreements are not dependent upon the sale of the West Lake Houston property, because HCHA has up to 10 years to repay the amounts subject to the repayment agreements. The Authority will repay these monies from non-federal sources to the applicable Authority programs when available. The repayment agreements are as follows:

Finding Number	Finding Description	Total Amount	Quarterly Payment
1A	Unsupported Expenses	$ 679,174	$ 1,200
2D	Cypresswood Estates	2,827,829	5,000
2E	Damage Assessment	2,971,168	6,550
3B	Conflict of Interest	574,143	1,000
3C	Questionable Contracts	604,193	1,250
	Total	$ 7,656,507	$ 15,000

NOTE 12 – PENDING GASB PRONOUNCEMENTS

The Authority will be required to implement GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* for the period ending March 31, 2015. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement is not expected to have an impact on the Authority and does not include the financial report of a pension plan in its financial statements.

NOTE 12 – PENDING GASB PRONOUNCEMENTS (CONTINUED)

The Authority will be required to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the period ending March 31, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is not expected to have an impact on the Authority.

The Authority will be required to implement GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* for the period ending March 31, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is not expected to have an impact on the Authority.

The Authority will be required to implement GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* for the period ending March 31, 2015. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on that guarantee. The Authority is currently evaluating the effect of the implementation of this Statement.

NOTE 13 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

Condensed combining information for the Authority's blended component unit as of and for the year ended March 31, 2014 is provided as follows:

Condensed Statement of Net Position – March 31, 2014

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
ASSETS			
Current assets	$ 366,389	$ 12,036,673	$ 12,403,062
Noncurrent assets	-	4,794,720	4,794,720
Capital assets	14,881,059	7,199,341	22,080,400
Total assets	$ 15,247,448	$ 24,030,734	$ 39,278,182
LIABILITIES			
Interprogram liabilities	$ 4,485,733	$ (4,485,733)	$ -
Other current liabilities	106,049	4,851,805	4,957,854
Noncurrent liabilities	3,386,082	98,817	3,484,899
Total liabilities	$ 7,977,864	$ 464,889	$ 8,442,753
NET POSITION			
Net investment in capital assets	$ 11,433,632	$ 7,199,341	$ 18,632,973
Restricted	22,007	3,471,980	3,493,987
Unrestricted	(4,186,055)	12,894,524	8,708,469
Total net position	$ 7,269,584	$ 23,565,845	$ 30,835,429

NOTE 13 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS (CONTINUED)

Condensed Statement of Revenues, Expenses and Changes in Net Position – March 31, 2014

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
OPERATING REVENUES			
Tenant revenue	$ 764,478	$ -	$ 764,478
Other revenues	20,014	39,620,415	39,640,429
Total operating revenues	784,492	39,620,415	40,404,907
OPERATING EXPENSES			
Administrative	160,873	2,844,981	3,005,854
Tenant services	-	-	-
Utilities	47,155	48,285	95,440
Ordinary maintenance and operations	126,603	50,225	176,828
Protective services	-	49,824	49,824
General expenses	143,411	344,995	488,406
Housing assistance payments	-	35,304,041	35,304,041
Depreciation	402,078	73,682	475,760
Total operating expenses	880,120	38,716,033	39,596,153
Operating income (loss)	(95,628)	904,382	808,754
Total non-operating revenues (expenses)	(153,388)	25,947	(127,441)
CHANGES IN NET POSITION	(249,016)	930,329	681,313
TOTAL NET POSITION, BEGINNING OF YEAR	7,518,600	22,635,516	30,154,116
TOTAL NET POSITION, END OF YEAR	$ 7,269,584	$ 23,565,845	$ 30,835,429

NOTE 13 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS (CONTINUED)

Condensed Statement of Cash Flows – March 31, 2014

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
Net cash provided by (used in)			
Operating activities	$ 246,986	$ (1,572,151)	$ (1,325,165)
Capital and related financing activities	(178,226)	(34,411)	(212,637)
Investing activities	654	(187,897)	(187,243)
Net increase/(decrease) in cash	69,414	(1,794,459)	(1,725,045)
Cash and cash equivalents, beginning of year	295,510	4,178,966	4,474,476
Cash and cash equivalents, end of year	$ 364,924	$ 2,384,507	$ 2,749,431

SUPPLEMENTAL INFORMATION

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2014

Line Item #	Accounts Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	CHAP - HCE	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	CDCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	CURRENT ASSETS													
	Cash:													
111	Unrestricted	$ -	$ -	$ -	$ -	$ 9,068	$ 119,897	$ 314,361	$ 1,808,093	$ 151,535	$ -	$ 2,402,854	$ 761,610	$ 3,254,464
113	Other restricted	205,914	-	-	-	-	-	22,007	-	-	-	227,921	3,312,024	3,539,945
114	Tenant security deposits	-	-	-	-	-	-	28,656	-	-	-	28,656	164,773	193,429
115	Cash - restricted for current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Total cash	205,914	-	-	-	9,068	119,897	364,924	1,808,093	151,535	-	2,749,431	4,238,407	6,987,838
	Accounts and notes receivable:													
121	Accounts receivable - PHA projects	51,002	-	-	-	-	-	-	-	-	-	51,002	-	51,002
125	Miscellaneous	19,278	-	-	-	-	-	-	32,557	4,060	-	55,895	34,353	90,248
126	Tenants	-	-	-	-	-	-	-	-	-	-	-	29,011	29,011
126.1	Allowance for doubtful accounts - tenants	-	-	-	-	-	-	-	-	-	-	-	(4,201)	(4,201)
128	Fraud recovery	57,586	-	-	-	-	-	-	-	-	-	57,586	-	57,586
129	Accrued interest receivable	-	-	-	-	-	-	-	1,778,704	-	-	1,778,704	-	1,778,704
120	Total receivables, net of allowances for uncollectibles	127,866	-	-	-	-	-	-	1,811,261	4,060	-	1,943,187	59,163	2,002,350
142	Prepaid expenses and other assets	23,018	-	-	-	36	321	3,465	645	10,919	-	36,405	1,943,984	1,980,389
144	Interprogram - due from	-	-	-	4,485,733	-	-	-	2,563,082	23,440	(6,872,255)	-	-	-
145	Assets held for sale	-	-	-	-	-	-	-	7,674,039	-	-	7,674,039	-	7,674,039
150	Total current assets	356,798	-	-	4,485,733	9,104	120,218	368,389	13,747,121	189,954	(6,872,255)	12,403,062	6,241,554	18,644,616
	NONCURRENT ASSETS													
	Fixed assets:													
161	Land	-	-	-	-	-	-	750,000	7,062,569	-	-	7,812,569	20,135,805	27,948,374
162	Buildings	-	-	-	-	-	-	15,223,273	-	-	-	15,223,273	58,320,126	73,543,399
164	Furniture, equipment & mach - admin.	420,332	-	-	-	-	-	31,577	73,518	1,024	-	526,451	7,855,467	8,381,718
165	Leasehold improvements	1,020,460	-	-	-	-	-	4,165	41,076	-	-	1,065,701	-	1,065,701
166	Accumulated depreciation	(1,340,439)	-	-	-	-	-	(1,127,754)	(84,171)	(28)	-	(2,552,394)	(20,494,205)	(23,046,599)
167	Construction in progress	-	-	-	-	-	-	-	5,000	-	-	5,000	-	5,000
160	Total fixed assets, net of accumulated depreciation	100,353	-	-	-	-	-	14,881,059	7,097,992	996	-	22,080,400	65,817,193	87,897,593
171	Notes, loans and mortgages receivable - noncurrent	-	-	-	-	-	-	-	4,496,420	-	-	4,496,420	-	4,496,420
174	Other assets	-	-	-	-	-	-	-	-	-	-	-	2,897,274	2,897,274
176	Investments in Joint Venture	-	-	-	-	-	-	-	298,300	-	-	298,300	-	298,300
180	Total noncurrent assets	100,353	-	-	-	-	-	14,881,059	11,892,712	996	-	26,875,120	68,714,467	95,589,587
190	**TOTAL ASSETS**	$ 457,151	$ -	$ -	$ 4,485,733	$ 9,104	$ 120,218	$ 15,247,448	$ 25,639,833	$ 190,950	$ (6,872,255)	$ 39,278,182	$ 74,956,021	$ 114,234,203

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2014

Line Item #	Accounts Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	DHAP - HH	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	CURRENT LIABILITIES													
311	Bank overdraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
312	Accounts payable <= 90 days	46,449	-	-	-	42	190	15,698	21,625	37,824	-	121,828	343,284	465,112
321	Accrued wage/payroll taxes payable	31,776	-	-	-	136	406	-	6,574	12,314	-	51,205	-	51,205
322	Accrued compensated absences - current portion	18,820	-	-	-	-	-	-	6,500	7,619	-	32,939	-	32,939
325	Accrued interest payable	-	-	-	-	-	-	-	-	-	-	-	2,106,851	2,106,851
331	Accounts payable - HUD	-	-	-	2,933,154	1,910	9,961	-	-	-	-	2,945,025	-	2,945,025
341	Tenant security deposits	-	-	-	-	-	-	28,656	-	-	-	28,656	241,389	270,045
342	Deferred revenues	-	-	-	-	-	-	-	1,716,266	-	-	1,716,266	1,001,214	2,717,480
343	Current portion of LT debt - capital projects/ mortgage revenue	-	-	-	-	-	-	61,345	-	-	-	61,345	563,953	625,298
345	Other current liabilities	-	-	-	-	-	-	350	-	-	-	350	-	350
346	Other liabilities	-	-	-	-	-	-	-	240	-	-	240	3,447	3,687
347	Interprogram (due to)	2,386,249	-	-	-	70	203	4,485,733	-	-	(6,872,255)	-	-	-
348	Loan liability - current	-	-	-	-	-	-	-	-	-	-	-	-	-
310	Total current liabilities	2,483,294	-	-	2,933,154	2,157	10,760	4,591,782	1,751,205	57,757	(6,872,255)	4,957,854	4,260,139	9,217,992
	NONCURRENT LIABILITIES													
351	Long-term debt, net of current - capital projects/ mortgage revenue	-	-	-	-	-	-	3,386,082	-	-	-	3,386,082	51,336,384	54,722,466
352	Long-term debt, net of current - operating borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
353	Non-current liabilities - other	-	-	-	-	-	-	-	-	-	-	-	1,153,136	1,153,136
354	Accrued compensated absences - noncurrent	56,458	-	-	-	-	-	-	19,501	22,858	-	98,817	-	98,817
355	Loan liability - non current	-	-	-	-	-	-	-	-	-	-	-	-	-
350	Total noncurrent liabilities	56,458	-	-	-	-	-	3,386,082	19,501	22,858	-	3,484,899	52,489,520	55,974,419
300	Total liabilities	2,539,752	-	-	2,933,154	2,157	10,760	7,977,864	1,770,706	80,615	(6,872,255)	8,442,753	56,749,658	65,192,411
	EQUITY													
508.1	Invested in capital assets	100,353	-	-	-	-	-	11,433,832	7,097,962	996	-	18,632,973	13,916,856	32,549,829
512.1	Restricted net position	3,471,980	-	-	-	-	-	22,007	-	-	-	3,493,987	3,476,797	6,970,784
512.1	Unrestricted net position	(5,554,934)	-	-	1,552,579	6,947	109,458	(4,186,055)	16,771,135	109,328	-	8,708,459	812,710	9,521,179
513	Total equity/net position	(2,082,601)	-	-	1,552,579	6,947	109,458	7,269,784	23,869,127	110,325	-	30,835,423	18,206,363	49,041,792
600	TOTAL LIABILITIES AND EQUITY/NET POSITION	$ 457,151	$ -	$ -	$ 4,485,733	$ 9,104	$ 120,218	$ 15,247,648	$ 25,639,833	$ 190,950	$ (6,872,255)	$ 39,278,182	$ 74,956,021	$ 114,234,203

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2014

Line Item #	Accounts Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	DHAP - HE	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	REVENUE													
70300	Net tenant rental revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ 764,478	$ -	$ -	$ -	$ 764,478	$ 7,748,257	$ 8,512,735
70400	Tenant revenue - other	-	-	-	-	-	-	-	-	-	-	-	169,411	169,411
70500	Total tenant revenue	-	-	-	-	-	-	764,478	-	-	-	764,478	7,917,668	8,682,146
70600	HUD PHA operating grants	33,635,520	-	-	-	46,560	332,956	-	-	-	-	34,015,044	-	34,015,044
70710	Management fee	-	-	-	-	-	-	-	-	583,280	(583,280)	-	-	-
70730	Book keeping fee	-	-	-	-	-	-	-	-	364,557	(364,557)	-	-	-
70800	Other governmental grants	250,000	-	-	-	-	-	-	-	-	-	250,000	-	250,000
71100	Investment income - unrestricted	-	-	-	78	-	9	654	25,269	-	-	26,004	9,376	29,380
71200	Mortgage interest income	-	-	-	-	65	487	-	-	-	-	552	-	552
71400	Fraud recovery	66,272	-	-	-	-	-	-	-	-	-	66,272	-	66,272
71500	Other revenue	3,984,823	-	-	502,338	-	1	20,014	797,825	4,112	-	5,309,113	231,615	5,540,728
72000	Investment income - restricted	45	-	-	-	-	-	-	-	-	-	45	222	267
70000	Total revenue	37,936,628	-	-	502,416	46,625	333,447	785,146	823,094	951,949	(947,837)	40,433,508	8,152,881	48,584,389
	EXPENSES													
	Administrative:													
91100	Administrative salaries	1,011,156	-	-	-	3,048	16,265	87,237	223,168	428,339	-	1,749,433	614,293	2,363,726
91200	Auditing fees	33,771	-	-	6	65	487	874	1,122	-	-	36,325	36,340	144,574
91300	Management fee	572,004	-	-	-	1,140	10,136	38,412	-	-	(583,280)	38,412	848,719	888,131
91310	Bookkeeping fee	357,503	-	-	-	713	6,341	-	-	-	(364,557)	-	-	-
91400	Advertising and marketing	-	-	-	-	-	-	12,377	-	-	-	12,377	77,752	90,129
91500	Employee benefit contributions - administrative	392,914	-	-	-	918	2,957	19,313	61,561	105,839	-	583,502	184,973	768,475
91600	Office expense	307,935	-	-	-	166	3,096	17,713	20,585	133,682	-	483,177	159,528	642,705
91700	Legal expense	14,528	-	-	-	18	139	45	27,144	-	-	41,868	6,437	48,305
91800	Travel	-	-	-	-	-	-	450	-	-	-	450	36,191	36,641
91900	Other	17,764	-	-	-	552	829	3,432	2,322	12,661	-	37,560	121,999	159,559
	Total administrative	2,729,575	-	-	6	6,630	40,044	180,873	335,902	678,671	(947,837)	3,005,854	2,136,191	5,142,045
92000	Asset management fee	-	-	-	-	-	-	-	-	-	-	-	99,458	99,458
	Tenant services:													
92100	Salaries	-	-	-	-	-	-	-	-	-	-	-	6,511	6,511
92400	Other	-	-	-	-	-	-	-	-	-	-	-	97,003	97,003
	Total tenant services	-	-	-	-	-	-	-	-	-	-	-	103,514	103,514
	Utilities:													
93100	Water	3,605	-	-	-	6	57	30,270	165	2,107	-	36,210	399,437	435,647
93200	Electricity	25,698	-	-	-	46	410	14,885	1,174	15,017	-	56,230	212,496	271,726
93300	Gas	-	-	-	-	-	-	-	-	-	-	-	4,012	4,012
93800	Other utilities expense	-	-	-	-	-	-	-	-	-	-	-	10,737	10,737
	Total utilities	29,303	-	-	-	52	467	47,155	1,339	17,124	-	95,440	626,682	722,122
	Ordinary maintenance & operations:													
94100	Labor	-	-	-	-	-	-	-	-	-	-	-	269,118	269,118
94200	Materials and other	17,922	-	-	-	9	102	14,858	1,230	1,374	-	35,695	-	35,695
94300	Contracts	13,177	-	-	-	24	210	109,945	648	16,129	-	140,133	1,045,158	1,185,291
94500	Employee benefits contribution	-	-	-	-	-	-	-	-	-	-	-	78,399	78,399
	Total ordinary maintenance & operations	30,499	-	-	-	33	312	124,803	1,878	17,503	-	175,828	1,392,675	1,568,503
	Protective services:													
95200	Other contract costs	-	-	-	-	53	482	-	-	-	-	535	-	535
95300	Other	30,238	-	-	-	-	-	-	1,381	17,670	-	49,289	1,648	50,937
95500	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
95000	Total protective services	30,238	-	-	-	53	482	-	1,381	17,670	-	49,824	1,648	51,472
96110	Property insurance	-	-	-	-	-	-	-	-	-	-	-	426,262	426,262
96140	All other insurance	23,454	-	-	-	21	193	84,254	552	7,063	-	95,537	-	95,537
96100	Total insurance premiums	23,454	-	-	-	21	193	84,254	552	7,063	-	95,537	426,262	521,799

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2014

Line Item #	Account Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	DHAP - KK	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	CDCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	EXPENSES (Continued)													
	General expenses:													
96200	Other general expenses	$ 87,045	$ -	$ -	$ -	$ -	$ -	$ 79,157	$ 43,237	$ 91,146	$ -	$ 302,585	$ 485,674	$ 788,259
96210	Compensated absences	67,237	-	-	-	-	-	-	10,638	12,409	-	90,284	-	90,284
96400	Bad debt - tenant rents	-	-	-	-	-	-	-	-	-	-	-	59,005	59,005
96000	Total general expenses	154,282	-	-	-	-	-	79,157	55,875	103,555	-	392,869	544,679	937,548
96710	Interest of mortgage payable	-	-	-	-	-	-	-	-	-	-	-	1,365,621	1,365,621
96720	Interest on notes payable	-	-	-	-	-	-	154,042	-	-	-	154,042	-	154,042
96700	Total interest expense and amortization cost	-	-	-	-	-	-	154,042	-	-	-	154,042	1,365,621	1,519,663
96900	Total operating expenses	2,997,551	-	-	6	8,779	41,498	632,084	396,927	841,386	(947,837)	3,970,394	6,636,730	10,607,124
97000	Excess of operating revenue over operating expenses	34,938,317	-	-	302,430	37,846	291,949	153,062	426,167	110,363	-	36,461,114	1,516,151	37,977,265
97300	Housing assistance payments	32,194,134	-	-	-	40,153	275,290	-	-	-	-	32,509,397	-	32,509,397
97350	HAP portability- In	2,794,444	-	-	-	-	-	-	-	-	-	2,794,444	-	2,794,444
97400	Depreciation expense	65,439	-	-	-	-	-	402,078	8,215	28	-	475,760	2,643,205	3,120,965
90000	Total expenses	38,051,588	-	-	6	48,932	316,788	1,034,162	405,142	841,414	(947,837)	39,750,195	9,281,935	49,032,130
	Other financing sources (uses):													
10010	Operating transfer in	985,914	-	-	773,771	-	-	-	1,373,395	-	-	3,133,080	-	3,133,080
10020	Operating transfer out	(773,771)	-	-	(836,914)	-	-	(125,000)	(1,335,395)	-	-	(3,133,080)	-	(3,133,080)
10100	Total other financing sources (uses)	212,143	-	-	(125,143)	-	-	(125,000)	38,000	-	-	-	-	-
10000	EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES	$ 97,423	$ -	$ -	$ 377,267	$ (2,307)	$ 16,659	$ (374,016)	$ 433,952	$ 110,335	$ -	$ 681,313	$ (1,129,054)	$ (447,741)
	Memo Account Information													
11030	Beginning equity	$ (3,501,175)	$ 193,371	$ 1,699,416	$ 2,301,892	$ 9,254	$ 82,799	$ 7,643,600	$ 21,715,759	$ -	$ -	$ 30,154,116	$ 19,532,286	$ 49,686,402
11040	Prior period adjustments, equity transfers correction	1,320,151	(193,371)	(1,699,416)	(1,126,580)	-	-	-	1,699,416	-	-	-	(196,869)	(196,869)
11170	Administrative fee equity	(5,334,581)	-	-	-	-	-	-	-	-	-	(5,334,581)	-	(5,334,581)
11180	Housing assistance payments equity	3,471,980	-	-	-	-	-	-	-	-	-	3,471,980	-	3,471,980
11190	Unit months available	51,054	-	-	-	96	864	1,056	-	-	-	53,070	11,400	64,470
11210	Number of unit months leased	47,667	-	-	-	95	845	1,020	-	-	-	49,627	10,952	60,579

SINGLE AUDIT REPORT

CliftonLarsonAllen LLP
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Independent Auditors' 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*

To the Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund and the aggregate discretely presented component units of Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2014. Our report includes a reference to other auditors who audited the financial statements of TX Bammel Housing LP, Baybrook Retirement Center, Ltd., Louetta Village Apartments 45, LP, Waterside Court, Ltd., Olive Grove Manor, Ltd., Cornerstone Village Apartments, L.P., and Sierra Meadows, Ltd., as described in our report on the Authority's financial statements. The financial statements of all of these entities were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Clifton Larson Allen LLP

Baltimore, Maryland
October 22, 2014

CliftonLarsonAllen LLP
www.claconnect.com

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Harris County Housing Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2014. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Housing Choice Voucher Program for the year ended March 31, 2014.

Other Matters

The result of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our report is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clifton Larson Allen LLP

Baltimore, Maryland
October 22, 2014

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2014

	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Direct:		
Housing Choice Voucher Program	14.871	$ 38,051,388
Lower Income Housing Assistance - Section 8 Moderate Rehab	14.856	48,932
Section 8 Rental Moderate Rehabilitation Program - SRO	14.182	316,788
Section 8 Project-Based Cluster Total		365,720
TOTAL FEDERAL EXPENDITURES		$ 38,417,108

The accompanying notes are an integral part of this schedule.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harris County Housing Authority (the 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 basic financial statements.

NOTE 2 – NON-CASH FEDERAL ASSISTANCE

The Authority did not receive any non-cash Federal assistance for the year ended March 31, 2014.

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2014

I. Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	X	Yes	____	None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X	Yes	____	No

Identification of Major Program

Name of Federal Program	CFDA Number
Housing Voucher Cluster	14.871

Dollar threshold used to distinguish between type A and type B programs: $ 1,152,513

Auditee qualified as low-risk auditee?	____	Yes	X	No

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2014

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

Finding 2014-001 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Cash Management**
Type of Finding:	**Noncompliance, Significant Deficiency**

Condition/Context
Prior to March 31, 2012, the Authority had overspent on certain programs and utilized cash from other programs to cover the overage. The Authority is required to maintain funds to cover any unspent Housing Assistance Payments in the Section 8 program. The Authority should have approximately $3,471,980 of cash on hand to cover program reserves, but as of March 31, 2014, there is only $205,914 of available cash.

Criteria
HUD issued PIH Notice 2008-38 which details the Operating requirements for the DHAP-Ike program and states that funding under this program may not be used for other activities or costs including the HCVP or DVP program.

Cause
The Authority does not have sufficient funding to cover restricted deposits.

Effect
The Authority is in violation of their ACC Contract and could result in civil penalties or sanctions.

Questioned Costs
$3,471,980

Recommendation
We recommend that Management fully fund the Authority's program reserves for the Section 8 program.

Management's Response
The cause and source of the prior commingling and overspending of certain federal accounts have been well documented, including audits or reports issued by HUD's Office of Inspector General, by HUD's Quality Assurance Division, and by CliftonLarsonAllen in the Authority's financial statements for Fiscal Years 2012 and 2013.

From fiscal year end 2013 to fiscal year end 2014, the Authority's program reserve deficit improved dramatically, from a $6.5 million shortfall to the above stated $3.3 million shortfall. This remaining shortfall is subject to the HUD-approved repayment agreements referenced below. As soon as the West Lake Houston property (formerly known as Patriots by the Lake) owned by the Authority is sold, this final point of noncompliance due to the cash shortfall will be fully resolved.

The following provides the timeline of action taken by the Authority to correct and properly repay all federal funds misspent by the Authority's prior management.

- March 2012: New management arrived at the Authority and immediately discovered that the Authority had approximately $350,000 in cash, had demand letters from HUD to repay $3.9 million, and had severely mismanaged and commingled its federal funds.
- April 2012: New management alerted HUD and other proper authorities to the fact that significant commingling and overspending had occurred and that the Authority did not have the cash to repay HUD.
- May 2012: New management implemented dramatic cost saving measures which reduced the Authority's operating budget by nearly fifty percent (50%) for the 2013 fiscal year.
- August 2012: The Authority approved sweeping reforms to its policies and procedures to ensure financial transparency, accountability and efficiency.
- October 2012: The Authority segregated all new federal funds in a separate checking account and all nonfederal expenses were paid only with nonfederal funds. While prior funds remained commingled until properly segregated as of October 2013, this action ensured no ongoing commingling of federal and nonfederal funds.
- January 2013: The Authority recovered $773,771 in misspent funds and forwarded the full amount to HUD as a down payment for the amount the Authority owed to HUD.
- May 2013: The Authority opened separate checking accounts for each line of business operated by the Authority. Because several lines of business continued to run negative balances due to the prior commingling, the funding of these accounts was postponed until January 1, 2014, so that the previously commingled and misspent funds could be properly disentangled and segregated, and so that each line of business could begin with a positive balance.
- June 2013: HUD published two reports: (1) a HUD Office of Inspector General Audit titled "The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority" and questioning costs of more than $27 million; (2) a HUD Quality Assurance Division (QAD) report finding that the Authority had underreported its Net Restricted Asset balance by $3.5 million and had overspent its Housing Choice Voucher account by $1 million and thus needed to fund its federal Housing Choice Voucher account with more than $4.5 million.
- October 2013: As of this date, the Authority properly segregated the previously commingled funds so that the source of funds for both federal and nonfederal expenses could be tracked.
- December 2013: The HUD Houston Field Office approved the Authority's Corrective Action Plan for the findings in CliftonLarsonAllen's Single Audit for FYE March 31, 2013.
- January 2014: The Authority properly funded each checking account for the separate lines of business and submitted fourteen (14) Corrective Action Plans and seven (7) payment agreements to repay federal accounts a total of $8,517,278.
- April 2014: HUD QAD closed its review, stating that the actions taken by the Authority were "sufficient to address the identified findings."
- July 2014: The HUD Houston Field Office closed eight (8) OIG Audit Findings and cleared an additional five (5) OIG Audit Findings subject to the accepted repayment agreements.

- October 2014: The Authority continues to market its 91-acre West Lake Houston property to potential developers. Management believes that it will close on the sale sometime in 2015. This sale will provide funding to pay completely all outstanding repayment agreements which will properly fund the program reserves referenced in this finding.

Person Responsible for Resolution
Tom McCasland

Anticipated Date of Finding Resolution
September 30, 2015

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2014

Finding 2013-01, 2012-01 – Material Audit Adjustments

Condition
Reconciliation errors in deferred ground lease revenue between the Authority and related party transactions with the component units were identified as a result of new requirements under group audit standards. Ground lease revenue was not properly reported by the Authority. The Authority received prepayments on ground leases in 2005 and recognized all amounts as revenue rather than recognizing the lease revenue over the term of the lease on a straight-line basis. A prior period adjustment of $1,526,740 was required to properly defer the ground lease revenue as of March 31, 2012.

Recommendation
We recommend that management enhance its processes for reviewing, monitoring and accounting for all transactions between the Authority and the component units. In addition, management should establish procedures to ensure the identification and application of appropriate accounting standards for recording and reporting and ensure that all transactions are supported by appropriate documentation.

Status
This finding has been cleared in the current year.

Finding 2013-02, 2012-02 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Cash Management**
Type of Finding:	**Noncompliance, Material Weakness**

Condition
The Authority has overspent on certain programs and utilized cash from other programs to cover the overage. The Authority should have approximately $10,949,081 of cash on hand to cover program reserves, but as of March 31, 2013, there is only $4,474,476 of available cash. Commingling of funds is not allowable between federal programs.

Recommendation
We recommend that Management implement a process to ensure cash is properly allocated to the proper program.

Status
The Authority is no longer overspending on certain programs and is no longer commingling funds. The Authority is also now properly allocating cash to the proper programs. However, a similar finding regarding the requirement to fully fund the Authority's program reserves was noted in the current year. See finding number 2014-001.

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2014

Finding 2013-03 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Special Tests – Rent Reasonableness (Change)**
Type of Finding:	**Noncompliance, Significant Deficiency**

Condition
Testing of 40 Housing Choice Voucher tenant files identified 8 files where the rent determination date was after the effective date.

Recommendation
We recommend that management review their rent determination procedures and establish a method to ensure compliance.

Status
This finding has been cleared in the current year.

Finding 2013-04 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Reporting**
Type of Finding:	**Significant Deficiency**

Condition
The Authority submitted their unaudited REAC submission to HUD, which was due May 31, 2013 on October 22, 2013.

Recommendation
We recommend that Management establish procedures to ensure submissions are done timely.

Status
This finding has been cleared in the current year.

HARRIS COUNTY HOUSING AUTHORITY
Houston, Texas

FINANCIAL STATEMENTS
March 31, 2015

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Independent Auditors' Report

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund and the aggregate discretely presented component units of the Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of TX Bammel Housing, LP; Baybrook Park Retirement Center, Ltd.; Louetta Village Apartments 45, LP; Waterside Court, Ltd.; Olive Grove Manor, Ltd.; Cornerstone Village Apartments, L.P.; and Sierra Meadows, Ltd.; which represent 100 percent, respectively, of the assets, net position, and revenues of the component units. Those statements, which were prepared in accordance with the accounting standards issued by the Financial Accounting Standards Board, were audited by other auditors whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the discretely presented component units, which conform those financial statements to present in accordance with the accounting standards issued by the Governmental Accounting Standards Board. Our opinion, insofar as it relates to the amounts included for the discretely presented component units, prior to these conversion adjustments, is based solely on the reports of the other auditors. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and the aggregate discretely presented component units of the Authority as of March 31, 2015, and the respective changes in financial position and where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The financial data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the 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.

The financial data schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Clifton Larson Allen LLP

Baltimore, Maryland
November 24, 2015

HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015

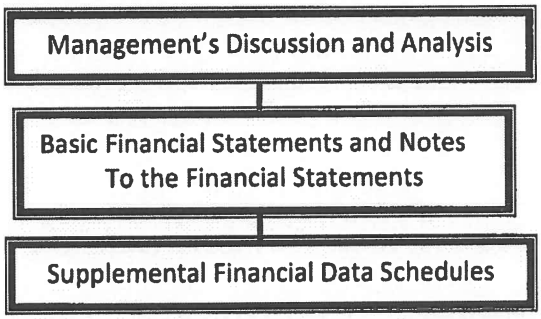
As management of the Harris County Housing Authority (the Authority), we offer the readers of the Authority's financial statements this narrative overview and analysis of our financial activities for the year ended March 31, 2015. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

The Authority is a special purpose government operating in Harris County, Texas (the County). The Authority administers federal Department of Housing and Urban Development (HUD) Section 8 housing assistance grants. The Authority 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 Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties.* Under LGC Chapter 392, the Authority is a unit of government and its functions are essential for the wellbeing of the community.

Based on criteria prescribed by accounting principles generally accepted in the United States of America, the Authority is not considered a component unit of any other entity. The County's Commissioners Court appoints all of the Authority's commissioners and may remove commissioners under LGC Chapter 392; however, the Authority has complete legislative and administrative authority and it recruits and employs personnel.

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended March 31, 2015, to assist the reader in focusing on significant issues and concerns.

The Authority's FY2015 annual financial report consists of three parts — the management's discussion and analysis, the basic financial statements (which includes notes to those financial statements) and the financial data schedules.



The primary focus of the Authority's financial statements is on the financial statements of a single business-type activity that combines all programs administered by the Authority. A separate column in the financial statements shows the combined transactions of the Authority'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
March 31, 2015

Financial Highlights for FY 2015.

- The Authority's assets exceeded its liabilities as of March 31, 2015 by $31,706,143 (net position).
- Cash and cash equivalents as of March 31, 2015 were $3,360,035.
- The Authority had $34,209,616 in HUD grant revenue for the year ended March 31, 2015. The Authority had total expenses of $36,168,988 for the year ended March 31, 2015, of which $31,697,906 was for Housing Assistance Payments (HAP).
- The Authority's total net position increased by $870,714 during the year.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Authority'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 Authority'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 Position** - reports the Authority's current financial assets and liabilities (short term spendable resources), along with restricted assets, fixed assets and long-term obligations.
- **Statement of Revenues, Expenses and Changes in Net Position** - reports the Authority's operating revenues by major source along with operating expenses.
- **Statement of Cash Flows** - reports the Authority'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.

Analysis of Entity Wide Net Position (Statement of Net Position)

During FY2015, the Authority continued to modify policies and procedures as needed in order to improve accountability, efficiency and transparency in government. Not counting housing assistance payments or depreciation, operating expenses increased by $86,813 from $3,816,352 to $3,903,165, representing a 2% increase in spending.

Over time, significant changes in the net position are an indicator of whether the Authority's financial health is improving or deteriorating. Assets exceeded liabilities by $31,706,143 at the close of the fiscal year ended March 31, 2015, an overall increase of $870,714 from March 31, 2014.

Total Current Assets increased by $757,475 from the prior year due mostly to a net increase in cash of $638,912; $956,374 in Housing Choice Voucher program restricted cash, and increase in the COCC cash account of $120,324 from fees and a reduction of Affordable Housing cash of $437,786.

Capital Assets, net of depreciation, increased by $61,178 from the prior year. This increase is primarily due to an increase in construction in progress for Westlock.

Current Liabilities increased by $25,427 from $4,957,854 for the year ended March 31, 2014 to $4,983,281 for the year ended March 31, 2015. This increase is primarily due to an increase in accounts payable to HUD programs for the Section 8 Moderate Rehabilitation program in the amount of $35,923.

Non-Current Liabilities decreased by $36,284 from $3,484,899 from the year ended March 31, 2014 to $3,448,615 for the year ended March 31, 2015. This decrease is due to payments on debt for the blended component unit – Cypresswood Estates.

	2015	2014	Increase/ (Decrease)
Assets			
Current assets	$ 13,160,537	$ 12,403,062	$ 757,475
Notes receivable	4,496,420	4,496,420	-
Investment in partnership	339,504	298,300	41,204
Capital assets	22,141,578	22,080,400	61,178
Total assets	40,138,039	39,278,182	859,857
Liabilities			
Current liabilities	4,983,281	4,957,854	25,427
Noncurrent liabilities	3,448,615	3,484,899	(36,284)
Total liabilities	8,431,896	8,442,753	(10,857)
Net position	$ 31,706,143	$ 30,835,429	$ 870,714

Net Position Categories

	2015	2014	Increase/ (Decrease)
Net invested in capital assets	$ 18,755,771	$ 18,632,973	$ 122,798
Restricted	4,375,913	3,493,987	881,926
Unrestricted	8,574,459	8,708,469	(134,010)
Total net position	$ 31,706,143	$ 30,835,429	$ 870,714

The Authority'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 Authority is committed to building new affordable housing using the Low Income Housing Tax Credit Program with HOME and Community Development Block Grant funds provided by the Harris County Community Services 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 Authority to develop seven (7) senior developments and one (1) family development.

Analysis of Entity Wide Revenues (Statement of Revenues, Expenses and Change in Net Position)

	2015	2014	Increase/ (Decrease)
Revenues - Operating			
HUD PHA grants	$ 34,209,616	$ 34,015,044	$ 194,572
Other government grants	-	250,000	(250,000)
Ground lease revenue	29,763	29,763	-
Other revenue	2,747,435	6,110,100	(3,362,665)
Total operating revenues	36,986,814	40,404,907	(3,418,093)
Expenses			
Housing assistance payments	31,697,906	35,304,041	(3,606,135)
Salaries and benefits	2,405,893	2,332,935	72,958
Office expense	764,107	672,919	91,188
General	733,165	810,498	(77,333)
Depreciation	422,922	475,760	(52,838)
Total expenses	36,023,993	39,596,153	(3,572,160)
Net income from operations	962,821	808,754	154,067
Non-operating revenue (expenses)			
Interest income	52,888	26,601	26,287
Interest expense	(144,995)	(154,042)	9,047
Total non-operating revenues	(92,107)	(127,441)	35,334
Change in net position	870,714	681,313	189,401
Net position, beginning of year	30,835,429	30,154,116	681,313
Net position, end of year	$ 31,706,143	$ 30,835,429	$ 870,714

Total operating revenues for the years ended March 31, 2015 and 2014 were $36,986,814 and $40,404,907, respectively. The change from 2015 to 2014 reflects a decrease of $3,418,093 as explained below.

HUD PHA grants increased $194,572 from $34,015,044 in 2014 to $34,209,616 in 2015, due primarily to increased Housing Choice Voucher program revenues for Housing Assistance Payments.

Other government grants decreased by $250,000 and other revenue decreased by $3,362,665. The decrease in other government grants is due a reduction in an operational grant for the HCV program from Harris County. The decrease in other revenue is attributed to a decline in portability vouchers administered by the Housing Choice Voucher program.

Analysis of Entity Wide Expenses

Total expenses for the year ended March 31, 2015 amounted to $36,168,988 as compared to $39,750,195 for the year ended March 31, 2014, a decrease of $3,581,207. The key components of this change are as follows:

Housing assistance payments decreased by $3,606,135 primarily due to a change in the number of family members per bedroom called "Two Heartbeats per Bedroom."

Salaries and benefits increased by $72,958 primarily due to merit and incentive based pay increases for the fiscal year.

Office expense increased by $91,188 primarily due to increased costs for software and hardware support, along with general overall increases in administrative expenses.

Interest expense of $144,995 represents interest for a permanent loan for the full year for Cypresswood Estates (Other Business Activities).

The general expense decreased by $77,333 due to decreases in professional and consultant fees and HCV program port-out administrative fee costs.

Depreciation expense decreased by $52,838 primarily due to the fact that the Authority no longer depreciates HCV leasehold improvements.

Capital Assets

The Authority's capital assets consist of land and buildings for affordable housing projects, leasehold improvements and business equipment used in administering the HUD grants and affordable housing projects.

The buildings are depreciated over thirty-nine years, leasehold improvements and equipment used in administering the HUD grants and affordable housing projects are being depreciated over three to ten years depending on asset type. The Authority's increase in capital assets during the year was primarily due to the increase in Affordable Housing Construction in Progress, which went from $5,000 in 2014 to $458,160 in 2015.

Capital Assets

	March 31, 2014	Net Additions/ Deletions	March 31, 2015
Land	$ 7,812,569	$ -	$ 7,812,569
Buildings	15,223,273	-	15,223,273
Leasehold improvements	1,065,701	-	1,065,701
Furniture and equipment	526,251	33,043	559,294
Construction in progress	5,000	453,160	458,160
Accumulated depreciation	(2,552,394)	(425,025)	(2,977,419)
Total	$ 22,080,400	$ 61,178	$ 22,141,578

Additional information on the Authority's capital assets can be found in the notes to the Authority's basic financial statements for the year ended March 31, 2015.

Economic Factors and Next Year's Budget

Significant economic factors affecting the Authority are as follows:

- Debt of more than $7 million due to HUD as a result of misspending or over-spending that occurred prior to FY2013
- An amount, yet to be finalized, which the Authority may owe back to HUD due to the Authority's mismanagement of funds prior to FY2013
- Level of federal funding from the U.S. Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage 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

Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority'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 Executive Officer, Harris County Housing Authority, 8933 Interchange Dr., Houston, TX 77054, (713) 669-4549.

FINANCIAL STATEMENTS

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF NET POSITION
March 31, 2015

	Enterprise Fund	Component Units	Total Reporting Entity
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,123,230	$ 1,113,764	$ 3,236,994
Cash and cash equivalents - restricted	1,236,805	3,535,949	4,772,754
Accounts receivable - tenants, net	59	1,200	1,259
Accounts receivable - miscellaneous	61,200	36,633	97,833
Accrued interest receivable from component units	2,002,464	-	2,002,464
Prepaid assets	48,730	1,881,615	1,930,345
Other assets	7,688,049	-	7,688,049
Total current assets	13,160,537	6,569,161	19,729,698
NONCURRENT ASSETS			
Investment in partnerships	339,504	-	339,504
Notes receivable - component units	4,496,420	-	4,496,420
Capital assets net of accumulated depreciation	22,141,578	63,223,309	85,364,887
Other assets	-	2,718,446	2,718,446
Total noncurrent assets	26,977,502	65,941,755	92,919,257
TOTAL ASSETS	$ 40,138,039	$ 72,510,916	$ 112,648,955
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$ 3,134,311	$ 619,098	$ 3,753,409
Accrued wages and payroll taxes payable	61,203	-	61,203
Accrued compensated absences, current	42,270	-	42,270
Accrued interest payable	-	346,117	346,117
Accrued interest payable to HCHA	-	2,002,464	2,002,464
Current portion of mortgage notes payable	-	594,722	594,722
Current portion of notes payable	64,004	-	64,004
Unearned revenue	-	1,362,570	1,362,570
Deferred ground lease revenue	1,681,493	-	1,681,493
Total current liabilities	4,983,281	4,924,971	9,908,252
NONCURRENT LIABILITIES			
Accrued compensated absences	126,812	-	126,812
Mortgage notes payable, net of current portion	-	45,588,439	45,588,439
Notes payable, net of current portion	3,321,803	-	3,321,803
Mortgage notes payable - HCHA	-	4,496,420	4,496,420
Other noncurrent liabilities	-	820,172	820,172
Total noncurrent liabilities	3,448,615	50,905,031	54,353,646
Total liabilities	8,431,896	55,830,002	64,261,898
NET POSITION			
Net investment in capital assets	18,755,771	12,543,728	31,299,499
Restricted	4,375,913	3,280,947	7,656,860
Unrestricted	8,574,459	856,239	9,430,698
Total net position	31,706,143	16,680,914	48,387,057
TOTAL LIABILITIES AND NET POSITION	$ 40,138,039	$ 72,510,916	$ 112,648,955

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended March 31, 2015

	Enterprise Fund	Component Units	Total Reporting Entity
OPERATING REVENUES			
Rental income	$ 777,541	$ 8,040,070	$ 8,817,611
HUD PHA grants	34,209,616	-	34,209,616
Ground lease revenues	29,763	-	29,763
Other revenues	1,969,894	312,334	2,282,228
Total operating revenues	36,986,814	8,352,404	45,339,218
OPERATING EXPENSES			
Administrative	3,115,519	2,026,002	5,141,521
Tenant services	-	134,209	134,209
Utilities	89,577	583,295	672,872
Ordinary maintenance and operations	299,455	1,528,937	1,828,392
Protective services	46,290	-	46,290
General	352,324	1,174,948	1,527,272
Housing assistance payments	31,697,906	-	31,697,906
Total operating expenses	35,601,071	5,447,391	41,048,462
Operating income before depreciation	1,385,743	2,905,013	4,290,756
Depreciation	422,922	2,644,779	3,067,701
Total operating income	962,821	260,234	1,223,055
NON-OPERATING REVENUES (EXPENSES)			
Interest income	52,888	6,200	59,088
Interest expense	(144,995)	(1,461,678)	(1,606,673)
Total nonoperating revenues (expenses), net	(92,107)	(1,455,478)	(1,547,585)
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	870,714	(1,195,244)	(324,530)
Capital Distrubutions	-	(330,205)	(330,205)
CHANGE IN NET POSITION	870,714	(1,525,449)	(654,735)
TOTAL NET POSITION, BEGINNING OF YEAR	30,835,429	18,206,363	49,041,792
TOTAL NET POSITION, END OF YEAR	$ 31,706,143	$ 16,680,914	$ 48,387,057

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended March 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
HUD subsidies	$	34,209,616
Ground lease revenue		29,763
Other revenue		2,550,922
Administration and general		(287,669)
Salaries and benefits		(3,115,519)
Housing operations and tenant services		(435,322)
Housing assistance payments		(31,697,906)
Net cash flows provided by operating activities		1,253,885
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on notes payable		(61,620)
Interest paid on notes payable		(144,995)
Acquistion of capital assets		(489,554)
Net cash flows used in capital and related financing activities		(696,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		52,888
INCREASE IN CASH AND CASH EQUIVALENTS		610,604
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2,749,431
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,360,035
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$	962,821
Adjustments to reconcile cash and cash equivalents provided by operating activities		
Depreciation		422,922
Loss on disposal		5,454
Effects of changes in operating assets and liabilities:		
Accounts receivable		103,224
Accrued interest receivable		(223,760)
Prepaid assets		(12,325)
Other assets		(14,010)
Accounts payable and accrued expenses		38,212
Accrued wages and payroll tax payable		9,998
Accrued compensated absences		37,326
Unearned revenue		(75,977)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	1,253,885

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
COMBINING STATEMENT OF NET POSITION – DISCRETELY PRESENTED COMPONENT UNITS
March 31, 2015

	TX Bammel	Baybrook Baybrook Park	Louetta Village	Waterside Court	Olive Grove	Cornerstone Village	Sierra Meadows	Total Component Units
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 219,320	$ 138,406	$ 70,006	$ 65,865	$ 336,731	$ 133,071	$ 150,365	$ 1,113,764
Cash and cash equivalents - restricted	597,348	428,830	372,486	696,588	600,613	497,915	342,169	3,535,949
Accounts receivable - tenants, net	-	-	460	-	-	740	-	1,200
Accounts receivable - miscellaneous	13,123	-	15,465	-	-	-	8,045	36,633
Prepaid assets	281,779	523,865	323,278	14,476	17,844	689,804	30,569	1,881,615
Total current assets	1,111,570	1,091,101	781,695	776,929	955,188	1,321,530	531,148	6,569,161
NONCURRENT ASSETS								
Capital assets net of accumulated depreciation	10,960,265	4,728,945	6,814,395	11,558,011	11,348,798	8,323,920	9,488,975	63,223,309
Other assets	805,571	74,006	374,970	284,015	342,335	496,603	340,946	2,718,446
Total noncurrent assets	11,765,836	4,802,951	7,189,365	11,842,026	11,691,133	8,820,523	9,829,921	65,941,755
TOTAL ASSETS	$ 12,877,406	$ 5,894,052	$ 7,971,060	$ 12,618,955	$ 12,646,321	$ 10,142,053	$ 10,361,069	$ 72,510,916
LIABILITIES AND NET POSITION								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	$ 231,649	$ 37,743	$ 86,846	$ 102,330	$ 45,350	$ 53,347	$ 61,833	$ 619,098
Accrued interest payable	361	-	138,065	-	-	195,233	12,458	346,117
Accrued interest payable to HCHA	312,318	248,058	267,979	226,792	275,133	672,184	-	2,002,464
Current portion of mortgage notes payable	136,513	57,562	135,204	72,312	60,545	100,000	32,586	594,722
Unearned revenue	-	-	-	-	-	-	1,362,570	1,362,570
Total current liabilities	680,841	343,363	628,094	401,434	381,028	1,020,764	1,469,447	4,924,971
NONCURRENT LIABILITIES								
Mortgage notes payable, net of current portion	11,283,440	2,920,725	6,409,336	4,356,096	3,674,390	7,641,440	9,303,012	45,588,439
Mortgage notes payable - HCHA	731,420	625,000	550,000	500,000	700,000	1,390,000	-	4,496,420
Noncurrent liabilities - other	775,349	-	-	-	-	-	44,823	820,172
Total noncurrent liabilities	12,790,209	3,545,725	6,959,336	4,856,096	4,374,390	9,031,440	9,347,835	50,905,031
Total liabilities	13,471,050	3,889,088	7,587,430	5,257,530	4,755,418	10,052,204	10,817,282	55,830,002
NET POSITION								
Net invested in capital assets	(1,191,108)	1,125,658	(280,145)	6,629,603	6,913,863	(807,520)	153,377	12,543,728
Restricted	572,205	401,769	335,384	609,044	569,229	484,860	308,456	3,280,947
Unrestricted	25,259	477,537	328,391	122,778	407,811	412,509	(918,046)	856,239
Total net position	(593,644)	2,004,964	383,630	7,361,425	7,890,903	89,849	(456,213)	16,680,914
TOTAL LIABILITIES AND NET POSITION	$ 12,877,406	$ 5,894,052	$ 7,971,060	$ 12,618,955	$ 12,646,321	$ 10,142,053	$ 10,361,069	$ 72,510,916

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY HOUSING AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – DISCRETELY PRESENTED COMPONENT UNITS
Year Ended March 31, 2015

	TX Bammel	Baybrook Park	Louetta Village	Waterside Court	Olive Grove	Cornerstone Village	Sierra Meadows	Total Component Units
OPERATING REVENUES								
Rental income	$ 1,591,651	$ 792,021	$ 1,010,211	$ 1,264,273	$ 1,287,230	$ 1,187,538	$ 743,396	$ 7,876,320
Other revenues	10,570	29,599	6,276	42,288	31,732	25,615	17,670	163,750
Total operating revenues	1,602,221	821,620	1,016,487	1,306,561	1,318,962	1,213,153	761,066	8,040,070
OPERATING EXPENSES								
Administrative	266,844	261,552	294,776	357,268	369,622	303,511	172,429	2,026,002
Tenant services	40,833	8,306	11,400	17,484	25,130	31,056	-	134,209
Utilities	53,570	41,065	78,115	125,486	92,871	106,073	86,115	583,295
Ordinary maintenance and operations	437,991	126,759	144,842	274,620	253,517	179,772	111,436	1,528,937
General	417,885	83,450	96,891	98,368	98,579	313,123	66,652	1,174,948
Total operating expenses	1,217,123	521,132	626,024	873,226	839,719	933,535	436,632	5,447,391
Operating income (loss) before depreciation	385,098	300,488	390,463	433,335	479,243	279,618	324,434	2,592,679
Depreciation and amortization	468,514	231,629	249,088	485,350	455,893	327,972	426,333	2,644,779
Total operating income (loss)	(83,416)	68,859	141,375	(52,015)	23,350	(48,354)	(101,899)	(52,100)
NON-OPERATING REVENUES (EXPENSES)								
Interest income	137	3,039	6	1,730	1,110	8	170	6,200
Exchange fund income	84,720	-	-	-	-	-	227,614	312,334
Interest expense	(104,365)	(224,651)	(138,772)	(360,647)	(292,080)	(193,677)	(147,486)	(1,461,678)
Total nonoperating revenues (expenses), net	(19,508)	(221,612)	(138,766)	(358,917)	(290,970)	(193,669)	80,298	(1,143,144)
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(102,924)	(152,753)	2,609	(410,932)	(267,620)	(242,023)	(21,601)	(1,195,244)
Distributions	(6,329)	(38,622)	(184,000)	(46,098)	(55,156)	-	-	(330,205)
CHANGE IN NET POSITION	(109,253)	(191,375)	(181,391)	(457,030)	(322,776)	(242,023)	(21,601)	(1,525,449)
TOTAL NET POSITION, BEGINNING OF YEAR	(484,391)	2,196,339	565,021	7,818,455	8,213,679	331,872	(434,612)	18,206,363
TOTAL NET POSITION, END OF YEAR	$ (593,644)	$ 2,004,964	$ 383,630	$ 7,361,425	$ 7,890,903	$ 89,849	$ (456,213)	$ 16,680,914

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Harris County Housing Authority (the Authority) 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 Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties.* Under LGC Chapter 392, the Authority 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 Authority in accordance with LGC Chapter 392 by declaring the following:

- There is unsanitary or unsafe inhabited housing in the County;
- 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
- 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 Authority in accordance with LGC Chapter 392. There are five commissioners governing the Authority serving staggered two year terms. The staggered two year terms apply to two and three of the Authority's five commissioners, respectively, every other year. The Court appoints all Authority commissioners when terms expire.

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

On July 2, 2002, the Court approved a plan whereby the Authority 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 Authority.

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

The agreement additionally provided for the provision of office space and telecommunications services by the County. The Interlocal Agreement was extended through February 28, 2010, with updates and modifications. At February 28, 2010, the Interlocal Agreement was not extended.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include all of its accounts and activities. Under LGC Chapter 392, the Authority is a separate unit of government. Based on criteria prescribed by accounting principles generally accepted in the United States of America, the Authority is no longer considered a component unit of the County or any other entity. The Court appoints all Authority Commissioners and may remove commissioners under LGC Chapter 392, however, the Authority has complete legislative and administrative authority and it recruits and employs personnel. 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 Authority is a part of any other governmental or other type of reporting entity. As noted above, the Authority is not considered a component unit of any other entity.

The criteria for including organizations as component units within the Authority'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:

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

The 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 Authority 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 Authority's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the Authority and are governed by separate Boards. See Note 8 for additional details relating to the Authority'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., Olive Grove Manor, Ltd and Sierra Meadows, 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, 2014. As the general partner of the partnerships, the Authority receives the audited financial statements for the partnerships. Therefore, complete financial statements for each of the Limited Partnerships can be obtained from the Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Drive, Houston, TX 77054.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

Blended Component Units - The Authority formed an LLC for the development of Cypresswood Estates. For financial reporting purposes, Cypresswood Estates is included in the operations and activities of the Authority as a blended component unit.

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.

Basis of Presentation

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authority's activities are business-type in nature and the Authority 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 Authority consist of Management's Discussion and Analysis (MD&A), Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and Notes to Financial Statements.

Measurement Focus and Basis of Accounting

The Authority 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 position, financial position, and cash flows. All assets and liabilities associated with the proprietary fund's activities are included on the Statement of Net Position. Proprietary net position are segregated into Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

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 non-operating revenues and expenses. The principal operating revenues of the Authority are the moneys provided by the U.S. Department of HUD and other government grants. The Authority's operating expenses consist primarily of Housing Assistance Payments (HAP) and related administrative costs for the HUD Section 8 Program, including depreciation and allocations of overhead costs to the affordable housing operation.

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. Certificates of Deposit are considered cash equivalents regardless of their maturity date. All investments are recorded at fair value based upon quoted market prices as of the Authority'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 Authority 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.

In the financial statements, restricted net position is 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 Authority's HUD Section 8 grant programs.

Accounts Receivable

Accounts receivable consist of payments due from HUD and related affiliates, payments from tenants and other miscellaneous receivables arising from the normal course of operations. A reserve for uncollectible accounts is established based on management's estimates.

Prepaid Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

Investment in Partnerships

The Authority has made contributions to the partnerships and has recognized the amount based on the fair value of the amount contributed.

Capital Assets

Capital assets of the Authority are defined as assets with individual costs of $1,000 or more and estimated useful lives in excess of one year. All capital assets are stated at historical cost or estimated fair market value at the date of purchase. Donated capital 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 39 years. Buildings are depreciated over a 39-year useful life. Leasehold improvements are depreciated over a 10-year useful life. Equipment is depreciated over 3 to 5 years, depending on the type.

Capital assets include leasehold improvements made to the building the Authority is leasing and equipment used in the Authority's operations that benefit more than a single fiscal year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Authority 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, 2015.

Compensated Absences

Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee. Eligible employees earn 10 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 60 calendar days of sick leave benefits. Unused sick leave benefits are not paid at termination. Eligible employees accrue from two to five weeks of vacation per year, depending on years of service. Employees may accumulate up to two times the annual vacation amount. Employees will be paid for unused vacation time upon termination. A liability for vacation earned, but not taken, has been recorded.

Nonexempt employees earn compensatory time at one-and-a-half their full pay times the excess of 40 hours worked. The compensatory time balance for nonexempt employees cannot 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, nonexempt employees are paid for any outstanding compensatory time balance at the higher of (1) their final, regular rate of pay or (2) the employee's average regular rate of pay during the last three years of employment. Accordingly, a liability for compensatory time earned, but not taken by termination of employment has been recorded.

Net Position

Certain assets may be classified as restricted net position on the Statement of Net Position because their use is restricted for specific purposes. It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Net position is displayed in three components:

Net Investment in Capital Assets This component of net position consists of all capital assets reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (continued)

Restricted Net Position: This component of net position consists of restricted assets when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. The Authority's restricted net position consists of escrows held for debt service, investments in projects, program income, reserve accounts, and excess housing assistance payments, as applicable.

Unrestricted Net Position: This component consists of net position that does not meet the definition of "Net Investment in Capital Assets," or "Restricted Net Position."

Budgets

The Authority'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 Authority's costs to administer these programs. The affordable housing program generates ground lease revenue and developer fee revenue available for other housing programs. The annual administrative operating budget for the HUD Section 8 and affordable housing programs are incorporated into the Authority's overall annual operating budget that includes HAP and costs related to providing affordable housing to senior citizens. The annual budget process starts prior to the subsequent fiscal year. The Authority'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 Authority's Board of Commissioners. Necessary changes to the budget are also approved by the Authority's Board of Commissioners throughout the year. The Authority's finance department presents detailed administrative budget reports along with financial information on HAP affordable housing and other program costs to the Authority's Board of Commissioners for review at each board meeting.

Risk Management

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

All employees of the Authority are covered by workers' compensation program insurance. Premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The Authority provides medical, dental, vision and basic life and disability insurance to eligible employees. The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid to contracted insurance providers based upon monthly enrollment and premium calculations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Authority implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement had no impact on the Authority's financial statements. The Authority implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on that guarantee. This statement had no impact on the Authority's financial statements.

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) currently is available for funds deposited at any one financial institution up to a maximum of $250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. Noninterest-bearing accounts are fully insured, regardless of the balance of the account at all FDIC insured institutions. 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.

Investments

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the Authority 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

The Authority's Investment policy is reviewed and approved annually by the Board of Commissioners. The Investment Policy includes a list of authorized investment instruments. In accordance with the Money Market Mutual Fund agreement with Amegy bank, the Authority's daily balance is used to purchase shares of Fidelity Institutional Money Market Government Portfolio Class I. Fidelity Institutional Money Market Government Portfolio Class I is ranked by Lipper as No. 29 out of 164 U.S. Government Money Market Funds for its one year performance, No. 4 out of 126 funds for its five year performance and No. 5 out of 77 funds for its 10 year performance. It is ranked Aaa by Moody's.

Cash and Cash Equivalents

The Authority's cash and cash equivalents had a carrying value of $3,360,035 and a bank balance of $3,427,198 as of March 31, 2015.

Restricted Cash

At March 31, 2015, $1,236,805 of the Authority's cash is restricted.

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 Authority manages its exposure to interest rate risk is by investing in overnight instruments.

Concentration of Credit Risk

At March 31, 2015, the Authority maintained cash balances at one bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to $250,000.

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the Authority's $3,360,035 in cash and cash equivalents at March 31, 2015, the entire balance is held in an account with one counterparty.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2015, was as follows:

	Balance 2014	Additions	Transfers & Disposals	Balance 2015
Capital assets, not being depreciated:				
Land	$ 7,812,569	$ -	$ -	$ 7,812,569
Construction in progress	5,000	453,160	-	458,160
Total capital assets not being depreciated	7,817,569	453,160	-	8,270,729
Depreciable capital assets:				
Building	15,223,273	-	-	15,223,273
Leasehold improvements	1,065,701	-	-	1,065,701
Furniture and equipment	526,251	36,394	(3,351)	559,294
Total depreciable capital assets	16,815,225	36,394	(3,351)	16,848,268
Less accumulated depreciation	(2,552,394)	(422,922)	(2,103)	(2,977,419)
Total capital assets, being depreciated, net	14,262,831	(386,528)	(5,454)	13,870,849
Total capital assets, net	$ 22,080,400	$ 66,632	$ (5,454)	$ 22,141,578

Capital asset activity for the component units was as follows:

	Capital Assets	Accumulated Depreciation	Net Book Value
Louetta Village Apartments 45, LP	$ 9,390,937	$ (2,576,542)	$ 6,814,395
Baybrook Park Retirement Center, Ltd	7,643,730	(2,914,785)	4,728,945
TX Bammel Housing, LP	16,472,420	(5,512,155)	10,960,265
Cornerstone Village Apartments, LP	11,801,188	(3,477,268)	8,323,920
Waterside Court, Ltd	15,735,011	(4,177,000)	11,558,011
Olive Grove Manor, Ltd	14,284,000	(2,935,202)	11,348,798
Sierra Meadows, Ltd	11,014,817	(1,525,842)	9,488,975
Totals	$ 86,342,103	$ (23,118,794)	$ 63,223,309

NOTE 4 – NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE

The Authority 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 in effect at the time of the loan and mature on varying dates between the years of 2027 and 2038. As of March 31, 2015, total outstanding principal and accrued interest on these loans were $4,496,420 and $2,002,464, respectively.

NOTE 4 – NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE (CONTINUED)

Borrower	Loan Amount	Date of Loan	Interest Rate	Balance 3/31/2015	Accrued Interest Receivable
Louetta Village Apartments 45, LP	$ 550,000	1/1/2005	4.27%	$ 550,000	$ 267,979
Baybrook Park Retirement Center, Ltd	625,000	6/21/2005	4.57%	625,000	248,058
TX Bammel Housing, LP	731,420	1/18/2005	4.27%	731,420	312,318
Cornerstone Village Apartments, LP	1,400,000	4/30/2005	5.00%	1,390,000	672,184
Waterside Court, Ltd	500,000	6/22/2006	5.32%	500,000	226,792
Olive Grove Manor, Ltd	700,000	12/21/2006	4.90%	700,000	275,133
Total				$ 4,496,420	$ 2,002,464

NOTE 5 – OTHER ASSETS

Other assets consist of the following:

Land held for sale - Patriots by the Lake property	$ 7,688,049

NOTE 6 – NOTES PAYABLE

On March 31, 2013, the Authority entered into an agreement with Community Bank of Texas for $3,500,000 at an interest rate of 4.25%. The first payment on the loan was on May 1, 2013 and the note is due on March 8, 2018. Monthly principal and interest payments are $17,218 and the entire unpaid balance will be due upon the maturity date.

Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
$ 3,447,427	$ -	$ 61,620	$ 3,385,807	$ 64,004

Annual debt service for principal and interest over the next five years are as follows:

	Principal	Interest	Total
2016	$ 64,004	$ 142,611	$ 206,615
2017	66,778	139,837	206,615
2018	3,255,025	139,539	3,394,564
Total	$ 3,385,807	$ 421,987	$ 3,807,794

NOTE 6 – NOTES PAYABLE (CONTINUED)

Notes payable activity for the component units was as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Louetta Village Apartments 45, LP	$ 7,194,540	$ -	$ (100,000)	$ 7,094,540	$ 135,204
Baybrook Park Retirement Center, Ltd	3,657,833	-	(54,546)	3,603,287	57,562
TX Bammel Housing, LP	12,257,070	-	(105,697)	12,151,373	136,513
Cornerstone Village Apartments, LP	9,331,440	-	(200,000)	9,131,440	100,000
Waterside Court, Ltd	4,996,571	-	(68,163)	4,928,408	72,312
Olive Grove Manor, Ltd	4,491,680	-	(56,745)	4,434,935	60,545
Sierra Meadows, Ltd.	9,971,203	-	(635,605)	9,335,598	32,586
Totals	$ 51,900,337	$ -	$ (1,220,756)	$ 50,679,581	$ 594,722

NOTE 7 – OTHER LIABILITIES

The summary of changes in noncurrent liabilities is as follows:

	Balance March 31, 2014	Additions	Redemptions	Balance March 31, 2015	Due Within One Year
Accrued compensated absences	$ 131,756	$ 37,326	$ -	$ 169,082	$ 42,270

NOTE 8 – LEASES

Effective August 16, 2012, the Authority entered into a lease for office space at 8933 Interchange Dr., Houston, TX. The lease term is thirty seven (37) months and expires August 31, 2015. Subsequent to March 31, 2015, the lease was extended for an additional thirty-six (36) months through August 31, 2018. The Authority moved their administrative offices to this site in early 2010. For the year ending March 31, 2015, the base rent was $18,476.25 each month.

The following is a schedule by years of required future minimum lease payments:

Year Ending March 31:	
2016	$ 236,085
2017	248,403
2018	270,985
2019	112,910
Total minimum payments required	$ 868,383

NOTE 9 – COMPONENT UNITS

Blended Component Unit

HCHA Cypresswood Estates, LLC is the 100% owner of the Cypresswood Estates Development and was placed in service in June 2011. The Authority is the sole member of the LLC. The Authority received $14,354 of developer fees during the fiscal year ended March 31, 2015 and all developer fees have been paid.

Discretely Presented 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.; HCHA Olive Grove, LLC is a partner in Olive Grove Manor, Ltd.; HCHA Waterside, LLC is a partner in Waterside Court, Ltd; and HCHA Sierra Meadows, LLC, is a partner in Sierra Meadows, Ltd. The 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 negative equity of $314 in Cornerstone Village Apartments, L.P. at December 31, 2014. The Authority and Cornerstone Village Apartments, L.P. have 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. The Authority and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of $700,000 to the Authority 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 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 negative equity of $529 in TX Bammel Housing, L.P. at December 31, 2014. The 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. The 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.

HCHA Louetta, LLC has negative equity of $436,533 in Louetta Village Apartments 45, L.P. at December 31, 2014. The 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. The 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.

NOTE 9 – COMPONENT UNITS (CONTINUED)

Discretely Presented Component Units (continued)

HCHA Baybrook Park Retirement Center, Ltd. has negative equity of $158 in Baybrook Park Retirement Center, Ltd. at December 31, 2014. The 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. The 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 equity of $234,002 in Olive Grove Manor, Ltd. at December 31, 2014. The 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. The Authority has a Note Receivable from Olive Grove Manor, Ltd. in the amount of $700,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Waterside, LLC has negative equity of $392 in Waterside Court, Ltd. at December 31, 2014. The 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. The Authority has a Note Receivable from Waterside Court, Ltd. in the amount of $500,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Sierra Meadows, LLC has negative equity of $45 in Sierra Meadows, Ltd. at December 31, 2014. The Authority and Sierra Meadows, Ltd. have a 45-year ground lease agreement signed December 9, 2009. Under the terms of the lease, the annual lease amount for Sierra Meadows, Ltd. is seventy-five thousand ($75,000) 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.

NOTE 10 – RETIREMENT PLAN

Plan Description

The Authority provides retirement for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 nontraditional defined benefit pension plans.

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the Authority has the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective March 1, 2010, the Authority adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 20-year amortization period which began March 1, 2010 using the entry age actuarial cost method. Monthly contributions by the Authority are based on the covered payroll and the employer contribution rate in effect. The Authority's contribution rate for 2014 was 8.31%. The contribution rate for 2015 is 7.33%.

The plan provisions were adopted by the Board of Commissioners of the Authority, within the options available in the state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive an employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the Authority.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by the Board of Commissioners, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The Authority has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the Authority is actuarially determined annually. The Authority contributed to the Plan using the actuarially determined rate of 7.33% for the year ended December 2014.

The contribution rate payable by the employee members for the fiscal year ended March 31, 2015 is 7% as adopted by the Board of Commissioners. The employee contribution rate and the employer contribution rate may be changed by the Board of Commissioners within the options available in the TCDRS Act.

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the calendar year ending December 31, 2014, pension plan contributions by the Authority and the contributions by its employees were $156,399 and $129,458, respectively. The Authority's annual required contribution was determined through an actuarial valuation performed as of December 31, 2014. The Plan uses the entry age actuarial cost method and level percent of payroll to determine required contributions. Significant actuarial assumptions used to compute the annual contribution requirement are as follows:

Valuation Date	12/31/14
Actuarial Cost Method	Entry Age
Amortization Method	20 year period as a level percent of covered payroll
Remaining Amortization Period	20 years
Asset Valuation Method	10-year recognition of the difference between the expected and the actual interest credited to the Subdivision Accumulation Fund (SAF) for each year. An additional recognition is required when, after the 10-year recognition is applied, the actuarial value of the SAF is outside the corridor of 60%-140% of the fund value. The actuarial value of the ESF is equal to its fund value.

Economic Assumptions:	
TCDRS system-wide	
Real rate of return	4.5%
Inflation	3.5%
Long-term investment return	8.0%
Employer specific	
Growth in membership	0.0%
Payroll growth	5.4%

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
12/31/2014	$ 1,930,016	$ 1,626,537	$ (303,479)	118.66%	$ 1,753,601	-17.31%

For purposes of this schedule, the AAL for the Plan is determined using the entry age actuarial cost method.

NOTE 11 – ECONOMIC DEPENDENCY

Most of the Authority's revenues are provided by HUD grants and related revenues. The Authority 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 Authority's ability to meet its operating and related administrative expenses under its current operating structure.

NOTE 12 – CONTINGENCIES

The Authority is currently the defendant and counter-plaintiff in litigation against the former Chief Executive Officer (CEO) for breach of contract. The CEO is seeking a one-time severance payment of $137,000. The Authority has not paid the severance due to additional investigations being conducted by the U.S. Department of HUD and other regulatory agencies for possible mismanagement of funds by the CEO and third-party defendants. After the Texas Supreme Court denied the Authority's defense of sovereign immunity, the Authority filed an Amended Answer, Original Counterclaim and Original Third-Party Petition against four additional third-party defendants. The attorneys representing the Authority in this lawsuit will be paid on a contingency fee basis.

On May 30, 2014, the Authority signed into 5 repayment agreements with the U.S. Department of HUD based on the results of audit findings detailed in an OIG report dated June 19, 2013. All five of the repayment agreements are subject to quarterly payments to HUD totaling $15,000 each quarter for 10 years with a balloon payment of the full balance at the end of the 10 years. HCHA has also committed to paying up to the full amount of the net proceeds from the sale of the West Lake Houston property (a.k.a. Patriots by the Lake) within 60 days of the receipt of those funds. The repayment agreements are not dependent upon the sale of the West Lake Houston property, because HCHA has up to 10 years to repay the amounts subject to the repayment agreements. The Authority will repay these monies from non-federal sources to the applicable Authority programs when available. The repayment agreements are as follows:

Finding Number	Finding Description	Amount	Quarterly Payment	3/31/2015 Balance
1A	Unsupported Expenses	$ 679,174	$ 1,200	$ 675,574
2D	Cypresswood Estates	2,827,829	5,000	2,812,829
2E	Damage Assessment	2,971,168	6,550	2,951,518
3B	Conflict of Interest	574,143	1,000	571,143
3C	Questionable Contracts	604,193	1,250	600,443
	Total	$ 7,656,507	$ 15,000	$ 7,611,507

NOTE 13 – PENDING GASB PRONOUNCEMENTS

GASB routinely issues standards that will become effective in future years. The following is a list of standards that have been issued that management has determined may have an impact on future financial statements of the Authority. Management is currently evaluating the specific impact of these Standards.

NOTE 13 – PENDING GASB PRONOUNCEMENTS (CONTINUED)

The Authority will be required to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB 68* for the period ending March 31, 2016. These statements establish accounting and financial reporting standards related to government pension plans. The Authority is currently evaluating the impact of these statements.

The Authority will be required to implement GASB Statement No. 72, *Fair Value Measurement and Application* for the period ending March 31, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement is not expected to have an impact on the Authority.

The Authority will be required to implement GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* for the period ending March 31, 2016. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement is not expected to have an impact on the Authority.

NOTE 14 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

Condensed combining information for the Authority's blended component unit as of and for the year ended March 31, 2015 is provided as follows:

Condensed Statement of Net Position – March 31, 2015

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
ASSETS			
Current assets	$ 277,334	$ 12,883,203	$ 13,160,537
Noncurrent assets	-	4,835,924	4,835,924
Capital assets	14,477,732	7,663,846	22,141,578
Total assets	$ 14,755,066	$ 25,382,973	$ 40,138,039
LIABILITIES			
Interprogram liabilities	$ 4,485,734	$ (4,485,734)	$ -
Other current liabilities	102,858	4,880,423	4,983,281
Noncurrent liabilities	3,321,803	126,812	3,448,615
Total liabilities	$ 7,910,395	$ 521,501	$ 8,431,896
NET POSITION			
Net investment in capital assets	$ 11,091,925	$ 7,663,846	$ 18,755,771
Restricted	44,035	4,331,878	4,375,913
Unrestricted	(4,291,289)	12,865,748	8,574,459
Total net position	$ 6,844,671	$ 24,861,472	$ 31,706,143

NOTE 14 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS (CONTINUED)

Condensed Statement of Revenues, Expenses and Changes in Net Position – March 31, 2015

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
OPERATING REVENUES			
Tenant revenue	$ 777,541	$ -	$ 777,541
Other revenues	5,134	36,204,139	36,209,273
Total operating revenues	782,675	36,204,139	36,986,814
OPERATING EXPENSES			
Administrative	163,601	2,951,918	3,115,519
Tenant services	-	-	-
Utilities	44,714	44,863	89,577
Ordinary maintenance and operations	134,285	165,170	299,455
Protective services	-	46,290	46,290
General expenses	58,935	293,389	352,324
Housing assistance payments	-	31,697,906	31,697,906
Depreciation	397,873	25,049	422,922
Total operating expenses	799,408	35,224,585	36,023,993
Operating income (loss)	(16,733)	979,554	962,821
Total non-operating revenues (expenses)	(408,180)	316,073	(92,107)
CHANGES IN NET POSITION	(424,913)	1,295,627	870,714
TOTAL NET POSITION, BEGINNING OF YEAR	7,269,584	23,565,845	30,835,429
TOTAL NET POSITION, END OF YEAR	$ 6,844,671	$ 24,861,472	$ 31,706,143

NOTE 14 – CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS (CONTINUED)

Condensed Statement of Cash Flows – March 31, 2015

	Cypresswoods Estates	Harris County Housing Authority	Primary Government
Net cash provided by (used in)			
Operating activities	$ (33,147)	$ 1,287,032	$ 1,253,885
Capital and related financing activities	(56,166)	(640,003)	(696,169)
Investing activities	-	52,888	52,888
Net increase/(decrease) in cash	(89,313)	699,917	610,604
Cash and cash equivalents, beginning of year	364,924	2,384,507	2,749,431
Cash and cash equivalents, end of year	$ 275,611	$ 3,084,424	$ 3,360,035

SUPPLEMENTAL INFORMATION

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2015

Line Item #	Accounts Description	Housing Choice Vouchers	DHAP - IKE	Section 8 Moderate Rehabilitation	Cypresswood Estates (Blended CU)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	CURRENT ASSETS										
	Cash:										
111	Unrestricted	$ -	$ 21,600	$ 168,370	$ 201,094	$ 1,460,307	$ 271,859	$ -	$ 2,123,230	$ 1,113,764	$ 3,236,994
113	Other restricted	1,162,288	-	-	44,035	-	-	-	1,206,323	3,357,524	4,563,847
114	Tenant security deposits	-	-	-	30,482	-	-	-	30,482	178,425	208,907
115	Cash - restricted for current liabilities	-	-	-	-	-	-	-	-	-	-
100	Total cash	1,162,288	21,600	168,370	275,611	1,460,307	271,859	-	3,360,035	4,649,713	8,009,748
	Accounts and notes receivable:										
121	Accounts receivable - PHA projects	35,166	-	-	-	-	-	-	35,166	-	35,166
122	Accounts receivable - HUD other projects	4,065	-	646	-	-	-	-	4,711	-	4,711
124	Accounts receivable - Other government	-	-	-	-	-	-	-	-	4,864	4,864
125	Miscellaneous	-	-	-	-	1,000	1,606	-	2,606	31,769	34,375
126	Tenants	-	-	-	59	-	-	-	59	2,273	2,332
126.1	Allowance for doubtful accounts - tenants	-	-	-	-	-	-	-	-	(1,073)	(1,073)
128	Fraud recovery	41,751	-	-	-	-	-	-	41,751	-	41,751
128.1	Allowance for doubtful accounts - fraud	(23,034)	-	-	-	-	-	-	(23,034)	-	(23,034)
129	Accrued interest receivable	-	-	-	-	2,002,464	-	-	2,002,464	-	2,002,464
120	Total receivables, net of allowances for uncollectibles	57,948	-	646	59	2,003,464	1,606	-	2,063,723	37,833	2,101,556
142	Prepaid expenses and other assets	23,790	-	377	1,664	633	22,266	-	48,730	1,881,615	1,930,345
144	Interprogram - due from	1,708,710	4,485,733	4	-	657,362	4,781	(6,856,590)	-	-	-
145	Assets held for sale	-	-	-	-	7,688,049	-	-	7,688,049	-	7,688,049
150	Total current assets	2,952,736	4,507,333	169,397	277,334	11,809,815	300,512	(6,856,590)	13,160,537	6,569,161	19,729,698
	NONCURRENT ASSETS										
	Fixed assets:										
161	Land	-	-	-	750,000	7,062,569	-	-	7,812,569	21,841,545	29,654,114
162	Buildings	-	-	-	15,223,273	-	-	-	15,223,273	56,622,011	71,845,284
164	Furniture, equipment & mach - admin.	461,740	-	-	31,377	59,454	6,723	-	559,294	7,878,547	8,437,841
165	Leasehold improvements	1,020,460	-	-	4,165	41,076	-	-	1,065,701	-	1,065,701
166	Accumulated depreciation	(1,377,527)	-	-	(1,531,083)	(67,648)	(1,161)	-	(2,977,419)	(23,118,794)	(26,096,213)
167	Construction in progress	-	-	-	-	458,160	-	-	458,160	-	458,160
160	Total fixed assets, net of accumulated depreciation	104,673	-	-	14,477,732	7,553,611	5,562	-	22,141,578	63,223,309	85,364,887
171	Notes, loans and mortgages receivable - noncurrent	-	-	-	-	4,496,420	-	-	4,496,420	-	4,496,420
174	Other assets	-	-	-	-	-	-	-	-	2,718,446	2,718,446
176	Investments in Joint Venture	-	-	-	-	339,504	-	-	339,504	-	339,504
180	Total noncurrent assets	104,673	-	-	14,477,732	12,389,535	5,562	-	26,977,502	65,941,755	92,919,257
190	**TOTAL ASSETS**	$ 3,057,409	$ 4,507,333	$ 169,397	$ 14,755,066	$ 24,199,350	$ 306,074	$ (6,856,590)	$ 40,138,039	$ 72,510,916	$ 112,648,955

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2015

Line Item #	Accounts Description	Housing Choice Vouchers	DHAP - IKE	Section 8 Moderate Rehabilitation	Cypresswood Estates (Blended CU)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	CURRENT LIABILITIES										
311	Bank overdraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
312	Accounts payable <= 90 days	46,568	-	414	7,907	58,673	17,888	-	131,450	364,096	495,546
321	Accrued wage/payroll taxes payable	32,221	-	617	-	6,950	21,415	-	61,203	-	61,203
322	Accrued compensated absences - current portion	27,210	-	-	-	5,575	9,485	-	42,270	-	42,270
325	Accrued interest payable	-	-	-	-	-	-	-	-	2,348,581	2,348,581
331	Accounts payable - HUD	2,431	2,933,154	36,794	-	-	-	-	2,972,379	-	2,972,379
341	Tenant security deposits	-	-	-	30,482	-	-	-	30,482	255,002	285,484
342	Deferred revenues	-	-	-	465	1,681,028	-	-	1,681,493	1,362,570	3,044,063
343	Current portion of LT debt - capital projects/ mortgage revenue	-	-	-	64,004	-	-	-	64,004	594,722	658,726
345	Other current liabilities	-	-	-	-	-	-	-	-	-	-
346	Other liabilities	-	-	-	-	-	-	-	-	-	-
347	Interprogram (due to)	2,370,856	-	-	4,485,734	-	-	(6,856,590)	-	-	-
348	Loan liability - current	-	-	-	-	-	-	-	-	-	-
310	Total current liabilities	2,479,286	2,933,154	37,825	4,588,592	1,752,226	48,788	(6,856,590)	4,983,281	4,924,971	9,908,252
	NONCURRENT LIABILITIES										
351	Long-term debt, net of current - capital projects/ mortgage revenue	-	-	-	3,321,803	-	-	-	3,321,803	50,084,859	53,406,662
352	Long-term debt, net of current - operating borrowings	-	-	-	-	-	-	-	-	-	-
353	Non-current liabilities - other	-	-	-	-	-	-	-	-	820,172	820,172
354	Accrued compensated absences - noncurrent	81,631	-	-	-	16,725	28,456	-	126,812	-	126,812
355	Loan liability - non current	-	-	-	-	-	-	-	-	-	-
350	Total noncurrent liabilities	81,631	-	-	3,321,803	16,725	28,456	-	3,448,615	50,905,031	54,353,646
300	Total liabilities	2,560,917	2,933,154	37,825	7,910,395	1,768,951	77,244	(6,856,590)	8,431,896	55,830,002	64,261,898
	EQUITY										
508.1	Invested in capital assets	104,673	-	-	11,091,925	7,553,611	5,562	-	18,755,771	12,543,728	31,299,499
511.1	Restricted net position	4,331,878	-	-	44,035	-	-	-	4,375,913	3,280,947	7,656,860
512.1	Unrestricted net position	(3,940,059)	1,574,179	131,572	(4,291,289)	14,876,788	223,268	-	8,574,459	856,239	9,430,698
513	Total equity/net position	496,492	1,574,179	131,572	6,844,671	22,430,399	228,830	-	31,706,143	16,680,914	48,387,057
600	**TOTAL LIABILITIES AND EQUITY/NET POSITION**	$ 3,057,409	$ 4,507,333	$ 169,397	$ 14,755,066	$ 24,199,350	$ 306,074	$ (6,856,590)	$ 40,138,039	$ 72,510,916	$ 112,648,955

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2015

Line Item #	Accounts Description	Housing Choice Vouchers	DHAP - IKE	Section 8 Moderate Rehabilitation	Cypresswood Estates (Blended CU)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	REVENUE										
70300	Net tenant rental revenue	$ -	$ -	$ -	$ 755,165	$ -	$ -	$ -	$ 755,165	$ 7,876,320	$ 8,631,485
70400	Tenant revenue - other	-	-	-	22,376	-	-	-	22,376	163,750	186,126
70500	Total tenant revenue	-	-	-	777,541	-	-	-	777,541	8,040,070	8,817,611
70600	HUD PHA operating grants	33,851,531	-	358,085	-	-	-	-	34,209,616	-	34,209,616
70710	Management fee	-	-	-	-	-	622,308	(622,308)	-	-	-
70730	Book keeping fee	-	-	-	-	-	388,943	(388,943)	-	-	-
71100	Investment income - unrestricted	-	-	-	816	52,063	-	-	52,879	6,064	58,943
71400	Fraud recovery	54,895	-	-	-	-	-	-	54,895	-	54,895
71500	Other revenue	996,272	-	574	5,134	925,965	16,817	-	1,944,762	312,334	2,257,096
72000	Investment income - restricted	9	-	-	-	-	-	-	9	136	145
70000	Total revenue	34,902,707	-	358,659	783,491	978,028	1,028,068	(1,011,251)	37,039,702	8,358,604	45,398,306
	EXPENSES										
	Administrative:										
91100	Administrative salaries	1,129,497	-	21,236	70,876	212,710	384,755	-	1,819,074	600,907	2,419,981
91200	Auditing fees	55,671	-	557	-	2,324	1,397	-	59,949	76,844	136,793
91300	Management fee	611,448	-	10,860	39,303	-	-	(622,308)	39,303	760,759	800,062
913.10	Bookkeeping fee	382,155	-	6,788	-	-	-	(388,943)	-	-	-
91500	Employee benefit contributions - administrative	355,691	-	3,350	20,740	50,980	101,577	-	532,338	200,618	732,956
91600	Office expense	260,772	-	3,954	17,461	25,860	152,508	-	460,555	177,818	638,373
91700	Legal expense	3,558	-	-	241	16,955	-	-	20,754	2,265	23,019
91800	Travel	-	-	-	225	-	-	-	225	17,176	17,401
91900	Other	76,699	-	1,586	14,755	6,829	83,452	-	183,321	189,615	372,936
	Total administrative	2,875,491	-	48,331	163,601	315,658	723,689	(1,011,251)	3,115,519	2,026,002	5,141,521
	Tenant services:										
92400	Other	-	-	-	-	-	-	-	-	134,209	134,209
	Total tenant services	-	-	-	-	-	-	-	-	134,209	134,209
	Utilities:										
93100	Water	3,599	-	66	30,606	165	2,111	-	36,547	396,719	433,266
93200	Electricity	23,488	-	428	14,108	1,079	13,927	-	53,030	181,111	234,141
93300	Gas	-	-	-	-	-	-	-	-	5,465	5,465
	Total utilities	27,087	-	494	44,714	1,244	16,038	-	89,577	583,295	672,872
	Ordinary maintenance & operations:										
94100	Labor	-	-	-	41,906	-	-	-	41,906	274,262	316,168
94200	Materials and other	13,635	-	24	24,684	1,500	4,766	-	44,609	93,819	138,428
94300	Contracts	28,243	-	44	55,515	90,375	26,188	-	200,365	1,081,544	1,281,909
94500	Employee benefits contribution	-	-	395	12,180	-	-	-	12,575	79,312	91,887
	Total ordinary maintenance & operations	41,878	-	463	134,285	91,875	30,954	-	299,455	1,528,937	1,828,392
	Protective services:										
95300	Other	28,029	-	509	-	1,285	16,467	-	46,290	-	46,290
95000	Total protective services	28,029	-	509	-	1,285	16,467	-	46,290	-	46,290
96140	All other insurance	16,379	-	113	54,385	2,518	5,935	-	79,330	438,602	517,932
96100	Total insurance premiums	16,379	-	113	54,385	2,518	5,935	-	79,330	438,602	517,932

HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2015

Line Item #	Accounts Description	Housing Choice Vouchers	DHAP - IKE	Section 8 Moderate Rehabilitation	Cypresswood Estates (Blended CU)	Business Activities	COCC	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
	EXPENSES (Continued)										
	General expenses:										
96200	Other general expenses	$ 25,418	$ -	$ -	$ 4,550	$ -	$ -	$ -	$ 29,968	$ 699,647	$ 729,615
96210	Compensated absences	113,128	-	225	-	22,891	43,001	-	179,245	-	179,245
96400	Bad debt - tenant rents	-	-	-	-	27,557	-	-	27,557	36,699	64,256
96600	Bad debt - other	36,224	-	-	-	-	-	-	36,224	-	36,224
96000	Total general expenses	174,770	-	225	4,550	50,448	43,001	-	272,994	736,346	1,009,340
96710	Interest of mortgage payable	-	-	-	-	-	-	-	-	1,461,678	1,461,678
96720	Interest on notes payable	-	-	-	144,995	-	-	-	144,995	-	144,995
96700	Total interest expense and amortization cost	-	-	-	144,995	-	-	-	144,995	1,461,678	1,606,673
96900	Total operating expenses	3,163,634	-	50,135	546,530	463,028	836,084	(1,011,251)	4,048,160	6,909,069	10,957,229
97000	Excess of operating revenue over operating expenses	31,739,073	-	308,524	236,961	515,000	191,984	-	32,991,542	1,449,535	34,441,077
97300	Housing assistance payments	30,487,366	-	293,357	-	-	-	-	30,780,723	-	30,780,723
97350	HAP portability- in	917,183	-	-	-	-	-	-	917,183	-	917,183
97400	Depreciation expense	18,230	-	-	397,873	5,686	1,133	-	422,922	2,644,779	3,067,701
90000	Total expenses	34,586,413	-	343,492	944,403	468,714	837,217	(1,011,251)	36,168,988	9,553,848	45,722,836
	Other financing sources (uses):										
10010	Operating transfer in	554,089	21,600	-	-	264,001	-	-	839,690	-	839,690
10020	Operating transfer out	-	-	-	(264,001)	(503,333)	(72,356)	-	(839,690)	-	(839,690)
10080	Special items	-	-	-	-	-	-	-	-	(330,205)	(330,205)
10100	Total other financing sources (uses)	554,089	21,600	-	(264,001)	(239,332)	(72,356)	-	-	(330,205)	(330,205)
10000	EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES	$ 870,383	$ 21,600	$ 15,167	$ (424,913)	$ 269,982	$ 118,495	$ -	$ 870,714	$ (1,525,449)	$ (654,735)
	Memo Account Information										
11030	Beginning equity	$ (2,082,601)	$ 1,552,579	$ 116,405	$ 7,269,584	$ 23,869,127	$ 110,335	$ -	$ 30,835,429	$ 18,206,363	$ 49,041,792
11040	Prior period adjustments, equity transfers correction	1,708,710	-	-	-	(1,708,710)	-	-	-	-	-
11170	Administrative fee equity	(3,835,386)	-	-	-	-	-	-	(3,835,386)	-	(3,835,386)
11180	Housing assistance payments equity	4,331,878	-	-	-	-	-	-	4,331,878	-	4,331,878
11190	Unit months available	51,054	-	960	1,056	-	-	-	53,070	11,400	64,470

SINGLE AUDIT REPORT

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Independent Auditors' 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*

To the Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund and the aggregate discretely presented component units of Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 24, 2015. Our report includes a reference to other auditors who audited the financial statements of TX Bammel Housing LP, Baybrook Retirement Center, Ltd., Louetta Village Apartments 45, LP, Waterside Court, Ltd., Olive Grove Manor, Ltd., Cornerstone Village Apartments, L.P., and Sierra Meadows, Ltd., as described in our report on the Authority's financial statements. The financial statements of all of these entities were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

Baltimore, Maryland
November 24, 2015

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Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Harris County Housing Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2015. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Housing Choice Voucher Program for the year ended March 31, 2015.

Other Matters

The result of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002. Our opinion on the major federal program is not modified with respect to this matter.

The Authority's responses to the noncompliance findings identified in our report are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clifton Larson Allen LLP

Baltimore, Maryland
November 24, 2015

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2015

	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Direct:		
Housing Choice Voucher Program	14.871	$ 33,851,531
Lower Income Housing Assistance - Section 8 Moderate Rehab	14.856	343,492
TOTAL FEDERAL EXPENDITURES		$ 34,195,023

The accompanying notes are an integral part of this schedule.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harris County Housing Authority (the 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 basic financial statements.

NOTE 2 – NON-CASH FEDERAL ASSISTANCE

The Authority did not receive any non-cash Federal assistance for the year ended March 31, 2015.

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2015

I. Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes X None reported

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes ____ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes ____ No

Identification of Major Program

Name of Federal Program	CFDA Number
Housing Voucher Cluster	14.871

Dollar threshold used to distinguish between type A and type B programs: $ 1,025,851

Auditee qualified as low-risk auditee? ____ Yes X No

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2015

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

Finding 2015-001 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Cash Management**
Type of Finding:	**Noncompliance, Significant Deficiency**

Condition/Context
Prior to March 31, 2012, the Authority had overspent on certain programs and utilized cash from other programs to cover the overage. The Authority is required to maintain funds to cover any unspent Housing Assistance Payments in the Section 8 program. The Authority should have approximately $4,331,878 of cash on hand to cover program reserves, but as of March 31, 2015, there is only $1,162,288 of available cash.

Criteria
HUD issued PIH Notice 2008-38 which details the Operating requirements for the DHAP-Ike program and states that funding under this program may not be used for other activities or costs including the HCVP or DVP program.

Cause
The Authority does not have sufficient funding to cover restricted deposits.

Effect
The Authority is in violation of their ACC Contract and could result in civil penalties or sanctions.

Questioned Costs
$3,169,590

Recommendation
We recommend that Management fully fund the Authority's program reserves for the Section 8 program.

Management's Response
The Harris County Housing Authority has reduced the amount of the restricted cash shortfall in the Housing Choice Voucher program by $302,390; from $3,471,980 in FYE 2014 to $3,169,590 in FYE 2015 (this finding is repeating from the FYE 03-31-2014).

The Authority has been successful marketing its 91-acre West Lake Houston property and currently has the property under contract. The closing is expected to be completed on/before May, 2016.

Once the closing on the property is completed, the Authority will use the proceeds to fully fund the shortfall in restricted cash in the HCV program. We would anticipate at that time to be able to wire transfer the funds to HUD allowing for a conversion to HUD-held HCV reserves.

Person Responsible for Resolution

Mr. Horace Allison, Chief Executive Officer

Anticipated Date of Finding Resolution

No later than May 31, 2016 (maximum anticipated closing date on the property).

Finding 2015-002 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	**U.S. Department of Housing and Urban Development**
Compliance Requirement:	**Special Tests – Failed Inspections**
Type of Finding:	**Noncompliance, Significant Deficiency**

Condition/Context
Testing of 40 Housing Choice Voucher inspection files identified 1 file that contained inspections that improperly classified inspections that should be 24 hour deficiencies and/or did not properly respond or schedule the follow up appointment within 24 hours and 3 files that contained inspections that were not properly abated for owner deficiencies. The Authority is now taking steps to recoup payments that should have been abated.

Criteria
For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

Cause
The Authority did not properly abate units that did not pass their inspections in a timely manor.

Effect
The Authority is not in compliance with HUD requirements.

Questioned Costs
$4,123

Recommendation
We recommend that Management review their procedures for inspections to ensure compliance with HUD's requirements and timelines.

Management's Response

HCHA inspection department previously was not working at its full staff capacity. However, at this time, inspection is now fully staffed. The in-house inspection staff has been trained and certified through Nan McKay. HCHA has updated the inspection process. HCHA runs the monthly HQS Inspection Report through PIC. HCHA's HCV Director keeps a log on the emergency inspections as well as supervisory and special inspections. These reports are updated weekly. The HCV Director also monitors weekly through Housing Pro (HCHA's database) by running the overdue inspection, outstanding failed and no show inspections reports.

To ensure this process is completed timely, the Inspection Specialists assist with keeping the log on the emergency inspections as well as supervisory and special inspections. (Update weekly) The inspection team also maintains and reviews the "Overdue Inspections" report and the Outstanding Failed and No Show Inspections" report in HP for annuals weekly. The Inspection Specialists and the HCV Director also use the "Pending Inspection Creation Report" which allows us to select the month in which we are scheduling to see what needs to be scheduled. This report also groups together the inspections by years. The Inspection Specialists have been trained as well on how to run the reports listed above, as well as how to keep track.

As a quality control method within the inspection department, the HCV Director will review monthly the "Pending Inspection Creation Report" which allows us to select the month in which we are scheduling to see what needs to be scheduled.

HCHA will continue to aggressively monitor the inspection process by utilizing HCHA's database, Housing Pro, according to the Agency's administrative plan, processes and HUD regulations.

Person Responsible for Resolution

Debra McCray, HCV Director

Anticipated Date of Finding Resolution

December 31, 2015

HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2015

Finding 2014-001, 2013-02, 2012-02 – Housing Choice Voucher Program, CFDA #14.871

Condition

Prior to March 31, 2012, the Authority had overspent on certain programs and utilized cash from other programs to cover the overage. The Authority is required to maintain funds to cover any unspent Housing Assistance Payments in the Section 8 program. The Authority should have approximately $3,471,980 of cash on hand to cover program reserves, but as of March 31, 2014, there is only $205,914 of available cash.

Recommendation

We recommend that management fully fund the Authority's program reserves for the Section 8 program.

Status

A similar finding has been noted in the current year; see 2015-001.