



HARRIS COUNTY HOUSING
AUTHORITY

**BASIC FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**As of and for the fiscal year ended
March 31, 2005**

HARRIS COUNTY HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2005

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Null-Lairson
CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL CORPORATION

11 Greenway Plaza, Suite 1515
Houston, TX 77046
(713) 621-1515
Fax: (713) 621-1570

One Sugar Creek Blvd., Suite 920
Sugar Land, TX 77478
(281) 242-8600
Fax: (281) 242-7333

Independent Auditors' Report

Board of Commissioners
Harris County Housing Authority
Houston, Texas

We have audited the accompanying financial statements of each major fund of the Harris County Housing Authority (the "Authority") as of and for the year ended March 31, 2005, which comprise the Authority's basic financial statements as shown in the table of contents. 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 opinions on these financial statements 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 respective financial position of each major fund of the Harris County Housing Authority as of March 31, 2005, and the respective changes in financial position and cash flows thereof 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, May 27, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, 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 should be considered in assessing the results of our audit.

Board of Commissioners
Harris County Housing Authority
Independent Auditors' Report

The accompanying management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is 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.

Nell Garrison, P.C.

Houston, Texas
May 27, 2005

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, 2005. 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 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.

Financial Highlights

- The Authority's assets exceeded its liabilities at the close of March 31, 2005 by \$4,485,951 (net assets).
- Cash and investments as of March 31, 2005 were \$1,014,810.
- The Authority had \$18,278,319 in HUD grant revenue for the year ended March 31, 2005.
- The Authority had total expenses of \$15,193,266 for the year ended March 31, 2005, of which \$13,437,244 was for Housing Assistance Payments (HAP).
- The Authority had administrative expenses related to HUD and affordable housing programs of \$1,756,022.
- The Authority's total net assets increased by \$3,843,223 during the year primarily due to the HOME grant funds used for purchase of land and buildings for affordable housing projects.

Management's Discussion and Analysis (continued)

Authority Financial Analysis (continued)

The largest portions of the Authority's increase in net assets were the results of investments made by HOME grant funds for the Low Income Housing Tax Credit program that will eventually provide affordable housing for senior citizens. As a result of receiving the proceeds of the County's HOME grant pass through, the Authority's net assets increased by \$3,843,223 due primarily to the addition of land and related improvements for affordable housing projects. The unrestricted net deficit in net assets resulted from deferral of \$715,000 in ground lease rents for the affordable housing program to future periods. The restricted net asset category declined by \$163,950 due to HUD funding cuts in the Housing Choice Voucher program during the year. As a result of these budget cuts, the Authority has discontinued the optional Family Self Sufficiency program and the remaining cash balance of \$111,825 for this discontinued program will be either be distributed or added back to the Housing Choice Voucher program in the subsequent fiscal period. 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.

Change in Net Assets			
(000's)			
<u>Description</u>	<u>March 31, 2005</u>	<u>March 31, 2004</u>	<u>Increase (Decrease)</u>
<i>Revenues - nonoperating</i>			
HUD PHA grants	\$14,493	\$ 12,954	\$ 1,539
HOME grants	3,785		3,785
Interest and investment income	18	60	(42)
Ground lease revenue	740		740
Total nonoperating revenues	19,036	13,014	6,022
<i>Expenses</i>			
Housing assistance (HAP)	13,437	11,899	1,538
Personal services	1,042	953	89
Contractual services	450	261	189
Other supplies and expenses	227	210	17
Depreciation	37	29	8
Total expenses	15,193	13,352	1,841
Increase (Decrease) in net assets	3,843	(338)	4,181
Net assets April 1,	643	981	981
Net assets March 31,	\$ 4,486	\$ 643	\$ 5,162

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. The Authority budgets based on the HUD awarded units. HUD awarded units increased by 161 during the fiscal year.

Management's Discussion and Analysis (continued)

Fixed Assets (continued)

Fixed Asset Additions Fiscal Year Ended March 31, 2005

Land	\$	3,236,738
Construction in progress		1,328,649
Computer equipment		5,417
Total	\$	<u>4,570,804</u>

Additional information on the Authority's fixed assets can be found in the notes to the Authority's basic financial statements for the year ended March 31, 2005.

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
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recession, and employment trends, which can affect resident incomes and therefore the amount of Housing Assistance Payments
- Inflationary pressure on utility rates, supplies, and other costs.

<u>Section 8 Occupancy Report Information</u>	<u>June, 2005</u>
<i>HUD Awarded Units</i>	
HCVP Vouchers	1,840
Moderate rehabilitation	<u>8</u>
Total awarded/budgeted	<u>1,848</u>
<i>Leased Units</i>	
HCVP adjusted vouchers	1,742
Moderate rehabilitation adjusted vouchers	<u>8</u>
Total actual	<u>1,646</u>
Percentage leased	95%
Year to date average percentage leased	95%
Difference - awarded/budgeted vs. leased	(98)

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 three 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, 8410 Lantern Point Dr., Houston, TX 77054, (713) 578-2134.

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF NET ASSETS
March 31, 2005

	HUD Section 8 Grants	Affordable Housing	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 698,970	\$ 204,015	\$ 902,985
Due from Harris County, primary government	58,308	174,336	232,644
Due from other public housing authorities	47,851		47,851
Other Current Assets	48,899		48,899
Total current assets	<u>854,028</u>	<u>378,351</u>	<u>1,232,379</u>
Restricted assets:			
Cash and cash equivalents	111,825		111,825
Due from Harris County, primary government	416,829		416,829
Total restricted assets	<u>528,654</u>		<u>528,654</u>
Fixed assets:			
Land		3,236,738	3,236,738
Construction in progress		1,328,649	1,328,649
Leasehold Improvements and equipment	155,543		155,543
Less accumulated depreciation	(76,993)		(76,993)
Fixed assets, net	<u>78,550</u>	<u>4,565,387</u>	<u>4,643,937</u>
Total assets	<u>1,461,232</u>	<u>4,943,738</u>	<u>6,404,970</u>
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued liabilities	72,196	174,336	246,532
Due to Harris County, primary government, for accrued personnel costs, including benefits	161,870		161,870
Housing assistance payable	259,822		259,822
Deferred Revenue		715,000	715,000
Total current liabilities	<u>493,888</u>	<u>889,336</u>	<u>1,383,224</u>
Noncurrent liabilities:			
Family self sufficiency liabilities	111,825		111,825
Due to Harris County, primary government, for accrued compensated absences	8,155		8,155
Due to HUD - housing assistance pending	415,815		415,815
Total noncurrent liabilities	<u>535,795</u>		<u>535,795</u>
Total liabilities	<u>1,029,683</u>	<u>889,336</u>	<u>1,919,019</u>
NET ASSETS:			
Invested in fixed assets	78,550	4,565,387	4,643,937
Restricted for program costs	352,999		352,999
Unrestricted - (Deficit)		(510,985)	(510,985)
Total net assets	<u>\$ 431,549</u>	<u>\$ 4,054,402</u>	<u>\$ 4,485,951</u>

See notes to financial statements.

HARRIS COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
March 31, 2005

	<u>HUD Section 8 Grants</u>	<u>Affordable Housing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to housing assistance recipients	\$ (13,291,337)	\$	\$ (13,291,337)
Payments to suppliers	(579,530)	(300,579)	(880,109)
Payments to employees	(834,223)	(170,406)	(1,004,629)
Net cash (used) by operating activities	<u>(14,705,090)</u>	<u>(470,985)</u>	<u>(15,176,075)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from HUD - grants	<u>14,474,184</u>		<u>14,474,184</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from HOME - grants		3,785,387	3,785,387
Purchases of fixed assets	(5,417)	(4,565,387)	(4,570,804)
	<u>(5,417)</u>	<u>(780,000)</u>	<u>(785,417)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	18,170		18,170
Receipts from Ground Lease		1,455,000	1,455,000
	<u>18,170</u>	<u>1,455,000</u>	<u>1,473,170</u>
Net increase in cash and cash equivalents	(218,153)	204,015	(14,138)
Balances--beginning of the year	<u>1,028,948</u>		<u>1,028,948</u>
Balances--end of the year	<u>\$ 810,795</u>	<u>\$ 204,015</u>	<u>\$ 1,014,810</u>
Reconciliation of operating (loss) to net cash (used) by operating activities:			
Operating (loss)	\$ (14,722,281)	\$ (470,985)	\$ (15,193,266)
Adjustments to reconcile operating income to net cash (used) by operating activities:			
Depreciation expense	37,207		37,207
Retirement of capital assets	15,439		15,439
Change in assets and liabilities:			
Due from Harris County, primary government		(174,336)	(174,336)
Other current assets	(48,899)		(48,899)
Accounts payable and accrued liabilities	(170,022)	174,336	4,314
Accrued personnel costs, including benefits	35,543		35,543
Housing assistance payable	145,907		145,907
Due to Harris County, primary government	2,016		2,016
Net cash (used) by operating activities	<u>\$ (14,705,090)</u>	<u>\$ (470,985)</u>	<u>\$ (15,176,075)</u>
Cash and cash equivalent balances:			
Current assets	\$ 698,970	\$ 204,015	\$ 902,985
Restricted assets	111,825		111,825
Total	<u>\$ 810,795</u>	<u>\$ 204,015</u>	<u>\$ 1,014,810</u>

See notes to financial statements.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005**

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, 2005**

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 - TX441V00043053
- Lower Income Housing Assistance Program –
Section 8 Moderate Rehabilitation –
CFDA No. 14.856 – Grant number - TX441MR0003
- HOME Investment Partnerships Program (passed through the County) –
CFDA No. 14.239 – Grant number – C0454CF010
Grant number – C0455CF010
Grant number – C0284CF101

The Section 8 Housing Choice Voucher Program and the Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation are accounted for in the HUD Section 8 Grants Fund and the HOME Investment Partnerships Program grants are accounted for in the Affordable Housing 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 two funds, one for the HUD Section 8 programs and one for the affordable housing operations funded through the HUD HOME program.

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 most of the Authority's basic funding comes from HUD grants and related revenue, there are no operating revenues. All HUD grant and related revenue is considered nonoperating under GASB and HUD guidance, as are the Authority's income from the investment of idle funds. Most of the Authority's resources are restricted for the operations of the HUD Section 8 grants.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 subsequent fiscal period and will gain the approval of HUD prior to using the HAP payments currently pending for program operations.

In the financial statements, restricted net assets are reported for amounts that are externally restricted by: 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments; or, 2) law through constitutional provision or enabling legislation. These assets are generally unavailable to pay current liabilities of the 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 property within any fixed asset category that includes capitalized interest.

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 and the affordable housing program generates ground lease revenue available for other housing programs. The annual administrative operating budget for the HUD Section 8 and affordable housing programs are incorporated into the Authority's overall annual operating budget that includes HAP and costs related to providing affordable housing to senior citizens. The annual budget process starts prior to the subsequent fiscal year. The Authority's Finance department projects the subsequent fiscal year's housing assistance payment obligations and the related income from administrative fees for the HUD Section 8 and affordable housing programs. The administrative budget is used to track actual expenses against those budgeted throughout the fiscal year. Annual budgets for administrative costs and HAP are approved by the Authority's Board of Commissioners and by HUD. Necessary changes to the budget are also approved by the Authority's Board of Commissioners and by HUD throughout the year.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005**

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.

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

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

Significant Concentrations – Economic Dependency – Most of the 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.

2. CASH AND INVESTMENTS

The Authority had no deposits as of March 31, 2005. All reported balances are part of the sweep investment account. The Authority has cash on hand in a petty cash fund of \$200 as of March 31, 2005.

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, 2005**

4. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences, for the year ended March 31, 2005, were as follows:

<u>Balance April 1, 2005</u>	<u>Earned</u>	<u>Taken/ Paid</u>	<u>Balance March 31, 2005</u>	<u>Due Within One Year</u>
\$ 30,694	\$ 69,726	\$ (59,645)	\$ 40,775	\$ 32,620

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 has subsequently been extended through August 31, 2005.

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 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.

**HARRIS COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005**

5. INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (continued)

Insurance (continued) – 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.

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

A majority 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, 2005, the Authority had total HUD Section 8 grant revenues of \$14,492,932 of which \$14,436,500 was for HCVP. The Authority's total HAP payments for the fiscal year ended March 31, 2005 were \$13,437,244 of which \$13,380,812 was for HCVP. At March 31, 2005, the Authority was owed \$47,851 from HUD and other public housing authorities for HCVP funding and owed \$371,647 in HAP to qualified recipients, of which \$111,825 was for the Family Self Sufficiency program of HCVP that was discontinued at the start of the current fiscal year. 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, 2005**

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE (continued)

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 15 indicators of performance (24 CFR part 985). The Authority has had the highest rating under SEMAP for the past three 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 Authority discontinued this optional program at the beginning of the current fiscal year due to HUD administrative budget cuts.

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, 2005

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE (continued)

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, 2005**

6. HOUSING AND URBAN DEVELOPMENT COMPLIANCE (continued)

AFFORDABLE HOUSING AND *HOME* GRANT FUNDS

The County's Community and Economic Development Department has awarded the Authority over \$3.7 million from the HUD HOME Investment Partnerships Program 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 from ground lease revenue and rental on the facilities after an initial development recovery period.

The general objectives of the HUD HOME Investment Partnerships Program are (1) To expand the supply of affordable housing, particularly rental housing, for low and very low income Americans; (2) to strengthen the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) to provide both financial and technical assistance to participating jurisdictions, including the development of model programs for developing affordable low income housing; and (4) to extend and strengthen partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing. The HOME regulations, guidelines, and literature are found in 24 CFR Part 92.

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

7. 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.