



HARRIS COUNTY HOUSING
AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**As of and for the fiscal year ended
March 31, 2004**

HARRIS COUNTY HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2004

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Independent Auditors' Report

Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited the accompanying statement of net assets of the Harris County Housing Authority (the "Authority") as of March 31, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. The Authority is a discretely presented component unit of Harris County, Texas. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Harris County Housing Authority as of March 31, 2004, and its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 8 and schedule of funding progress – Texas County and District Retirement System on page 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The required supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Harris County Housing Authority
Independent Auditors' Report

Our audit was performed for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development's *Uniform Financial Reporting Standards* and is not a required part of the basic financial statements. This schedule is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Nell. Garrison, P. e.

Houston, Texas
July 19, 2004

Management's Discussion and Analysis

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, 2004. 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.

The Authority has been dormant since March, 1994, when the Court merged the Authority with the County's Community Development Department (CDD). In July, 2002, the Court approved a plan whereby the Authority would be reestablished and returned to its previous status as an independent entity. In March, 2003 the Court appointed new commissioners to govern the Authority, in accordance with LGC Chapter 392. There are five commissioners governing the Authority serving staggered two year terms. The Court appoints all Authority commissioners when terms expire.

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

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

Certain comparative information between the current year and the prior year is generally required to be presented in MD&A. Since this is the first year of Authority's operations as reestablished by the Court in March, 2003 there is no prior year information to present in this report. Future years' reports will include, when available, comparative analysis of the Authority's financial data.

Management's Discussion and Analysis (continued)

Financial Highlights

- The Authority's assets exceeded its liabilities at the close of March 31, 2004 by \$642,728 (net assets).
- Cash and investments as of March 31, 2004 were \$934,141.
- The Authority had \$12,954,301 in HUD grant revenue for the year ended March 31, 2004.
- The Authority had total expenses of \$13,351,998 for the year ended March 31, 2004, of which \$11,899,382 was for Housing Assistance Payments (HAP).
- The Authority had administrative expenses related to HUD programs of \$1,452,616.
- The Authority's total net assets decreased by \$337,887 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 include one enterprise fund. The Authority's fund records transactions related to HUD Section 8 housing assistance grants. 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 non-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.
- **Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Authority Financial Analysis

Over time, significant changes in the net assets are an indicator of whether the Authority's financial health is improving or deteriorating. Assets exceed liabilities by \$642,728 at the close of the fiscal year ended March 31, 2004.

Management's Discussion and Analysis (continued)

Authority Financial Analysis (continued)

Net Assets – March 31, 2004

| Description | Amount | Percentage of Total Assets |
|--------------------------|------------------|----------------------------------|
| Current assets | \$1,005,548 | 61% |
| Restricted assets | 512,140 | 31% |
| Fixed assets | 125,779 | 8% |
| Total assets | 1,643,467 | 100% |
| Long-term liabilities | 518,279 | 32% |
| Other liabilities | 482,460 | 29% |
| Total liabilities | 1,000,739 | 61% |
| Net assets | \$642,728 | 39% |

Net Asset Categories – March 31, 2004

| Description | Amount | Percentage of Total Net Assets |
|------------------------------|------------------|--------------------------------------|
| Invested in fixed assets | \$125,779 | 20% |
| Restricted for program costs | 516,949 | 80% |
| Total net assets | \$642,728 | 100% |

The largest portion of the Authority's net assets (80 percent) reflects those that are restricted for use in administering HUD Section 8 housing assistance grants. The Authority's operations are fully funded from the HUD Section 8 Housing Choice Voucher Program (HCVP) and Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation. The Authority uses the proceeds from these grants to provide services to qualified Harris County residents; consequently, these assets are available for future spending based on HUD requirements and annual approval. An additional portion of the Authority's net assets (20 percent) represents fixed assets used in administering the HUD grants. The Authority's fixed assets consist of leasehold improvements, automobiles and business equipment and are being depreciated over three to ten years depending on asset type. The Authority has no debt related to these fixed assets.

The Authority's net assets decreased during the current fiscal year by \$337,877. Most of this decrease is due to legal expenses associated with establishing the Authority's ability to expand its operations beyond the two HUD Section 8 housing assistance grants that it currently administers.

Management's Discussion and Analysis (continued)

Authority Financial Analysis (continued)

Change in Net Assets Fiscal Year Ended March 31, 2004 (000's)

| Description | Amount | Percentage of Total Revenues |
|---------------------------------------|---------------|---------------------------------|
| <i>Revenues - nonoperating</i> | | |
| HUD PHA Grants | \$12,954 | 99% |
| Interest and investment income | 60 | 1% |
| Total nonoperating revenues | 13,014 | 100% |
| <i>Expenses</i> | | |
| Housing assistance (HAP) | 11,899 | 91% |
| Personal services | 953 | 7% |
| Contractual services | 261 | 3% |
| Other supplies and expenses | 210 | 2% |
| Depreciation | 29 | 0% |
| Total expenses | 13,352 | 103% |
| (Decrease) in net assets | (338) | (3%) |
| Net assets April 1, | 981 | 8% |
| Net assets March 31, | \$643 | 5% |

Budgets

The Authority adopts an annual operating budget for all programs. Program budgets for the HUD programs that the Authority administers are approved annually by the Board of Commissioners and HUD on a basis consistent with the grant applications covering HAP programs. In March of 2004, the Authority had leased units in excess of the total HUD awarded units. The Authority budgets based on the HUD awarded units. HUD awarded units increased by 224 during the fiscal year.

| Section 8 Occupancy Report Information | March, 2004 | April, 2003 |
|---|--------------|--------------|
| <i>HUD Awarded Units</i> | | |
| HCVP Vouchers | 1,679 | 1,455 |
| Moderate rehabilitation | 8 | 8 |
| Total awarded/budgeted | 1,687 | 1,463 |
| <i>Leased Units</i> | | |
| HCVP adjusted vouchers | 1,730 | 1,341 |
| Moderate rehabilitation adjusted vouchers | 6 | 8 |
| Total actual | 1,736 | 1,349 |
| Percentage leased | 103% | 92% |
| Year to date average percentage leased | 102% | 92% |
| Difference - awarded/budgeted vs. leased | 49 | (114) |

Management's Discussion and Analysis (continued)

Fixed Assets

The Authority's fixed assets consist of leasehold improvements, automobiles and business equipment used in administering the HUD grants and are being depreciated over three to ten years depending on asset type.

Fixed Assets – March 31, 2004 (net of depreciation)

| | |
|------------------------|-------------------------|
| Leasehold improvements | \$25,110 |
| Computer equipment | 27,348 |
| Computer software | 34,297 |
| Automobiles | 33,170 |
| Office furniture | 5,854 |
| Total | <u>\$125,779</u> |

The Authority added fixed assets of \$142,824 during the current year. These additions were the result of establishing operations as a newly operating housing authority. Fixed asset additions during the current fiscal year included the following:

Fixed Asset Additions Fiscal Year Ended March 31, 2004

| | |
|------------------------|-------------------------|
| Leasehold improvements | \$27,644 |
| Computer equipment | 29,231 |
| Computer software | 39,615 |
| Automobiles | 41,177 |
| Office furniture | 5,157 |
| Total | <u>\$142,824</u> |

Additional information on the Authority's fixed assets can be found in **Note 1** on page 16 and **Note 3** on page 19 of this report.

Economic Factors and Next Year's Budget

The Authority is totally dependent upon HUD for the funding of its operations. The federal budget for HUD programs impacts the Authority's operations rather than local economic conditions. No major negative impacts in HUD funding are expected for the 2004-05 fiscal year. HUD has approved an initial budget for this fiscal period through December 31, 2004 and disbursements are scheduled only through December 2004 due to funding changes in HCVP required by the federal fiscal year 2004 Appropriations Act. The HUD approved nine month budget includes estimated HAP payments of \$10,538,503 and associated administrative costs of \$650,457. The most recent *Section 8 Occupancy Report* information that is used for budget purposes indicated total HUD awarded/budgeted units of 1,784.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budget (continued)

| <u>Section 8 Occupancy Report Information</u> | <u>July, 2004</u> |
|---|---------------------|
| <i>HUD Awarded Units</i> | |
| HCVP Vouchers | 1,776 |
| Moderate rehabilitation | <u>8</u> |
| Total awarded/budgeted | <u>1,784</u> |
| <i>Leased Units</i> | |
| HCVP adjusted vouchers | 1,646 |
| Moderate rehabilitation adjusted vouchers | <u>0</u> |
| Total actual | <u>1,646</u> |
| Percentage leased | 92% |
| Year to date average percentage leased | 98% |
| Difference - awarded/budgeted vs. leased | (138) |

The County's Community and Economic Development Department has awarded the Authority \$3.5 million for the purpose of acquiring and co-developing affordable housing for seniors using the federal Low Income Housing Tax Credit program. An additional \$3 million has been set aside for single-family tax credit development and senior housing developments. The Authority anticipates participating with for-profit developers to create more than 650 units of affordable housing in the unincorporated areas of the County over the next 24 months or by December 2006. The objectives of the Authority in participating in this program are to facilitate affordable housing and provide additional revenue to support housing programs. The federal tax credit program is a means of directing private capital toward the creation of affordable housing. The Texas Department of Housing and Community Affairs administers this program in Texas.

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 received the highest rating under SEMAP for the fiscal year ended March 31, 2004, as it had for the period ended March 31, 2003.

Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of 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 Executive Director, Harris County Housing Authority, 8410 Lantern Point Dr., Houston, TX 77054, (713) 558-2203.

BASIC FINANCIAL STATEMENTS

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HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF NET ASSETS
March 31, 2004

| | HUD Section 8 Grants |
|--|---------------------------------|
| ASSETS: | |
| Current assets: | |
| Cash and cash equivalents | \$ 934,141 |
| Due from Harris County, primary government | 51,259 |
| Due from other public housing authorities | 11,259 |
| Due from HUD | 8,889 |
| Total current assets | <u>1,005,548</u> |
| Restricted assets: | |
| Cash and cash equivalents | 94,807 |
| Due from Harris County, primary government | 417,333 |
| Total restricted assets | <u>512,140</u> |
| Fixed assets: | |
| Leasehold Improvements and equipment | 165,565 |
| Less accumulated depreciation | (39,786) |
| Fixed assets, net | <u>125,779</u> |
| Total assets | <u>1,643,467</u> |
| LIABILITIES: | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 242,218 |
| Due to Harris County, primary government, for accrued personnel costs, including benefits | 126,327 |
| Housing assistance payable | 113,915 |
| Total current liabilities | <u>482,460</u> |
| Noncurrent liabilities: | |
| Family self sufficiency liabilities | 94,807 |
| Due to Harris County, primary government, for accrued compensated absences | 6,139 |
| Due to HUD - housing assistance pending | 417,333 |
| Total noncurrent liabilities | <u>518,279</u> |
| Total liabilities | <u>1,000,739</u> |
| NET ASSETS: | |
| Invested in fixed assets | 125,779 |
| Restricted for program costs | 516,949 |
| Total net assets | <u>\$ 642,728</u> |

See notes to financial statements

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
March 31, 2004

| | HUD Section 8 Grants |
|---------------------------------|---------------------------------|
| Operating expenses: | |
| Housing Assistance | \$ 11,899,382 |
| Personal services | 952,529 |
| Contractual services | 261,047 |
| Other supplies and expenses | 210,334 |
| Depreciation | 28,706 |
| Total operating expenses | <u>13,351,998</u> |
| Operating (loss) | <u>(13,351,998)</u> |
| Nonoperating revenues: | |
| HUD PHA Grants | 12,954,301 |
| Interest and investment revenue | 59,810 |
| Total nonoperating revenues | <u>13,014,111</u> |
| Change in net assets | (337,887) |
| Total net assets--beginning | <u>980,615</u> |
| Total net assets--ending | <u><u>\$ 642,728</u></u> |

See notes to financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
March 31, 2004

| | HUD Section 8 Grants |
|---|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Payments to housing assistance recipients | \$ (11,785,467) |
| Payments to suppliers | (253,541) |
| Payments to employees | (820,063) |
| Net cash (used) by operating activities | <u>(12,859,071)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Receipts from HUD - grants | <u>13,945,789</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchases of fixed assets | <u>(137,746)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | <u>8,551</u> |
| Net increase in cash and cash equivalents | 957,523 |
| Balances--beginning of the year | <u>71,425</u> |
| Balances--end of the year | <u><u>\$ 1,028,948</u></u> |
| Reconciliation of operating (loss) to net cash (used) by operating activities: | |
| Operating (loss) | \$ (13,351,998) |
| Adjustments to reconcile operating income to net cash (used) by operating activities: | |
| Cash flows reported in other categories: | |
| Receipts from HUD - grants | (940,229) |
| Depreciation expense | 28,706 |
| Change in assets and liabilities: | |
| Due from Harris County, primary government | 369,565 |
| Due from other public housing authorities | (11,050) |
| Due from HUD | 121,589 |
| Accounts payable and accrued liabilities | 217,840 |
| Accrued personnel costs, including benefits | 126,327 |
| Housing assistance payable | 113,915 |
| Family self sufficiency liabilities | 42,792 |
| Accrued compensated absences | 6,139 |
| Due to HUD - housing assistance pending | 417,333 |
| Net cash (used) by operating activities | <u><u>\$ (12,859,071)</u></u> |
| Cash and cash equivalent balances: | |
| Current assets | \$ 934,141 |
| Restricted assets | 94,807 |
| Total | <u><u>\$ 1,028,948</u></u> |

See notes to financial statements.

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**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

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:

- (1) There is unsanitary or unsafe inhabited housing in the County;
- (2) There is a shortage of safe or sanitary housing in the County available to persons of low income at rentals that they can afford; and
- (3) There is need for a 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 with County employees and continuing reimbursement to the County of all associated costs.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Organization (continued) - The agreement additionally provided for the provision of office space and telecommunications services by the County. The Interlocal Agreement's term was for a period of 180 days, expiring on August 31, 2003, and included a provision whereby it could be extended for an additional period of twelve months. On August 6, 2003, the Interlocal Agreement was extended through August 31, 2004, with updates and modifications.

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

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 considered a component unit of the County. The County issues its own financial statements for all the County's activities that include the Authority. The County presents the Authority as a discretely presented component unit under the provisions of Government Accounting Standards Board (GASB) Statement No. 14. The primary criterion that provides for the Authority's inclusion in the County's financial statements as a discretely presented component unit is that the Court appoints all Authority commissioners and may remove commissioners under LGC Chapter 392. Appointment and removal options related to the Authority's commissioners gives the Court the ability to impose its will on the Authority's operations.

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

The overriding elements associated with prescribed criteria considered in determining that the financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under accounting principles generally accepted in the United States of America include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these considerations, no other entities, organizations, or functions have been included in the Authority's financial reporting entity.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued) - The Authority's operations are fully funded from the following federal grant sources through HUD:

- Section 8 Housing Choice Voucher Program –
CFDA No. 14.871 - Grant number - TX441V0
- Lower Income Housing Assistance Program –
Section 8 Moderate Rehabilitation – CFDA No. 14.856 –
Grant number - TX441MR0003

Both of these programs are accounted for in the HUD Section 8 Grants Fund. See **Note 6** following for additional disclosure related to compliance with these HUD grants.

Basis of Presentation and Measurement Focus - The accompanying basic financial statements have been prepared on the full accrual basis of accounting as prescribed by GASB. Full accrual accounting uses a flow of economic resources measurement focus. Under this measurement focus, the Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Authority presents its financial statements in accordance with GASB 34 guidance for governments engaged only in business-type activities. 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 Change in Net Assets, Statement of Cash Flows and Notes to the Financial Statements. The Authority has one fund for the HUD Section 8 programs.

Enterprise Fund – The financial statements of the Authority are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recognized in the period earned. Since all of the Authority's basic funding comes from HUD Section 8 grants, there are no operating revenues. All HUD grant revenue is considered nonoperating under GASB and HUD guidance, as are the Authority's income from the investment of idle funds. All of the Authority's resources are restricted for the operations of the HUD Section 8 grants.

Expenses are recognized in the period incurred. The Authority's operating expenses consist primarily of Housing Assistance Payments (HAP) and related administrative costs for the HUD Section 8 programs, including depreciation. The Authority has no nonoperating expenses.

The Authority has no long-term debt.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Public Funds Investment Act (Texas Government Code, Chapter 2256, Subchapter A) 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. LGC Chapter 392, Section 392.057 also authorizes the Authority in property or securities in which a savings bank may legally invest funds subject to its control. Authorized investments for savings banks are prescribed in the Texas Administrative Code, Title 7, Part 4, Chapter 77, Subchapter A.

The Authority uses an overnight sweep arrangement for all operating bank accounts with their depository bank. Under this sweep arrangement, the Authority generally invests in Federal Home Loan Bank or Federal Home Loan Mortgage Corporation securities through repurchase agreements. Under the sweep arrangement with their depository bank, no collateral securities are pledged to or required for the Authority's bank deposits because all bank balances are fully insured through the Federal Deposit Insurance Corporation.

Authority policy requires that repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligations of both parties and which requires that the securities involved in the transaction be held in a safekeeping account subject to the control and custody of the Authority. The margin requirement for all repurchase agreements is that market value must be at least 101% of the purchase price. Investments in repurchase agreements may be made only through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in the state of Texas with which the Authority has signed a master repurchase agreement.

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 and certain HAP payments currently pending the outcome of an outreach program to identify the holders of old outstanding checks. The Authority will be performing the outreach program in the 2005 fiscal period and will gain the approval of HUD prior to using the HAP payments currently pending for program operations.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets (continued) – 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.

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

Fixed 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 fixed assets are stated at historical cost or estimated fair market value at the date of purchase. Donated fixed assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 3 to 10 years. Leasehold improvements are depreciated over a 10-year useful life. Equipment is depreciated over 3 to 5 years, depending on the type. The Authority has no constructed property and has not included capitalized interest in any fixed asset category.

Budgets – The Authority's Finance Policies and Procedures provide for budget preparation annually primarily to satisfy HUD compliance requirements. The HUD Section 8 housing programs generate income through administrative fees paid by HUD to cover the Authority's costs to administer these programs. The annual administrative operating budget for the HUD Section 8 program is incorporated into the Authority's overall annual operating budget that includes HAP. 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 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 and other program costs to the Authority's Board of Commissioners for review at each board meeting.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management - The Authority's risk-of-loss exposures include 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 County employees and are covered by the Harris County workers' compensation program. The County is self-insured for workers' compensation medical and indemnity payments. Claims adjusting services are provided by a third-party administrative claims adjusting service. Interfund premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal year ended February 29, 2004 was \$850,000 per occurrence. No claims settled during the last three fiscal years have exceeded this coverage.

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

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

Compensated Absences - Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee. The amounts recorded are based on amounts billed by the County on a periodic basis.

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

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Significant Concentrations – Economic Dependency – All of the Authority's revenues are provided by HUD grants. 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.

2. CASH AND INVESTMENTS

The carrying amount of the Authority's deposits was \$94,807 as of March 31, 2004. The bank balances as of March 31, 2004 were \$57,346 and were covered by federal depository insurance. The Authority has cash on hand in a petty cash fund of \$200 as of March 31, 2004.

At fiscal year end, investments consisted of U.S. government securities. The investments are categorized to give an indication of level of risk, with Category 1 being the lowest risk and Category 3 the highest risk.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

2. CASH AND INVESTMENTS (continued)

The credit risks are as follows: (1) insured or registered, or securities held by the Authority's agent in the Authority's name; (2) uninsured or unregistered, with securities held in the trust department of the Authority's counterparty in the Authority's name; or (3) uninsured or unregistered, with securities held at the Federal Reserve or other third party in the account of the Authority's counterparty. The Authority's investments, which are considered cash equivalents, were categorized as risk level Category 1 as of March 31, 2004. The fair value of investments was \$933,941 as of March 31, 2004.

3. FIXED ASSETS

Fixed asset activity for the year ended March 31, 2004 was as follows:

| Category | Balance April 1, 2003 | Additions/ Transfers | Balance March 31, 2004 |
|---|----------------------------------|---------------------------------|-----------------------------------|
| Assets: | | | |
| Leasehold improvements | \$ | \$ 27,644 | \$ 27,644 |
| Computer equipment | 19,671 | 29,231 | 48,902 |
| Computer software | | 39,615 | 39,615 |
| Automobiles | | 41,177 | 41,177 |
| Office furniture | 3,070 | 5,157 | 8,227 |
| Total | 22,741 | 142,824 | 165,565 |
| Less accumulated depreciation: | | | |
| Leasehold improvements | | (2,534) | (2,534) |
| Computer equipment | (10,274) | (11,280) | (21,554) |
| Computer software | | (5,318) | (5,318) |
| Automobiles | | (8,007) | (8,007) |
| Office furniture | (806) | (1,567) | (2,373) |
| Total | (11,080) | (28,706) | (39,786) |
| Fixed Assets, net | \$ 11,661 | \$ 114,118 | \$ 125,779 |

Depreciation expense for the year ended March 31, 2004 totaled \$28,706.

4. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended March 31, 2004 were as follows:

| Balance April 1, 2003 | Earned | Taken/ Paid | Balance March 31, 2004 | Due Within One Year |
|----------------------------------|---------------|------------------------|-----------------------------------|--------------------------------|
| \$ - | \$ 52,487 | \$ (21,793) | \$ 30,694 | \$ 24,555 |

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

5. INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS

On March 4, 2003, pursuant to the Interlocal Cooperation Act, Chapter 791 Texas Government Code, an Interlocal Agreement between the Authority and the County was approved by the Court pertaining to the basic operations of the Authority. This Interlocal Agreement was subsequently extended through August 31, 2004 and may be extended for an additional 12 month period.

Significant provisions of the extended agreement are described below.

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

Personnel – The parties will agree on staffing at the time of execution of the Interlocal Agreement and any extensions. Any additional staffing will require the prior approval of both the Authority and the County.

The staff, as agreed on by the Authority and the County will administer all aspects of the Authority's daily operations. All staff is employed by the County and shall be subject to the control and supervision of the County. The Authority shall reimburse the County for the time that the staff spends on Authority business only. Within the first 10 days of each month, the Harris County Auditor shall prepare a statement and proper backup showing the actual staff salary and benefits expenses incurred by the County for staffing the Authority's operations during the previous calendar month. The Authority shall promptly pay the total due to the County upon receipt of a correct and verified statement.

The Authority shall also reimburse the County for other incurred staffing charges of other County personnel as may be applicable for the conduct of the Authority's operations. These incurred overhead charges include by way of example, but not limited to, information systems and payroll services. Within the first ten (10) days of each month, the Harris County Auditor shall prepare a statement showing the incurred staffing overhead charges for the Authority's operations during the previous calendar month. The County will report incurred overhead staffing charges using an accounting and/or auditing basis that is reasonably acceptable and reliable in government grant accounting practices and applications. The Authority shall promptly pay the total due to the County upon receipt of a correct and verified statement.

County personnel that supervise and conduct the Authority's daily operations will follow County personnel rules and regulations.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

5. INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (continued)

Personnel (continued) – The County is not obligated to provide personnel and other incurred overhead charges in excess of the amount that the Authority is willing reimburse to the County.

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

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

The Authority has recorded a receivable from the County as of March 31, 2004 for remaining funds not transferred of \$468,592. Included in this amount are pending HAP of \$417,333 that are not available for HUD Section 8 programs without further review by Authority staff and specific approval of HUD. This amount represents outstanding checks to housing assistance payment recipients that have never been cashed. Once the Authority's staff has reviewed and exhausted all efforts to find the recipients of these outstanding checks, any remaining amounts will be added back to the program in accordance with HUD guidelines. The remaining \$51,259 due from the County represents interest income on funds not transferred to the Authority from the County since March 1, 2003 and is available for HUD Section 8 program operations when received by the Authority.

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

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

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

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

5. INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (continued)

Sublease agreement – The Authority rents its administrative offices from the County through a sublease at 8410 Lantern Point Drive in Houston, Texas. The Authority pays \$1 per month as rent for the facilities, including utilities that have been provided by the County and telecommunications services. The Authority shall pay for any special modifications or alterations that it desires in the rented space. The Authority has capitalized leasehold improvements to this space in the amount of \$27,644 and is depreciating these improvements over a 10 year period. The Authority has obtained and maintains in effect insurance coverage required by the County's landlord at 8410 Lantern Point Drive in Houston, Texas.

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

Virtually all of the Authority's operations are funded from HUD Section 8 Housing Choice Voucher Program (HCVP) grant funds. For the fiscal year ended March 31, 2004, the Authority had total HUD grant revenues of \$12,954,301 of which \$12,888,771 was for HCVP. The Authority's total HAP payments for the fiscal year ended March 31, 2004 were \$11,899,382, of which \$11,840,288 was for HCVP. At March 31, 2004, the Authority was owed \$20,148 from HUD and other public housing authorities for HCVP funding and owed \$208,722 in HAP to qualified recipients, of which \$94,807 was for the Family Self Sufficiency program of HCVP. See **Note 5** for information related to pending HAP receivable from the County.

Compliance with HCVP grant requirements is a significant part of the Authority's administrative activities. A general description of HCVP and its significant compliance elements are described below. References to the Code of Federal Regulations (CFR) is also included, where applicable

GENERAL HCVP INFORMATION

HCVP provides rental assistance to help very low-income families afford decent, safe and sanitary rental housing.

Under the HCVP, the Authority accepts applications for rental assistance from qualified recipients, selects the applicant for admission and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The Authority pays the owner a portion of the rent (HAP) on behalf of the family.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (continued)

GENERAL HCVP INFORMATION (continued)

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1).

HUD enters into annual contributions contracts (ACCs) with the Authority under which the HUD provides funds to administer the program. The Authority enters into HAP contracts with private owners who lease their units to assisted families (24 CFR section 982.151).

In the HCVP, the Authority verifies a family's eligibility (including income eligibility) and then issues the family a voucher. The family generally has 60 days to locate a rental unit where the landlord agrees to participate in the program. The Authority determines whether the unit meets housing quality standards (HQS). If the Authority approves a family's unit and determines that the rent is reasonable, the Authority contracts with the owner to make HAPs on behalf of the family (24 CFR section 982.1(a)(2)).

Under the HCVP, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is generally no limit on the amount of rent that an owner may charge for a unit. However, at initial occupancy of any unit where the gross rent exceeds the payment standard, a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities (24 CFR section 982.508).

The voucher subsidy is set based on the difference between the lower of the Authority's applicable payment standard for the family or the gross rent and the total tenant payment (generally 30 percent of the family's monthly adjusted income). This is the maximum amount of subsidy a family may receive regardless of the rent the owner charges for the unit (24 CFR part 982, subpart K).

If the cost of utilities is not included in the rent to the owner, the Authority uses a schedule of utility allowances to determine the amount an assisted family needs to cover the cost of utilities. The Authority's utility allowance schedule is developed based on utility consumption and rate data for various unit sizes, structure types and fuel types. The Authority is required to review its utility allowance schedules annually and to adjust them if necessary (24 CFR section 982.517).

The Authority must inspect units leased under the HCVP at the time of initial leasing and at least annually thereafter to ensure they meet HUD housing quality standards (HQS). The Authority must also conduct supervisory quality control HQS inspections (24 CFR sections 982.305 and 982.405).

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (continued)

GENERAL HCVP INFORMATION (continued)

The Authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. The Authority is required to maintain a HAP contract register or similar record in which to record the Authority's obligation for monthly HAP. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any (24 CFR section 982.158). The Authority uses specialized software for this purpose to track approximately 1,700 HAP recipients.

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. Under SEMAP, public housing authorities submit an annual certification, Form HUD-52648 (*OMB No. 2577-0215*), to HUD concerning their compliance with program requirements under 14 indicators of performance (24 CFR part 985). The Authority has had the highest rating under SEMAP for the past two years.

In the HCVP, required program contracts and other forms must be word-for-word in the form prescribed by HUD Headquarters. Any additions to or modifications of required program contracts or other forms must be approved by HUD headquarters (24 CFR section 982.162).

In addition, housing agencies that are contract administrators for this program must comply with the HUD Uniform Financial Reporting Standards rule. Accordingly, public housing authorities that administer Section 8 tenant-based housing assistance payment programs are required to submit financial statements, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the Authority's fiscal year end and the audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of this program.

Under a homeownership option of the HCVP implemented in October 2000, a public housing authority may choose to provide assistance to a qualified first-time homebuyer to subsidize the family's monthly homeownership expenses. The homeownership option is operated by a Authority as a separate sub-program of the HCVP, which is subject to somewhat different rules (24 CFR sections 982.625 through 982.641). This sub-program is known as Family Self-Sufficiency.

The HCVP regulations are found in 24 CFR parts 5, 982, and 985.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (continued)

SIGNIFICANT HCVP COMPLIANCE ELEMENTS

The major compliance elements of the HCVP subject to the Authority's internal administrative controls and annual compliance audits are listed below.

Activities Allowed or Unallowed – Public housing authorities may use HCVP funds only for HAPs to participating owners and for administrative fees (24 CFR sections 982.151 and 982.152).

Eligibility for Individuals – Public housing authorities may use HCVP funds only for HAPs to participating owners and for administrative fees (24 CFR sections 982.151 and 982.152).

Most public housing authorities devise their own application forms that are filled out by the staff during an interview with the tenant. The head of the household signs: (a) one or more release forms to allow the Authority to obtain information from third parties; (b) a federally prescribed general release form for employment information; and (c) a privacy notice. Under some circumstances, other members of the family are required to sign these forms (24 CFR sections 5.212 and 5.230).

As part of the eligibility compliance feature, the Authority must:

- a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the Authority to verify income eligibility (24 CFR sections 5.230, 5.609 and 982.516).
- b. For both family income examinations and reexaminations, obtain and document in the family file third party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 982.516).
- c. Determine income eligibility and calculate the tenant's rent payment using the documentation from third party verification in accordance with 24 CFR part 5 subpart F (24 CFR section 5.601 *et seq.*) (24 CFR sections 982.201, 982.515, and 982.516).
- d. Select tenants from the HCVP waiting list (see III.N.1, "Special Tests and Provisions - Selection from the Waiting List") (24 CFR sections 982.202 through 982.207).
- e. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third party verification (24 CFR section 982.516).

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

**6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING
CHOICE VOUCHER PROGRAM (continued)**

SIGNIFICANT HCVP COMPLIANCE ELEMENTS (continued)

Reporting – HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* - submitted annually.

Performance Reporting – HUD-52648, *SEMAP Certification - Addendum for Reporting Data for Deconcentration Bonus Indicator (OMB No. 2577-0215)* – Public housing authorities with jurisdiction in metropolitan Fair Market Rental (FMR) areas have the option of submitting data to HUD with their annual SEMAP certifications on the percent of their tenant-based Section 8 families with children who live in, and who have moved during the Authority fiscal year to, low poverty census tracts in the Authority's principal operating area. Submission of this information with the SEMAP certification makes the Authority eligible for bonus points under SEMAP (24 CFR section 985.3(h)).

Special Reporting – HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* - submitted annually.

HUD-50058, *Family Report (OMB No. 2577-0083)* - The Authority is required to submit this form electronically to HUD each time the Authority completes an admission, annual reexamination, interim reexamination, portability move-in or other change of unit for a family. The Authority must also submit the Family Report when a family ends participation in the program or moves out of the Authority's jurisdiction under portability (24 CFR part 908 and 24 CFR section 982.158).

Selection from the Waiting List – HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* - submitted annually. The Authority must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and Authority documentation must show that the Authority follows these policies when selecting applicants for admission from the waiting list. Except as provided in 24 CFR section 982.203 (Special admission (non-waiting list)), all families admitted to the program must be selected from the waiting list. "Selection" from the waiting list generally occurs when the Authority notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission (24 CFR sections 5.410, 982.54(d), and 982.201 through 982.207).

Reasonable Rent – The Authority's administrative plan must state the method used by the Authority to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. The Authority determination must consider unit attributes such as the location, quality, size, unit type, age of the unit and any amenities, housing services, maintenance and utilities provided by the owner.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

**6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE – SECTION 8 HOUSING
CHOICE VOUCHER PROGRAM (continued)**

SIGNIFICANT HCVP COMPLIANCE ELEMENTS (continued)

Reasonable Rent (continued) – The Authority must determine that the rent to owner is reasonable at the time of initial leasing. Also, the Authority 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 FMR in effect 60 days before the HAP contract anniversary. The Authority 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).

Utility Allowance Schedule – The Authority must maintain an up-to-date utility allowance schedule. The Authority must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR section 982.517).

Housing Quality Standards Inspections – The Authority must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the Authority must conduct quality control reinspections. The Authority must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

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

Housing Assistance Payments (HAP) – The Authority must pay a monthly HAP on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register. (24 CFR section 982.158 and 982 subpart K).

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

7. RETIREMENT PLAN

Plan Description - The County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional, 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 553 non-traditional 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 County has had 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 January 1, 1995, the County adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the employer are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2004 is 10.53%. The contribution rates for calendar years 2003 and 2002 were 10.31% and 9.86%, respectively.

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

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 Commissioner's Court of the County 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, death or disability, 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.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

7. RETIREMENT PLAN (continued)

Funding Policy - The County has elected the annually determine contribution rate (ACDR) plan provision of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using 10.31% for the months of the accounting year in 2003 and 10.53% for the months of the accounting year in 2004.

The contribution rate payable by the employee members for 2004 and 2003 is the rate of 7% as adopted by Commissioner's Court. The employee contribution rate and the employer contribution rate may be changed by Commissioner's Court within the options available in the TCDRS Act.

Annual Pension Cost - For the County's accounting year ended February 29, 2004, the annual pension cost for the TCDRS plan for its employees, including the Authority, was \$56,365,262 and the actual contributions for the Authority for the March 31, 2004 fiscal year were \$66,502.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2002 and December 31, 2003, the basis for determining the contribution rates for calendar years 2003 and 2004. The December 31, 2003 report is the most recent valuation.

| Actuarial Valuation Method | | | |
|-----------------------------------|---|---|---|
| Actuarial Valuation Date | 12/31/01 | 12/31/02 | 12/31/03 |
| Actuarial Cost Method | Entry age | Entry age | Entry age |
| Amortization Method | Level percentage of payroll, open | Level percentage of payroll, open | Level percentage of payroll, open |
| Amortization period in years | 20 | 20 | 20 |
| Asset Valuation Method | Long-term appreciation with adjustments | Long-term appreciation with adjustments | Long-term appreciation with adjustments |

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

7. RETIREMENT PLAN (continued)

| Actuarial Valuation Method | | | |
|---|------|------|------|
| Actuarial Assumption: | | | |
| Investment return (1) | 8.0% | 8.0% | 8.0% |
| Projected salary increases | 5.5% | 5.5% | 5.5% |
| (1) | 3.5% | 3.5% | 3.5% |
| Inflation | 0.0% | 0.0% | 0.0% |
| Cost of living adjustments | | | |
| (1) Includes inflation at the stated rate | | | |

| Trend Information | | | |
|--------------------------|---------------------|-------------------------------|------------------------|
| Accounting Year Ended | Annual Pension Cost | Percentage of APC Contributed | Net Pension Obligation |
| 2/29/2004 | \$56,365,262 | 100% | 0 |
| 2/28/2003 | \$56,254,388 | 100% | 0 |
| 2/28/2002 | \$48,448,052 | 100% | 0 |

8. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the County provides certain retirement health care and life insurance benefits for retired employees. The authority under which the provision and obligation to contribute were established is the Commissioner's Court. County regulations allow all County employees to become eligible for these benefits after meeting the service and retirement age requirements of the County's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal to 75 or more. The County pays 100% of the cost of medical and life insurance coverage for retirees. The Authority recognizes expenses for retirement benefits as paid. No amounts were paid during the fiscal year ended March 31, 2004. The Authority has no retirees that qualify for these retirement benefits.

9. COMMITMENTS AND CONTINGENCIES – LITIGATION AND CLAIMS

From time to time, the Authority could be subject to lawsuits and other claims in the ordinary course of operations. The Authority is not involved in any known lawsuits. The Authority is not aware of any significant other claims.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

10. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, ("GASB 40"), will be effective for the Authority in the fiscal year ending March 31, 2006. GASB 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposits and investments policies related to the risks identified should also be disclosed.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, ("GASB 42"), will be effective for the Authority in the fiscal year ending March 31, 2006. GASB 42 has two main objectives: (1) to establish accounting and reporting requirements for the impairment of capital assets; and, (2) to establish and clarify guidance for accounting for insurance recoveries for all funds and activities.

11. SUBSEQUENT EVENTS

The County's Community and Economic Development Department has awarded the Authority \$3.5 million for the purpose of acquiring and co-developing affordable housing for seniors using the federal Low Income Housing Tax Credit program. An additional \$3 million has been set aside for single-family tax credit development and senior housing developments. The Authority anticipates participating with for-profit developers to create more than 650 units of affordable housing in the unincorporated areas of the County over the next 24 months or by December 2006. The objectives of the Authority in participating in this program are to facilitate affordable housing and provide additional revenue to support housing programs.

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

REQUIRED SUPPLEMENTARY INFORMATION

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**HARRIS COUNTY HOUSING AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – TEXAS COUNTY
AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED MARCH 31, 2004**

| Schedule of Funding Progress | | | |
|---|-----------------|-----------------|-----------------|
| Actuarial Valuation Date | 12/31/01 | 12/31/02 | 12/31/03 |
| Actuarial Value of Assets | \$1,380,976,806 | \$1,484,207,932 | \$1,640,964,686 |
| Actuarial Accrued Liability (AAL) | \$1,578,523,738 | \$1,711,255,341 | \$1,848,669,873 |
| Unfunded Actuarial Accrued Liability (UAAL) | \$197,546,932 | \$227,047,409 | \$207,705,187 |
| Funded Ratio | 87.48% | 86.73% | 88.76% |
| Annual Covered Payroll (Actuarial) | \$509,600,340 | \$537,829,236 | \$570,304,250 |
| UAAL as Percentage of Covered Payroll | 38.77% | 42.22% | 36.42% |

The County's annual covered payroll and annual pension costs are actuarially valued on a calendar year basis. Because the County makes all of the annually required contributions, no net pension obligations exist. The information presented above was determined as part of the actuarial valuation as of December 31, for each year presented by TCDRS.

Source of Information – Texas County and District Retirement System

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SUPPLEMENTARY INFORMATION

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HARRIS COUNTY HOUSING AUTHORITY
SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE – REQUIRED UNDER UFRS
FOR THE YEAR ENDED MARCH 31, 2004
(PHA: TX441 - FYED: 03/31/2004)

| Item No. | Account Description | Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation TX441MR0003 | Housing Choice Vouchers | Total |
|----------|--|---|-------------------------|-------------|
| 111 | Cash - Unrestricted | \$0 | \$934,141 | \$934,141 |
| 100 | Total Cash | \$0 | \$934,141 | \$934,141 |
| 121 | Accounts Receivable - PHA Projects | \$0 | \$11,259 | \$11,259 |
| 122 | Accounts Receivable - HUD Other Projects | \$8,889 | \$0 | \$8,889 |
| 124 | Accounts Receivable - Other Government | \$0 | \$51,259 | \$51,259 |
| 126.2 | Allowance for Doubtful Accounts - Other | \$0 | \$0 | \$0 |
| 128.1 | Allowance for Doubtful Accounts - Fraud | \$0 | \$0 | \$0 |
| 120 | Total Receivables, net of allowances for doubtful accounts | \$8,889 | \$62,518 | \$71,407 |
| 144 | Interprogram Due From | \$0 | \$3,076 | \$3,076 |
| 150 | Total Current Assets | \$8,889 | \$999,735 | \$1,008,624 |
| 162 | Buildings | \$0 | \$27,644 | \$27,644 |
| 164 | Furniture, Equipment & Machinery - Administration | \$0 | \$137,921 | \$137,921 |
| 166 | Accumulated Depreciation | \$0 | \$-39,786 | \$-39,786 |
| 160 | Total Fixed Assets, Net of Accumulated Depreciation | \$0 | \$125,779 | \$125,779 |
| 174 | Other Assets | \$0 | \$512,140 | \$512,140 |
| 180 | Total Non-Current Assets | \$0 | \$637,919 | \$637,919 |
| 190 | Total Assets | \$8,889 | \$1,637,654 | \$1,646,543 |

HARRIS COUNTY HOUSING AUTHORITY
SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE – REQUIRED UNDER UFRS
FOR THE YEAR ENDED MARCH 31, 2004
(PHA: TX441 - FYED: 03/31/2004)

| Item No. | Account Description | Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation TX441MR0003 | Housing Choice Vouchers | Total |
|----------|---|---|-------------------------|-------------|
| 311 | Bank Overdraft | \$0 | \$192,364 | \$192,364 |
| 312 | Accounts Payable <= 90 Days | \$0 | \$39,308 | \$39,308 |
| 321 | Accrued Wage/Payroll Taxes Payable | \$0 | \$101,772 | \$101,772 |
| 322 | Accrued Compensated Absences - Current Portion | \$0 | \$24,555 | \$24,555 |
| 331 | Accounts Payable - HUD PHA Programs | \$0 | \$113,915 | \$113,915 |
| 346 | Accrued Liabilities - Other | \$0 | \$10,546 | \$10,546 |
| 347 | Interprogram Due To | \$3,076 | \$0 | \$3,076 |
| 310 | Total Current Liabilities | \$3,076 | \$482,460 | \$485,536 |
| 354 | Accrued Compensated Absences - Non Current | \$0 | \$6,139 | \$6,139 |
| 353 | Noncurrent Liabilities - Other | \$0 | \$512,140 | \$512,140 |
| 350 | Total Noncurrent Liabilities | \$0 | \$518,279 | \$518,279 |
| 300 | Total Liabilities | \$3,076 | \$1,000,739 | \$1,003,815 |
| 508 | Total Contributed Capital | \$0 | \$0 | \$0 |
| 508.1 | Invested in Capital Assets, Net of Related Debt | \$0 | \$125,779 | \$125,779 |
| 511 | Total Reserved Fund Balance | \$0 | \$0 | \$0 |
| 511.1 | Restricted Net Assets | \$0 | \$511,136 | \$511,136 |
| 512.1 | Unrestricted Net Assets | \$5,813 | \$0 | \$5,813 |
| 513 | Total Equity/Net Assets | \$5,813 | \$636,915 | \$642,728 |
| 600 | Total Liabilities and Equity/Net Assets | \$8,889 | \$1,637,654 | \$1,646,543 |

HARRIS COUNTY HOUSING AUTHORITY
SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE – REQUIRED UNDER UFRS
FOR THE YEAR ENDED MARCH 31, 2004
(PHA: TX441 - FYED: 03/31/2004)

| Item No. | Account Description | Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation TX441MR0003 | Housing Choice Vouchers | Total |
|----------|--|---|-------------------------------|--------------|
| 705 | Total Tenant Revenue | \$0 | \$0 | \$0 |
| 706 | HUD PHA Operating Grants | \$65,774 | \$12,880,213 | \$12,945,987 |
| 711 | Investment Income - Unrestricted | \$0 | \$59,810 | \$59,810 |
| 715 | Other Revenue | \$0 | \$8,314 | \$8,314 |
| 700 | Total Revenue | \$65,774 | \$12,948,337 | \$13,014,111 |
| 911 | Administrative Salaries | \$3,523 | \$727,474 | \$730,997 |
| 912 | Auditing Fees | \$2,000 | \$2,343 | \$4,343 |
| 914 | Compensated Absences | \$0 | \$30,694 | \$30,694 |
| 915 | Employee Benefit Contributions - Administrative | \$913 | \$189,925 | \$190,838 |
| 916 | Other Operating - Administrative | \$0 | \$467,038 | \$467,038 |
| 969 | Total Operating Expenses | \$6,436 | \$1,417,474 | \$1,423,910 |
| 970 | Excess Operating Revenue over Operating Expenses | \$59,338 | \$11,530,863 | \$11,590,201 |
| 973 | Housing Assistance Payments | \$59,094 | \$11,840,288 | \$11,899,382 |
| 974 | Depreciation Expense | \$0 | \$28,706 | \$28,706 |
| 900 | Total Expenses | \$65,530 | \$13,286,468 | \$13,351,998 |
| 1010 | Total Other Financing Sources (Uses) | \$0 | \$0 | \$0 |
| 1000 | Excess (Deficiency) of Operating Revenue Over (Under) Expenses | \$244 | \$-338,131 | \$-337,887 |

HARRIS COUNTY HOUSING AUTHORITY
SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE – REQUIRED UNDER UFRS
FOR THE YEAR ENDED MARCH 31, 2004
(PHA: TX441 - FYED: 03/31/2004)

| Item No. | Account Description | Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation TX441MR0003 | Housing Choice Vouchers | Total |
|----------|--|---|-------------------------------|--------------|
| 1101 | Capital Outlays Enterprise Fund | \$0 | \$0 | \$0 |
| 1102 | Debt Principal Payments - Enterprise Funds | \$0 | \$0 | \$0 |
| 1103 | Beginning Equity | \$5,569 | \$368,711 | \$374,280 |
| 1104 | Prior Period Adjustments, Equity Transfers and Correction of Errors | \$0 | \$606,335 | \$606,335 |
| 1105 | Changes in Compensated Absence Balance | \$0 | \$0 | \$0 |
| 1112 | Depreciation Add Back | \$0 | \$0 | \$0 |
| 1113 | Maximum Annual Contributions Commitment (Per ACC) | \$28,704 | \$12,990,925 | \$13,019,629 |
| 1114 | Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months | \$0 | \$0 | \$0 |
| 1115 | Contingency Reserve, ACC Program Reserve | \$1,010,005 | \$1,465,781 | \$2,475,786 |
| 1116 | Total Annual Contributions Available | \$1,038,709 | \$14,456,706 | \$15,495,415 |
| 1120 | Unit Months Available | 96 | 19,086 | 19,182 |
| 1121 | Number of Unit Months Leased | 96 | 19,086 | 19,182 |

