

HARRIS COUNTY HOUSING AUTHORITY
Houston, Texas

FINANCIAL STATEMENTS
March 31, 2012

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3
FINANCIAL STATEMENTS	9
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	14
SUPPLEMENTAL INFORMATION	29
Financial Data Schedules:	
Entity-Wide Balance Sheet Summary	30
Entity-Wide Revenue and Expense Summary	32
SINGLE AUDIT REPORT	34
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35
Independent Auditor's 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	37
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	40
Schedule of Findings and Questioned Costs	41
Schedule of Prior Year Findings and Questioned Costs	47



Independent Auditor's Report

The Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited the accompanying statements of business-type activities of the Harris County Housing Authority (the Authority) as of and for the year ended March 31, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component units is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

As discussed in Note 11 to the financial statements, the Authority commingled and overspent federal funds in certain programs and utilized funds from other federal programs to cover the overages. This is not in compliance with Department of Housing and Urban Development (HUD) regulations. The Authority accrued \$3,900,000 related to this liability and additional liabilities could be due HUD. The Authority is negotiating a payment plan to reimburse HUD.

In our opinion, based on our audit and reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Authority as of March 31, 2012, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the Authority's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of

our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The financial data schedules listed in the table of contents 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 purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The financial data schedules and the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 20, 2012

**HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

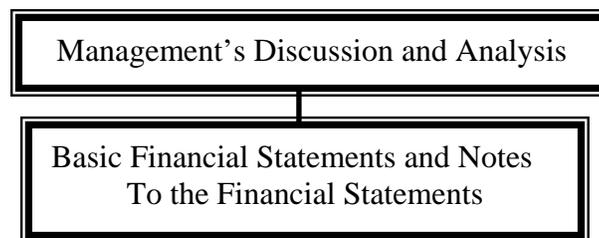
As management of the Harris County Housing Authority (the Authority), we offer the readers of the Authority's financial statements this narrative overview and analysis of our financial activities for the year ended March 31, 2012. We encourage readers to consider the information presented here in conjunction 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, 2012, to assist the reader in focusing on significant issues and concerns.

The Authority's FY2012 annual financial report consists of two parts — the management's discussion and analysis, and the basic financial statements (which includes notes to those financial statements).



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, 2012**

Financial Highlights for FY2012.

- The Authority's assets exceeded its liabilities as of March 31, 2012 by \$32,474,545 (net assets).
- Cash and cash equivalents as of March 31, 2012 were \$1,771,592.
- The Authority had \$35,844,402 in HUD grant revenue for the year ended March 31, 2012. The Authority had total expenses of \$47,188,097 for the year ended March 31, 2012, of which \$36,569,356 was for Housing Assistance Payments (HAP).
- The Authority's total net assets decreased by \$3,800,325 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 Assets** - 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 Assets** - 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 Assets (Statement of Net Assets)

Over time, significant changes in the net assets are an indicator of whether the Authority's financial health is improving or deteriorating. Assets exceeded liabilities by \$32,474,545 at the close of the fiscal year ended March 31, 2012, an overall decline of \$3,800,325 from March 31, 2011.

Total Current Assets decreased by \$13,910,400 from the prior year due mostly to to a reduction in cash for the Housing Choice Voucher program and Cypresswood Estates development as well as the reduction in accounts receivable for the Housing Choice Voucher and DHAP IKE programs.

Capital Assets, net of depreciation, increased by \$10,392,136 from the prior year. The increase is primarily the result of completion of the Cypresswood Estates development.

Current Liabilities increased by \$1,218,473 from \$5,856,001 for the year ended March 31, 2011 to \$7,074,474 for the year ended March 31, 2012. This increase is due to additional costs incurred on the Cypresswood Estates development.

**HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

Non-Current Liabilities decreased by \$1,006,412 from \$1,131,438 from the year ended March 31, 2011 to \$125,026 for the year ended March 31, 2012. The decrease is related to the Cypresswood Estates loan recorded as a current liability in the current fiscal year.

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Assets			
Current assets	\$ 3,270,926	\$ 17,181,326	\$ (13,910,400)
Notes receivable	4,496,420	4,496,420	-
Investment in partnership	273,940	343,940	(70,000)
Capital assets	<u>31,632,759</u>	<u>21,240,623</u>	<u>10,392,136</u>
Total assets	<u>39,674,045</u>	<u>43,262,309</u>	<u>(3,588,264)</u>
Liabilities			
Current liabilities	7,074,474	5,856,001	1,218,473
Noncurrent liabilities	<u>125,026</u>	<u>1,131,438</u>	<u>(1,006,412)</u>
Total liabilities	<u>7,199,500</u>	<u>6,987,439</u>	<u>212,061</u>
Net assets	<u>\$ 32,474,545</u>	<u>\$ 36,274,870</u>	<u>\$ (3,800,325)</u>

Net Asset Categories

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Invested in capital assets	\$ 29,724,828	\$ 20,239,807	\$ 9,485,021
Restricted for program costs	1,880,748	3,731,037	(1,850,289)
Unrestricted	<u>868,969</u>	<u>12,304,026</u>	<u>(11,435,057)</u>
Total net assets	<u>\$ 32,474,545</u>	<u>\$ 36,274,870</u>	<u>\$ (3,800,325)</u>

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 and one (1) CDBG/HOME developments.

**HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

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

The Authority administers the following programs, which generate revenues for the year 2012 as follows:

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Revenues - Operating			
HUD PHA grants	\$ 35,844,402	\$ 48,502,934	\$ (12,658,532)
Other government grants	6,240,541	2,126,385	4,114,156
Ground lease revenue	73,000	71,000	2,000
Other revenue	<u>1,334,149</u>	<u>1,345,498</u>	<u>(11,349)</u>
Total operating revenues	<u>43,492,092</u>	<u>52,045,817</u>	<u>(8,553,725)</u>
Expenses			
Housing assistance payments	36,569,356	38,834,690	(2,265,334)
Salaries and benefits	3,598,069	3,444,356	153,713
Office expense	3,241,516	2,957,068	284,448
Tenant services	398,969	1,366,502	(967,533)
General	2,462,635	501,488	1,961,147
Depreciation	<u>842,456</u>	<u>606,024</u>	<u>236,432</u>
Total expenses	<u>47,113,001</u>	<u>47,710,128</u>	<u>(597,127)</u>
Net income (loss) from operations	<u>(3,620,909)</u>	<u>4,335,689</u>	<u>(7,956,598)</u>
Non-operating revenue (expenses)			
Interest income	238,513	340,382	(101,869)
Interest expense	(75,096)	-	(75,096)
Gain (loss) on sale of fixed assets	<u>(342,833)</u>	<u>21,786</u>	<u>(364,619)</u>
Total non-operating revenues	<u>(179,416)</u>	<u>362,168</u>	<u>(541,584)</u>
Change in net assets	(3,800,325)	4,697,857	(8,498,182)
Net assets, beginning of year	<u>36,274,870</u>	<u>31,577,013</u>	<u>4,697,857</u>
Net assets, end of year	<u>\$ 32,474,545</u>	<u>\$ 36,274,870</u>	<u>\$ (3,800,325)</u>

**HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

Total revenues for the years ended March 31, 2012 and 2011 were \$43,492,092 and \$52,045,817, respectively. The change from 2012 to 2011 reflects a decrease of \$8,553,725.

HUD PHA grants decreased \$12,658,532 from \$48,502,934 in 2011 to \$35,844,402 in 2012, due primarily to close out of the DHAP IKE and DVP programs.

Other government grants increased by \$4,114,156 and other revenue decreased by \$11,349. This increase is attributed to grant funding for the Cypresswood Estates development.

Analysis of Entity Wide Expenses

Total expenses for the year ended March 31, 2012 amounted to \$47,188,097 as compared to \$47,710,128 for the year ended March 31, 2011, a decrease of \$522,031. This decrease is attributed to a reduction in DHAP IKE administrative expenses with the closing of the DHAP IKE program.

Housing assistance payments decreased by \$2,265,334 primarily due to the closing of the DHAP IKE and Disaster Voucher programs.

Salaries and benefits increased by \$153,713 primarily due to additional staff in the Affordable Housing group.

Office expense increased by \$284,448 primarily due to an increase in expenses for the Consultant and Professional Fees.

Tenant services decreased by \$967,533 primarily due to the close out of the DHAP IKE and Disaster Housing Voucher programs.

Interest expense of \$75,096 represents interest on a construction loan to be converted to a permanent loan by March 2013.

The general expense increased by \$1,961,147 due to an increase in bad debt expense to write off old accounts receivables from tenants and outside third parties.

Depreciation expense increased by \$236,432 primarily due to the Cypresswood Estates development placed in service in June 2011.

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.

**HARRIS COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

Capital Assets

	<u>March 31, 2011</u>	<u>Net Additions/ Deletions</u>	<u>March 31, 2012</u>
Land	\$ 14,312,569	\$ -	\$ 14,312,569
Buildings	-	15,233,138	15,233,138
Leasehold improvements	2,052,796	(991,260)	1,061,536
Furniture and equipment	957,032	39,348	996,380
Construction in progress	5,718,058	(3,792,158)	1,925,900
Accumulated depreciation	<u>(1,799,832)</u>	<u>(96,932)</u>	<u>(1,896,764)</u>
Total	<u>\$ 21,240,623</u>	<u>\$ 10,392,136</u>	<u>\$ 31,632,759</u>

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, 2012.

Economic Factors and Next Year's Budget

Significant economic factors affecting the Authority are as follows:

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

The Section 8 Management Assessment Program (SEMAP) is HUD's assessment program to annually and remotely measure the performance of all public housing authorities that administer the HCVP. SEMAP enables HUD to better manage the Section 8 housing assistance programs administered by the Authority by identifying capabilities and deficiencies in program operations. The SEMAP score is based on 15 specific operations indicators. The Authority has had the highest rating under SEMAP for the past nine (9) years.

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 Financial Officer, Harris County Housing Authority, 8933 Interchange Dr., Houston, TX 77054, (713) 669-4510.

FINANCIAL STATEMENTS

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF NET ASSETS
March 31, 2012

	<u>Enterprise Fund</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 691,381	\$ 691,381
Cash and cash equivalents - restricted	1,771,592	2,598,788	4,370,380
Accounts receivable - tenants, net	-	35,262	35,262
Accounts receivable - HUD	46,966	-	46,966
Accounts receivable - miscellaneous	28,757	72,354	101,111
Accrued interest receivable from component units	1,400,435	-	1,400,435
Prepaid assets	23,176	1,986,028	2,009,204
Other assets	-	481,084	481,084
Total current assets	<u>3,270,926</u>	<u>5,864,897</u>	<u>9,135,823</u>
NONCURRENT ASSETS			
Investment in partnerships	273,940	-	273,940
Notes receivable - component units	4,496,420	-	4,496,420
Intangible assets net of accumulated amortization	-	2,405,244	2,405,244
Capital assets net of accumulated depreciation	29,706,859	60,441,845	90,148,704
Construction in progress	1,925,900	-	1,925,900
Total noncurrent assets	<u>36,403,119</u>	<u>62,847,089</u>	<u>99,250,208</u>
TOTAL ASSETS	<u>\$ 39,674,045</u>	<u>\$ 68,711,986</u>	<u>\$ 108,386,031</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 4,241,703	\$ 4,197,759	\$ 8,439,462
Accrued wages and payroll taxes payable	56,728	-	56,728
Accrued compensated absences, current	121,047	-	121,047
Accrued interest payable to HCHA	-	1,353,948	1,353,948
Current portion of long-term debt	-	213,271	213,271
Deferred revenue	747,065	-	747,065
Notes payable	1,907,931	-	1,907,931
Total current liabilities	<u>7,074,474</u>	<u>5,764,978</u>	<u>12,839,452</u>
NONCURRENT LIABILITIES			
Accrued compensated absences	30,262	-	30,262
Mortgage notes payable - HCHA	-	4,496,420	4,496,420
Mortgage notes payable	-	36,797,488	36,797,488
Noncurrent liabilities - other	94,764	-	94,764
Total noncurrent liabilities	<u>125,026</u>	<u>41,293,908</u>	<u>41,418,934</u>
Total liabilities	<u>7,199,500</u>	<u>47,058,886</u>	<u>54,258,386</u>
NET ASSETS			
Invested in capital assets, net of related debt	29,724,828	18,934,666	48,659,494
Restricted net assets for contract obligations	1,880,748	-	1,880,748
Unrestricted net assets	868,969	2,718,434	3,587,403
Total net assets	<u>32,474,545</u>	<u>21,653,100</u>	<u>54,127,645</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,674,045</u>	<u>\$ 68,711,986</u>	<u>\$ 108,386,031</u>

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

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended March 31, 2012

	<u>Enterprise Fund</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
OPERATING REVENUES			
Rental income	\$ 322,801	\$ 6,448,797	\$ 6,771,598
HUD PHA grants	35,844,402	-	35,844,402
Ground lease revenues	73,000	-	73,000
Other government grants	6,240,541	-	6,240,541
Other revenues	<u>1,011,348</u>	<u>135,812</u>	<u>1,147,160</u>
Total operating revenues	<u>43,492,092</u>	<u>6,584,609</u>	<u>50,076,701</u>
OPERATING EXPENSES			
Administrative	6,839,585	2,039,987	8,879,572
Tenant services	398,969	-	398,969
Utilities	170,111	634,609	804,720
Ordinary maintenance and operations	35,337	660,191	695,528
General	2,257,187	819,722	3,076,909
Housing assistance payments	<u>36,569,356</u>	<u>-</u>	<u>36,569,356</u>
Total operating expenses	<u>46,270,545</u>	<u>4,154,509</u>	<u>50,425,054</u>
Operating income (loss) before depreciation	(2,778,453)	2,430,100	(348,353)
Depreciation and amortization	<u>842,456</u>	<u>2,803,783</u>	<u>3,646,239</u>
Total operating loss	<u>(3,620,909)</u>	<u>(373,683)</u>	<u>(3,994,592)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	238,513	37,413	275,926
Interest expense	(75,096)	(1,238,108)	(1,313,204)
Gain (loss) on sale of fixed assets	<u>(342,833)</u>	<u>-</u>	<u>(342,833)</u>
Total nonoperating revenues (expenses), net	<u>(179,416)</u>	<u>(1,200,695)</u>	<u>(1,380,111)</u>
CHANGE IN NET ASSETS	(3,800,325)	(1,574,378)	(5,374,703)
DISTRIBUTIONS	-	(283,803)	(283,803)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>36,274,870</u>	<u>23,511,281</u>	<u>59,786,151</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 32,474,545</u>	<u>\$ 21,653,100</u>	<u>\$ 54,127,645</u>

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

**HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended March 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
HUD subsidies	\$ 35,844,402
Governmental grants	9,441,386
Ground lease revenue	73,000
Other revenue	1,334,149
Administration and general	(1,455,688)
Salaries and benefits	(6,863,068)
Housing operations and tenant services	(604,417)
Housing assistance payments	<u>(36,569,356)</u>
Net cash flows provided by operating activities	<u>1,200,408</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Increase in long term debt	907,115
Gain on disposal of assets	41,999
Interest paid on notes payable	(75,096)
Acquisition of capital assets	<u>(11,619,424)</u>
Net cash flows used in capital and related financing activities	<u>(10,745,406)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in notes receivable	(213,682)
Interest income	238,513
Decrease in investments	<u>70,000</u>
Net cash flows provided by investing activities	<u>94,831</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(9,450,167)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,221,759</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,771,592</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (3,620,909)
Adjustments to reconcile cash and cash equivalents provided by operating activities	
Depreciation	842,456
Provision for bad debt	1,717,913
Effects of changes in operating assets and liabilities:	
Accounts receivable	2,976,323
Prepaid expenses	(20,321)
Accounts payable and accrued expenses	(896,093)
Accrued wages and payroll tax payable	4,500
Accrued compensated absences	(27,983)
Deferred revenue	<u>224,522</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,200,408</u>

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

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended March 31, 2012

	<u>Component Units</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (1,574,378)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	2,803,783
Provision for bad debt	32,257
Land lease payments	6,756
Fair value adjustments or interest rate cap	22,212
Effects of changes in operating assets and liabilities:	
Restricted cash	18,183
Accounts receivable	(58,104)
Tenant accounts receivable	(20,402)
Prepaid expenses	10,531
Other assets	(23,228)
Accounts payable	27,026
Security deposits payable	6,212
Accrued expenses	(341)
Other accrued liabilities	(4,751)
Accrued interest	239,579
Tenants' security deposits liability	(25)
Management fees	(3,014)
Due to related parties	<u>18,101</u>
Net cash provided by operating activities	<u>1,500,397</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in reserve for replacements	(73,063)
Increase in restricted cash	(92,904)
Change in trustee funds	10,025
Change in bond reserves	(80,029)
Change in escrows	<u>(48,914)</u>
Net cash used in investing activities	<u>(284,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on mortgage note payable	(469,853)
Distributions to partners	(283,803)
Developer fee paid	<u>(626,376)</u>
Net cash used in financing activities	<u>(1,380,032)</u>
NET DECREASE IN CASH	(164,520)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>855,901</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 691,381</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	<u>\$ 1,095,889</u>

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

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012**

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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

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 18 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., and Olive Grove Manor, Ltd. Each partnership has developed apartment complexes and has set aside a predetermined number of units specifically for low to moderate income housing. The fiscal year end for the discretely presented component units is December 31, 2011. 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 Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Drive, Houston, TX 77054.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

Blended Component Units - In the fiscal year ended March 31, 2012, 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 Assets, Statement of Revenues, Expenses and Changes in Net Assets, 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 assets, financial position, and cash flows. All assets and liabilities associated with the proprietary fund's activities are included on the Statement of Net Assets. Proprietary net assets are segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets.

The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recognized in the period incurred. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the Authority are the moneys provided by the U.S. Department of Housing and Urban Development (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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

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 PHA's fiscal year end, with the difference between the purchase price and market price being recorded as interest income.

Restricted Assets

Certain assets of the 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 assets are reported for amounts that are externally restricted by: 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments; or, 2) law through constitutional provision or enabling legislation. These assets are generally unavailable to pay current liabilities of the 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.

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 10 years. 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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

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, 2012.

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 Assets

Certain assets may be classified as restricted net assets on the Statement of Net Assets 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 assets are available.

Net assets are displayed in three components:

Net Assets, Invested in Capital Assets, Net of Related Debt. This component of net assets 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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

Restricted Net Assets: This component of net assets 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 assets consist of escrows held for debt service, investments in projects, program income, reserve accounts, and excess housing assistance payments, as applicable.

Unrestricted Net Assets: This component consists of net assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt," or "Restricted Net Assets."

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 and the Department of Homeland Security's Disaster Housing Assistance 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, Disaster Housing Assistance Programs 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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

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.

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.

Cash and Investments

The Authority had cash and cash equivalents of \$1,771,592 as of March 31, 2012. 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

All of the Authority's cash is restricted at March 31, 2012.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2012, the Authority had a sweep agreement which invested more than 30 percent of funds in a Money Market Mutual Fund. The balances were not backed by collateral for amounts exceeding the \$250,000 FDIC insurance limitation.

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 \$1,771,592 in cash and cash equivalents at March 31, 2012, the entire balance is held in an investment account with one counterparty.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2012, was as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers & Deletions</u>	<u>Balance 2012</u>
Capital assets, not being depreciated:				
Land	\$ 14,312,569	\$ -	\$ -	\$ 14,312,569
Construction in progress	<u>5,718,058</u>	<u>11,492,480</u>	<u>(15,284,638)</u>	<u>1,925,900</u>
Total capital assets not being depreciated	<u>20,030,627</u>	<u>11,492,480</u>	<u>(15,284,638)</u>	<u>16,238,469</u>
Depreciable capital assets:				
Building	-	-	15,233,138	15,233,138
Leasehold improvements	2,052,796	8,740	(1,000,000)	1,061,536
Furniture and equipment	<u>957,032</u>	<u>118,204</u>	<u>(78,856)</u>	<u>996,380</u>
Total depreciable capital assets	3,009,828	126,944	14,154,282	17,291,054
Less accumulated depreciation	<u>(1,799,832)</u>	<u>(842,456)</u>	<u>745,524</u>	<u>(1,896,764)</u>
Total capital assets, being depreciated, net	<u>1,209,996</u>	<u>(715,512)</u>	<u>14,899,806</u>	<u>15,394,290</u>
Total capital assets, net	<u>\$ 21,240,623</u>	<u>\$ 10,776,968</u>	<u>\$ (384,832)</u>	<u>\$ 31,632,759</u>

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Subsequent to year end, the Board resolved to write off approximately \$257,000 in Construction in Progress for developments Humble Lakes and University Place as these developments were halted. In addition, approximately \$783,000 of Patriots by the Lake Construction in Progress was written off as this development has also been halted.

Capital asset activity for the component units was as follows:

	Capital Assets	Accumulated Depreciation	Net Book Value
Louetta Village Apartments 45, LP	\$ 9,323,306	\$ (1,776,416)	\$ 7,546,890
Baybrook Park Retirement Center, Ltd	7,643,730	(2,219,896)	5,423,834
TX Bammel Housing, LP	16,452,719	(4,110,001)	12,342,718
Cornerstone Village Apartments, LP	11,742,420	(2,426,933)	9,315,487
Waterside Court, Ltd	15,735,011	(2,638,572)	13,096,439
Olive Grove Manor, Ltd	<u>14,284,000</u>	<u>(1,567,523)</u>	<u>12,716,477</u>
Totals	<u>\$ 75,181,186</u>	<u>\$ (14,739,341)</u>	<u>\$ 60,441,845</u>

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, 2012, total outstanding principal and accrued interest on these loans were \$4,496,420 and \$1,400,435, respectively.

Borrower	Loan Amount	Date of Loan	Interest Rate	Balance 3/31/2012	Accrued Interest Receivable
Louetta Village Apartments 45, LP	\$ 550,000	1/1/2005	4.27%	\$ 550,000	\$ 170,121
Baybrook Park Retirement Center, Ltd	625,000	6/21/2005	4.57%	625,000	190,204
TX Bammel Housing, LP	731,420	1/18/2005	4.27%	731,420	226,238
Cornerstone Village Apartments, LP	1,390,000	4/30/2005	5.00%	1,390,000	480,789
Waterside Court, Ltd	500,000	6/22/2006	5.32%	500,000	153,643
Olive Grove Manor, Ltd	700,000	12/21/2006	4.90%	<u>700,000</u>	<u>179,440</u>
Total				<u>\$ 4,496,420</u>	<u>\$ 1,400,435</u>

NOTE 5 – NOTES PAYABLE

The Authority entered into an agreement with Sterling Bank for a construction loan of \$1,975,000 on March 31, 2010 to help finance the construction of Cypresswood Estates project. The promissory note calls for interest only payments during the construction term. Interest will accrue during the construction term at 4.25% per annum. At March 31, 2012 the amount drawn on this loan by the Authority was \$1,828,625 with \$79,306 from accrued interest. The note is

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 5 – NOTES PAYABLE (CONTINUED)

collateralized with the underlying real estate. Beginning on the first day of the first month following the permanent term commencement date, payments of principal and interest are due in an amount that will repay the balance in 360 equal monthly installments. Interest on the permanent loan accrues at a fixed rate per annum of 6.30%.

<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 907,115	\$ -	\$ 1,907,931	\$ 1,907,931

Notes payable activity for the component units was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Louetta Village Apartments 45, LP	\$ 7,508,488	\$ 43,039	\$ (51,987)	\$ 7,499,540	\$ 113,271
Baybrook Park Retirement Center, Ltd	3,924,369	-	(144,712)	3,779,657	-
TX Bammel Housing, LP	10,824,362	-	(257,791)	10,566,571	-
Cornerstone Village Apartments, LP	10,116,809	-	(237,303)	9,879,506	100,000
Waterside Court, Ltd	5,249,499	-	(124,867)	5,124,632	-
Olive Grove Manor, Ltd	4,873,343	-	(216,070)	4,657,273	-
Totals	<u>\$ 42,496,870</u>	<u>\$ 43,039</u>	<u>\$ (1,032,730)</u>	<u>\$ 41,507,179</u>	<u>\$ 213,271</u>

NOTE 6 – OTHER LIABILITIES

The summary of changes in noncurrent liabilities is as follows:

	<u>Balance March 31, 2011</u>	<u>Additions</u>	<u>Redemptions</u>	<u>Balance March 31, 2012</u>	<u>Due Within One Year</u>
Family self-sufficiency escrow	\$ 94,764	\$ -	\$ -	\$ 94,764	\$ -
Accrued compensated absences	179,292	98,506	(126,489)	151,309	121,047
Total	<u>\$ 274,056</u>	<u>\$ 98,506</u>	<u>\$ (126,489)</u>	<u>\$ 246,073</u>	<u>\$ 121,047</u>

NOTE 7 – LEASES

Effective September 1, 2007, the Authority entered into a lease for office space at 8933 Interchange Dr., Houston, TX. The lease term is sixty (60) months and expires August 31, 2012. The Authority moved their administrative offices to this site in early 2010. For the year ending March 31, 2012, the base rent was \$23,898 each month.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

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 \$654,689 of developer fees during the fiscal year ended March 31, 2012 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.; and HCHA Waterside, LLC is a partner in Waterside Court, 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 \$254 in Cornerstone Village Apartments, L.P. at December 31, 2011. 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 \$489 in TX Bammel Housing, L.P. at December 31, 2011. 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 \$135,132 in Louetta Village Apartments 45, L.P. at December 31, 2011. 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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 8 – COMPONENT UNITS (CONTINUED)

Discretely Presented Component Units (continued)

HCHA Baybrook Park Retirement Center, Ltd. has negative equity of \$116 in Baybrook Park Retirement Center, Ltd. at December 31, 2011. 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 contributed capital of \$273,807 in Olive Grove Manor, Ltd. at December 31, 2011. 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 \$261 in Waterside Court, Ltd. at December 31, 2011. 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.

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.

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,

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

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 PHA's contribution rate for 2011 was 10.43%. The contribution rate for 2012 is 9.95%,

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 9.95% for the year ended December 2011.

The contribution rate payable by the employee members for the fiscal year ended March 31, 2012 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.

Annual Pension Cost

For the calendar year ending December 31, 2011, pension plan contributions by the Authority and the contributions by its employees were \$255,959 and \$170,948, respectively. The Authority's annual required contribution was determined through an actuarial valuation performed as of December 31, 2011. 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:

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012**

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Annual Pension Cost (continued)

Valuation Date	12/31/11
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, 2011, 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)
12/31/2011	\$ 817,358	\$ 1,172,258	\$ 354,900	69.73%	\$ 2,398,297	14.80%

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.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
March 31, 2012

NOTE 11 – CONTINGENCIES

The Authority is currently the defendant in litigation against the form 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 a lack of unrestricted funds and due to additional investigations being conducted by the U.S. Department of Housing and Urban Development and other regulatory agencies for possible mismanagement of federal funds by the CEO. The Authority filed a plea to the jurisdiction based on governmental immunity but it was denied and they are currently appealing the denial in the First Court of Appeals.

The Authority overspent federal funds in certain programs and utilized funds from other federal programs to cover the overage. In addition, federal funds were commingled which resulted in an inability to properly monitor individual program costs. This condition resulted in questioned costs related to compliance with HUD of \$6,516,408. This was the result of prior management decisions and current management has since segregated accounts to reduce the risk of commingling. Current management is also negotiating with HUD terms of a repayment plan to reimburse for all funds misspent from restricted program reserves. The Authority has accrued \$3,900,000 as of March 31, 2012 to reflect the estimated liability related to this issue.

SUPPLEMENTAL INFORMATION

**HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2012**

Line Item #	Accounts Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	Veterans Affairs Supportive Housing	DHAP - IKE	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
CURRENT ASSETS														
Cash:														
111	Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,947	\$ -	\$ -	\$ 95,947	\$ 691,381	\$ 787,328
112	Restricted - modernization and development	-	-	-	-	-	-	-	-	-	-	-	-	-
113	Other restricted	-	-	1,651,852	-	-	-	-	-	-	-	1,651,852	2,598,788	4,250,640
114	Tenant security deposits	-	-	-	-	-	-	-	23,793	-	-	23,793	-	23,793
115	Cash - restricted for current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Total cash	-	-	1,651,852	-	-	-	-	119,740	-	-	1,771,592	3,290,169	5,061,761
Accounts and notes receivable:														
121	Accounts receivable - PHA projects	-	-	-	-	-	-	-	-	-	-	-	-	-
122	HUD other projects	42,101	-	-	-	-	202	4,663	-	-	-	46,966	-	46,966
124	Other government	-	-	-	-	-	-	-	-	-	-	-	-	-
125	Miscellaneous	-	-	28,757	-	-	-	-	-	-	-	28,757	72,354	101,111
126	Tenants	-	-	-	-	659,824	-	-	-	-	-	659,824	35,262	695,086
126.1	Allowance for doubtful accounts - tenants	-	-	-	-	(659,824)	-	-	-	-	-	(659,824)	-	(659,824)
126.2	Allowance for doubtful accounts - other	-	-	-	-	-	-	-	-	-	-	-	-	-
127	Notes, loans, & mortgages receivable - current	-	-	-	-	-	-	-	-	-	-	-	-	-
129	Accrued interest receivable	-	-	-	-	-	-	-	-	1,400,435	-	1,400,435	-	1,400,435
120	Total receivables, net of allowances for uncollectibles	42,101	-	28,757	-	-	202	4,663	-	1,400,435	-	1,476,158	107,616	1,583,774
131	Investments - unrestricted	-	-	-	-	-	-	-	-	-	-	-	-	-
132	Investments- restricted	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total current investments	-	-	-	-	-	-	-	-	-	-	-	-	-
142	Prepaid expenses and other assets	18,557	-	-	-	-	-	-	-	4,619	-	23,176	1,986,028	2,009,204
143	Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-
143.1	Allowance for obsolete inventories	-	-	-	-	-	-	-	-	-	-	-	-	-
144	Interprogram - due from	-	-	56,287	-	6,645,567	32,016	53,838	-	-	(6,787,708)	-	-	-
150	Total current assets	60,658	-	1,736,896	-	6,645,567	32,218	58,501	119,740	1,405,054	(6,787,708)	3,270,926	5,383,813	8,654,739
NONCURRENT ASSETS														
Fixed assets:														
161	Land	-	-	-	-	-	-	-	750,000	13,562,569	-	14,312,569	4,826,164	19,138,733
162	Buildings	-	-	-	-	-	-	-	15,233,138	-	-	15,233,138	66,147,171	81,380,309
163	Furniture, equipment & mach - dwellings	-	-	-	-	-	-	-	-	-	-	-	-	-
164	Furniture, equipment & mach - admin.	328,594	434,022	22,209	-	-	-	-	33,089	178,466	-	996,380	4,207,851	5,204,231
165	Leasehold Improvements	161,141	859,319	-	-	-	-	-	-	41,076	-	1,061,536	-	1,061,536
166	Accumulated depreciation	(329,427)	(1,149,277)	(22,209)	-	-	-	-	(329,780)	(66,071)	-	(1,896,764)	(14,739,341)	(16,636,105)
167	Construction in progress	-	-	-	-	-	-	-	-	1,925,900	-	1,925,900	-	1,925,900
160	Total fixed assets, net of accumulated depreciation	160,308	144,064	-	-	-	-	-	15,686,447	15,641,940	-	31,632,759	60,441,845	92,074,604
171	Notes, loans and mortgages receivable - noncurrent	-	-	-	-	-	-	-	-	4,496,420	-	4,496,420	-	4,496,420
174	Other assets	-	-	-	-	-	-	-	-	-	-	-	2,886,328	2,886,328
176	Investments in Joint Venture	-	-	-	-	-	-	-	-	273,940	-	273,940	-	273,940
180	Total noncurrent assets	160,308	144,064	-	-	-	-	-	15,686,447	20,412,300	-	36,403,119	63,328,173	99,731,292
190	TOTAL ASSETS	\$ 220,966	\$ 144,064	\$ 1,736,896	\$ -	\$ 6,645,567	\$ 32,218	\$ 58,501	\$ 15,806,187	\$ 21,817,354	\$ (6,787,708)	\$ 39,674,045	\$ 68,711,996	\$ 108,386,031

**HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE BALANCE SHEET SUMMARY
March 31, 2012**

Line Item #	Accounts Description	Housing	Disaster	Disaster	Veterans	Section 8			Cypresswood			Total	Component Units	Total Reporting Entity	
		Choice Vouchers	Housing Assistance Grant	Disaster Voucher Program	Affairs Supportive Housing	Moderate	Section 8 Mod	Rehabilitation	Section 8 Mod	Rehab SRO	Estates (Business Activities)	Business Activities			Elimination
CURRENT LIABILITIES															
311	Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
312	Accounts payable <= 90 days	42,354	-	1,798	-	2,948	-	-	-	11,134	96,465	-	154,699	4,197,759	4,352,458
313	Accounts payable > 90 days	-	-	-	-	-	-	-	-	-	32,995	-	32,995	-	32,995
321	Accrued wage/payroll taxes payable	33,098	-	166	-	5,113	111	115	1,068	17,057	-	-	56,728	-	56,728
322	Accrued compensated absences - current portion	121,047	-	-	-	-	-	-	-	-	-	-	121,047	-	121,047
324	Accrued contingency liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
325	Accrued interest payable	-	-	-	-	-	-	-	-	-	-	-	-	1,353,948	1,353,948
331	Accounts payable - HUD	36,713	-	-	-	3,908,663	160	165	-	-	-	-	3,945,701	-	3,945,701
332	Accounts payable - PHA projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-
341	Tenant security deposits	-	-	-	-	-	-	-	23,793	-	-	-	23,793	-	23,793
342	Deferred revenues	-	(3,001)	35,563	-	429,812	23,850	595	-	-	260,246	-	747,065	-	747,065
Current portion of LT debt - capital projects/															
343	mortgage revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
344	Current portion of LT debt - operating borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
345	Other current liabilities	-	-	-	-	2,844	-	-	-	-	-	-	2,844	-	2,844
346	Other liabilities	39,135	31,472	161	-	-	-	-	10,340	563	-	-	81,671	-	81,671
347	Interprogram (due to)	718,163	41,919	-	-	-	-	-	4,481,290	1,546,336	(6,787,708)	-	-	-	-
348	Loan liability - current	-	-	-	-	-	-	-	1,907,931	-	-	-	1,907,931	213,271	2,121,202
310	Total current liabilities	<u>990,510</u>	<u>70,390</u>	<u>37,688</u>	<u>-</u>	<u>4,349,380</u>	<u>24,121</u>	<u>875</u>	<u>6,435,556</u>	<u>1,953,662</u>	<u>(6,787,708)</u>	<u>7,074,474</u>	<u>5,764,978</u>	<u>12,839,452</u>	
NONCURRENT LIABILITIES															
Long-term debt, net of current - capital projects/															
351	mortgage revenue	-	-	-	-	-	-	-	-	-	-	-	-	41,293,908	41,293,908
352	Long-term debt, net of current - operating borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
353	Non-current liabilities - other	94,764	-	-	-	-	-	-	-	-	-	-	94,764	-	94,764
354	Accrued compensated absences - noncurrent	30,262	-	-	-	-	-	-	-	-	-	-	30,262	-	30,262
355	Loan liability - non current	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350	Total noncurrent liabilities	<u>125,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,026</u>	<u>41,293,908</u>	<u>41,418,934</u>
300	Total liabilities	<u>1,115,536</u>	<u>70,390</u>	<u>37,688</u>	<u>-</u>	<u>4,349,380</u>	<u>24,121</u>	<u>875</u>	<u>6,435,556</u>	<u>1,953,662</u>	<u>(6,787,708)</u>	<u>7,199,500</u>	<u>47,058,886</u>	<u>54,258,386</u>	
EQUITY															
508.1	Invested in capital assets	160,308	144,064	-	-	-	-	-	13,778,516	15,641,940	-	29,724,828	18,934,666	48,659,494	
511.1	Restricted net assets	228,896	-	1,651,852	-	-	-	-	-	-	-	1,880,748	-	1,880,748	
512.1	Unrestricted net assets	(1,283,774)	(70,390)	47,356	-	2,296,187	8,097	57,626	(4,407,885)	4,221,752	-	868,969	2,718,434	3,587,403	
513	Total equity/net assets	<u>(894,570)</u>	<u>73,674</u>	<u>1,699,208</u>	<u>-</u>	<u>2,296,187</u>	<u>8,097</u>	<u>57,626</u>	<u>9,370,631</u>	<u>19,863,692</u>	<u>-</u>	<u>32,474,545</u>	<u>21,653,100</u>	<u>54,127,645</u>	
600	TOTAL LIABILITIES AND EQUITY/NET ASSETS	<u>\$ 220,966</u>	<u>\$ 144,064</u>	<u>\$ 1,736,896</u>	<u>\$ -</u>	<u>\$ 6,645,567</u>	<u>\$ 32,218</u>	<u>\$ 58,501</u>	<u>\$ 15,806,187</u>	<u>\$ 21,817,354</u>	<u>\$ (6,787,708)</u>	<u>\$ 39,674,045</u>	<u>\$ 68,711,986</u>	<u>\$ 108,386,031</u>	

**HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2012**

Line Item #	Accounts Description	Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	Veterans Affairs Supportive Housing	Section 8 Moderate Rehabilitation	Section 8 Mod Rehab SRO	Cypresswood Estates (Business Activities)	Business Activities	Elimination	Total Enterprise Fund	Component Units	Total Reporting Entity
REVENUE													
70300	Net tenant rental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,557	\$ -	\$ -	\$ 310,557	\$ 6,448,797	\$ 6,759,354
70400	Tenant revenue - other	-	-	-	-	-	-	12,244	-	-	12,244	-	12,244
70500	Total tenant revenue	-	-	-	-	-	-	322,801	-	-	322,801	6,448,797	6,771,598
70600	HUD PHA operating grants	31,950,755	-	90,710	667,442	2,752,608	49,496	-	-	-	35,844,402	-	35,844,402
706.10	Capital grants	-	-	-	-	-	-	-	-	-	-	-	-
70800	Other governmental grants	-	-	-	-	-	-	6,240,541	-	-	6,240,541	-	6,240,541
71100	Investment income - unrestricted	108	6	61	23	282	1	2,162	235,869	-	238,513	37,413	275,926
71200	Mortgage interest income	-	-	-	-	-	-	-	-	-	-	-	-
71400	Fraud recovery	-	-	-	-	-	-	-	-	-	-	-	-
71500	Other revenue	3,689	3	(276)	-	115,795	-	-	965,137	-	1,084,348	135,812	1,220,160
71600	Gain or loss on sale of capital assets	-	42,000	-	-	(333,333)	-	-	(51,500)	-	(342,833)	-	(342,833)
72000	Investment income - restricted	-	-	-	-	-	-	-	-	-	-	-	-
70000	Total revenue	31,954,552	42,009	90,495	667,465	2,535,352	49,497	6,565,504	1,149,506	-	43,387,772	6,622,022	50,009,794
EXPENSES													
Administrative:													
91100	Administrative salaries	1,487,985	-	9,204	-	203,225	3,524	4,815	237,720	1,154,305	3,100,778	1,142,580	4,243,358
91200	Auditing fees	45,161	898	-	-	13,555	-	-	8,723	-	68,337	-	68,337
91300	Management fee	-	-	-	-	-	-	-	23,353	-	23,353	326,211	349,564
913.10	Bookkeeping fee	-	-	-	-	-	-	-	-	-	-	-	-
91400	Advertising and marketing	-	-	-	-	-	-	-	-	-	-	-	-
91500	Employee benefit contributions - administrative	339,535	-	924	-	19,952	330	456	5,297	130,797	497,291	-	497,291
91600	Office expense	675,529	-	290	17,108	468,777	156	346	102,310	8,705	1,273,221	-	1,273,221
91700	Legal expense	2,081	-	-	-	-	-	-	24,562	95,906	122,549	51,594	174,143
91800	Travel	-	-	-	-	-	-	-	-	-	-	-	-
91900	Other	346,691	-	-	-	257	-	-	80,856	1,326,252	1,754,056	519,602	2,273,658
	Total administrative	2,896,982	898	10,418	17,108	705,766	4,010	5,617	474,098	2,724,688	6,839,585	2,039,987	8,879,572
Tenant services:													
92100	Salaries	-	-	-	-	-	-	-	-	-	-	-	-
92200	Relocation costs	-	-	-	-	-	-	-	-	-	-	-	-
92300	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	-	-
92400	Other	-	-	-	-	398,969	-	-	-	-	398,969	-	398,969
	Total tenant services	-	-	-	-	398,969	-	-	-	-	398,969	-	398,969
Utilities:													
93100	Water	-	-	-	-	-	-	-	-	-	-	-	-
93200	Electricity	-	-	-	-	-	-	-	-	-	-	-	-
93300	Gas	-	-	-	-	-	-	-	-	-	-	-	-
93400	Fuel	-	-	-	-	-	-	-	-	-	-	-	-
93600	Sewer	-	-	-	-	-	-	-	-	-	-	-	-
93800	Other utilities expense	86,260	-	-	-	-	-	-	83,851	-	170,111	634,609	804,720
	Total utilities	86,260	-	-	-	-	-	-	83,851	-	170,111	634,609	804,720
Ordinary maintenance & operations:													
94100	Labor	-	-	-	-	-	-	-	-	-	-	-	-
94200	Materials and other	-	-	-	-	-	-	-	35,337	-	35,337	660,191	695,528
94300	Contracts	-	-	-	-	-	-	-	-	-	-	-	-
94500	Employee benefits contribution	-	-	-	-	-	-	-	-	-	-	-	-
	Total ordinary maintenance & operations	-	-	-	-	-	-	-	35,337	-	35,337	660,191	695,528
Protective services:													
95100	Labor	-	-	-	-	-	-	-	-	-	-	-	-
95200	Other contract costs	-	-	-	-	-	-	-	-	-	-	-	-
95300	Other	-	-	-	-	-	-	-	-	-	-	-	-
95500	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	-	-
95000	Total protective services	-	-	-	-	-	-	-	-	-	-	-	-
96110	Property Insurance	-	-	-	-	-	-	-	32,367	-	32,367	363,197	395,564
96120	Liability Insurance	-	-	-	-	-	-	-	-	-	-	-	-
96130	Workmen's Compensation	19,613	-	-	-	-	-	-	295	-	19,908	-	19,908
96140	All Other Insurance	57,418	-	-	-	-	-	(323)	1,534	-	58,629	-	58,629
96100	Total Insurance premiums	77,031	-	-	-	-	-	32,044	1,829	-	110,904	363,197	474,101

**HARRIS COUNTY HOUSING AUTHORITY
ENTITY-WIDE REVENUE AND EXPENSE SUMMARY
March 31, 2012**

Line Item #	Accounts Description	Housing	Disaster	Disaster	Veterans	Section 8		Cypresswood	Business	Elimination	Total	Component	Total
		Choice Vouchers	Housing Assistance Grant	Disaster Voucher Program	Affairs Supportive Housing	Moderate Rehabilitation	Section 8 Mod Rehab SRO	Estates (Business Activities)			Enterprise Fund		Reporting Entity
EXPENSES (Continued)													
General expenses:													
96200	Other general expenses	\$ 37,615	\$ -	\$ -	\$ 196	\$ -	\$ -	\$ 351,668	\$ 66,873	\$ -	\$ 456,352	\$ 456,525	\$ 912,877
96210	Compensated absences	(27,982)	-	-	-	-	-	-	-	-	(27,982)	-	(27,982)
96300	Payments in lieu of taxes	-	-	-	-	-	-	-	-	-	-	-	-
96400	Bad debt - tenant rents	-	-	-	-	659,824	-	-	-	-	659,824	-	659,824
96600	Bad debt - other	307,690	252,218	51,758	-	29,236	-	3,600	413,587	-	1,058,089	-	1,058,089
96800	Severance expense	-	-	-	-	-	-	-	-	-	-	-	-
96000	Total general expenses	<u>317,323</u>	<u>252,218</u>	<u>51,758</u>	<u>196</u>	<u>689,060</u>	<u>-</u>	<u>355,268</u>	<u>480,460</u>	<u>-</u>	<u>2,146,283</u>	<u>456,525</u>	<u>2,602,808</u>
96710	Interest of mortgage payable	-	-	-	-	-	-	-	-	-	-	1,097,805	1,097,805
96720	Interest on notes payable	-	-	-	-	-	-	75,096	-	-	75,096	140,303	215,399
96730	Amortization of bond issue costs	-	-	-	-	-	-	-	-	-	-	-	-
96700	Total interest expense and amortization cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,096</u>	<u>-</u>	<u>-</u>	<u>75,096</u>	<u>1,238,108</u>	<u>1,313,204</u>
96900	Total operating expenses	<u>3,377,596</u>	<u>253,116</u>	<u>62,176</u>	<u>17,304</u>	<u>1,793,795</u>	<u>4,010</u>	<u>5,617</u>	<u>1,055,694</u>	<u>3,206,977</u>	<u>-</u>	<u>9,776,285</u>	<u>15,168,902</u>
97000	Excess of operating revenue over operating expenses	<u>28,576,956</u>	<u>(211,107)</u>	<u>28,319</u>	<u>650,161</u>	<u>741,557</u>	<u>45,487</u>	<u>327,775</u>	<u>5,509,810</u>	<u>(2,057,471)</u>	<u>-</u>	<u>33,611,487</u>	<u>34,840,892</u>
97100	Extraordinary maintenance	-	-	-	-	-	-	-	-	-	-	-	-
97200	Casualty losses - non capitalized	-	-	-	-	-	-	-	-	-	-	-	-
97300	Housing assistance payments	33,625,293	-	47,818	594,017	1,983,832	41,573	276,823	-	-	36,569,356	-	36,569,356
97350	HAP portability- in	-	-	-	-	-	-	-	-	-	-	-	-
97400	Depreciation expense	<u>88,306</u>	<u>193,956</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>329,780</u>	<u>30,414</u>	<u>-</u>	<u>842,456</u>	<u>2,803,783</u>	<u>3,646,239</u>
90000	Total expenses	<u>37,091,195</u>	<u>447,072</u>	<u>109,994</u>	<u>611,321</u>	<u>3,977,627</u>	<u>45,583</u>	<u>282,440</u>	<u>1,385,474</u>	<u>3,237,391</u>	<u>-</u>	<u>47,188,097</u>	<u>55,384,497</u>
Other financing sources (uses):													
10010	Operating transfer in	-	-	-	-	-	-	-	-	-	-	-	-
10020	Operating transfer out	-	-	-	-	-	-	-	-	-	-	-	-
10100	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
10000	EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES	<u>\$ (5,136,643)</u>	<u>\$ (405,063)</u>	<u>\$ (19,499)</u>	<u>\$ 56,144</u>	<u>\$ (1,442,275)</u>	<u>\$ 3,914</u>	<u>\$ 50,952</u>	<u>\$ 5,180,030</u>	<u>\$ (2,087,885)</u>	<u>\$ -</u>	<u>\$ (3,800,325)</u>	<u>\$ (1,574,378)</u>
Memo Account Information													
11030	Beginning equity	3,743,092	478,737	1,718,707	442,837	3,738,462	4,183	6,674	4,190,601	21,951,577	-	36,274,870	23,511,281
11040	Prior period adjustments, equity transfers correction	498,981	-	-	(498,981)	-	-	-	-	-	-	(283,803)	(283,803)

SINGLE AUDIT REPORT



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements of Harris County Housing Authority (the Authority) as of and for the year ended March 31, 2012, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated December 20, 2012.

The Authority's response to the finding is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
December 20, 2012

Independent Auditor's 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

Compliance

We have audited the compliance of the Harris County Housing Authority (the Authority) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each major federal program for the period ended March 31, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

As described in item 2012-02 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding cash management as applicable to its Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 2012-03 through 2012-05.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the Authority's internal control over compliance that might be significant deficiencies or material weaknesses as defined below and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-02 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-03 through 2012-05 to be significant deficiencies.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
December 20, 2012

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2012**

	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Housing Choice Voucher Program	14.871	\$ 37,091,195
Disaster Voucher Program	14.871	109,994
Veterans Assistance Supportive Housing	14.871	<u>611,321</u>
Housing Voucher Cluster Total		<u>37,812,510</u>
Lower Income Housing Assistance - Section 8 Moderate Rehab	14.856	45,583
Section 8 Rental Moderate Rehabilitation Program - SRO	14.182	<u>282,440</u>
Section 8 Project-Based Cluster Total		<u>328,023</u>
DHAP Ike Housing Assistance Payments	DH-IKE	<u>3,977,627</u>
		<u>42,118,160</u>
U.S. Department of Homeland Security		
Distaster Housing Assistance Program	97.109	<u>447,072</u>
Pass-Through - Harris County, TX		
Home Investment Partnerships Program (HOME)	14.239	1,226,302
Community Development Block Grants (CDBG)	14.218	<u>6,055,797</u>
		<u>7,282,099</u>
TOTAL FEDERAL EXPENDITURES		<u>\$ 49,847,331</u>

The accompanying notes are an integral part of this schedule.

HARRIS COUNTY HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2012

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, 2012.

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Type of auditor's report issued on compliance for major programs: Unqualified

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 Programs

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Housing Voucher Cluster	14.871	\$ 37,812,510

Dollar threshold used to distinguish between type A and type B programs: \$ 1,495,474

Auditee qualified as low-risk auditee? X Yes No

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

II. Financial Statement Findings

Finding 2012-01 – Material Audit Adjustments

Condition

The unaudited Financial Data Schedule (FDS) that was filed by the Authority had significant errors and during the course of the audit, several misstatements were identified that had a material effect on the Authority's financial statements. Several adjustments were required to properly record various transactions as follows:

- Adjustment to record Accounts Payable at year end that were not properly accrued.
- Adjustments to record accrued compensated absences at year end that were not properly accrued.
- Adjustments to accrue interest receivable on the notes receivables from component units.
- Adjustments to write off accounts receivables and uncollected tenant receivables.
- Adjustments to record activity of Cypresswood Estates.
- Adjustment to record accrued interest expense for the construction loan for Cypresswood Estates.

Criteria

To be properly managed, accurate and timely accounting records should be maintained.

Cause

The Authority did not have in place an adequate system of internal controls for reviewing and monitoring its financial reporting.

Effect

Material misstatements to several account balances.

Recommendation

We recommend that management enhance its processes for reviewing, monitoring and accounting for all transactions. 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.

Management's Response

Ten days before the end of the fiscal year 2012, the Authority underwent a transition period that included the departure of its Chief Executive Officer and its Chief Administrative Officer. The current finance team has worked diligently to make the necessary adjustments to account for a number of issues addressed in this finding and the findings below. Since the transition, the new management has implemented a system of internal controls for reviewing and monitoring both its financial expenditures and the reporting of those expenditures. Working with the finance team, the new management has established procedures to ensure the Authority follows appropriate accounting standards supported by the necessary documentation.

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

III. Federal Award Findings and Questioned Costs

Finding 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 \$8,288,000 of cash on hand to cover program reserves, but as of March 31, 2012, there is only \$1,771,592 of available cash. Commingling of funds is not allowed in federal programs. It was also noted that HUD requested the Authority to return approximately \$3.9 million in DHAP-Ike funds. The Authority is unable to do so at this time.

Criteria

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

Cause

The Authority uses one sweep account to handle all cash accounts. The Authority did not maintain separate bank accounts for each program or monitor the allocation of funds.

Effect

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

Questioned Costs

\$6,516,408

Recommendation

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

Management's Response

The new management agrees with the finding that during the prior fiscal year and under the previous management, the Authority's reserve funds were comingled, including using DHAP-Ike funds to pay for affordable housing developments and excessive operating expenses for the Authority. As of March 28, 2012, one week after the change in management, the Authority's available cash was approximately \$350,000. Since that low point, the new management has (a) cut operating expenses by nearly fifty percent (50%), (b) increased cash reserves by selling unneeded Authority assets and collecting accounts receivable items, (c) negotiated settlements for questionable invoices, and (d) established separate accounts for non-HUD affordable housing funds to avoid future comingling of funds. The new management is also negotiating a payment plan to reimburse HUD for all funds that were misspent from the Authority's restricted program reserves. All future expenses will be allocated to the proper program.

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

Finding 2012-03 – Housing Choice Voucher Program, CFDA #14.871

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

Condition

The Authority was unable to provide general depository agreements providing third-party rights to HUD for banks holding deposits for Housing Choice Voucher Funds using the form required by HUD.

Criteria

According to 24 CFR 982.156, “PHA’s are required to enter into depository agreements with their financial institutions in the form required by HUD. The agreements serve as safeguards for Federal Funds and provide third-party rights to HUD.”

Cause

The Authority did not enter into depository agreements with the form required by HUD.

Effect

The Authority is not in compliance with the requirement to maintain depository agreements providing third-party rights to HUD. This exposes HUD to the risk of loss of funds in the event of judgments against the Authority that place liens on Authority property.

Questioned Costs

Unable to determine

Recommendation

We recommend that the Authority immediately enter into General Depository Agreements with their financial institutions in the form prescribed by HUD.

Management’s Response

The new management has entered into a General Depository Agreement with Amegy Bank using Form HUD-51999 as required by HUD.

Finding 2012-04 – Housing Choice Voucher Program, CFDA #14.871

Federal Agency:	U.S. Department of Housing and Urban Development
Compliance Requirement:	Activities Allowed or Unallowed
Type of Finding:	Noncompliance, Significant Deficiency

Condition

The Authority was over-leased by 142 unit months when comparing Housing Choice Voucher Occupancy Report to the ACC Contract for the 2011 calendar year.

Criteria

The 2005 Appropriations Act and subsequent Acts prohibit the use of appropriated funds by any PHA for “over-leasing.” Over-leasing occurs when a PHA has more unit months under a HAP

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

contract for the calendar year than are available under its ACC baseline, even if the PHA has sufficient Budget Authority to support the additional unit months. If a PHA engages in over-leasing, it must identify other non-HAP sources to pay for the over-leasing.

Cause

HAP funds are used to fund units in excess of the ACC baseline for the calendar year.

Effect

The Authority is in violation of their ACC Contract.

Questioned Costs

\$98,131

Recommendation

We recommend that the Authority monitor their leasing to reduce the risk of an over-leasing situation.

Management's Response

Beginning with the April 2012 board meeting, the new management reported that the Authority's HAP payments to landlords were greater than the HAP amount provided by HUD for nine of the previous 12 months. One cause of this overpayment was the fact that in February 2012, prior to the Authority's change in administration, the Authority was over-leased by 269 units. Although given the opportunity, the previous management had not requested additional HCV vouchers during the time frame provided by HUD to move qualified tenants from the DHAP-Ike program to the HCV program. When the new management requested additional vouchers from HUD to correct the over-leasing caused by issuing HCV vouchers to qualified DHAP-Ike tenants, HUD denied the delinquent request because no additional vouchers were available at that time. Except for issuing VASH vouchers, the Authority under the new management has not issued new vouchers and has significantly reduced the number of leased units through attrition, including attrition caused by violations of family obligations by tenants. However, despite these corrective steps, management expects to be over-leased for the 2012 calendar year due to serious over-leasing during the first five months of the 2012 calendar year. Due to corrective action taken by the new management, the Authority will enter the 2013 calendar year being under-leased by approximately 200 units.

Finding 2012-05 – 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 12 Housing Choice Voucher tenant files found exceptions in 3 files, which included the following:

- 1 file had a rent determination date after the effective date.
- 2 files had a rental request form that was not properly approved by the housing specialist.

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012**

- 1 file had a rent increase that was not properly entered into the system and there was no evidence that the contract rent change occurred.
- 2 files did not have a letter to the landlord notifying them of the approved/denied rent increase request.

Criteria

The PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

Cause

The Authority did not follow established procedures as documented in their Administrative Plan to ensure that rents were reasonable.

Effect

The Authority is not in compliance with HUD regulations.

Questioned Costs

Unable to determine

Recommendation

We recommend that management review their rent determination procedures and establish a method that ensures compliance.

Management's Response

Using a combination of staff training, increased supervisory focus on proper procedures, and subsequent quality control monitoring, the new management has established a method to comply with the Authority's Administrative Plan and HUD regulations regarding rent reasonableness.

**HARRIS COUNTY HOUSING AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2011**

None