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**HARRIS COUNTY HOUSING AUTHORITY**

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**REPORT ON FINANCIAL STATEMENTS**  
*(With Supplemental Material)*

**FOR THE YEAR ENDED MARCH 31, 2010**

**BREEDLOVE & CO., P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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RICHARD W. BREEDLOVE, CPA  
President

## INDEPENDENT AUDITORS' REPORT

June 16, 2010

The Board of Commissioners  
Harris County Housing Authority  
Houston, Texas

We have audited the accompanying financial statements of the business-type activities of the Harris County Housing Authority, as of and for the year ended March 31, 2010, which collectively comprise the PHA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the PHA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the component units of Harris County Housing Authority, as of March 31, 2010, and the respective changes in financial position (and respective cash flows, where applicable) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2010, on our consideration of the Harris County Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Breallone & Co., P.C.*

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

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, 2010. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

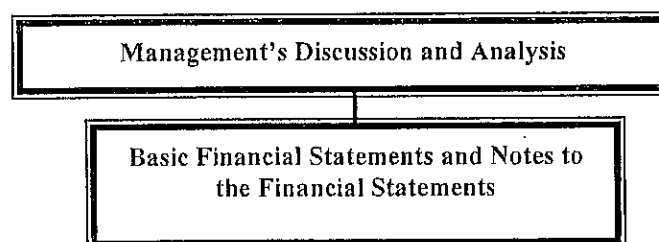
The Authority is a special purpose government operating in Harris County, Texas, (the "County"). The Authority administers federal Department of Housing and Urban Development (HUD) Section 8 housing assistance grants. The Authority was authorized to operate by the County through adoption of an order 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 operated under an Interlocal Agreement between the Authority and the County, providing for the staffing of the Authority and continuing reimbursement to the County of all associated costs until February 28, 2010. The Interlocal Agreement additionally provides for the provision of office space and telecommunications services. The Authority has operated as a separate unit of government under Texas state law.

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 give the Court the ability to impose its will on the Authority's operations.

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended March 31, 2010, to assist the reader in focusing on significant issues and concerns.

The Authority's FY2010 annual financial report consists of two parts – the management's discussion and analysis, and the basic financial statements (which include notes to those financial statements).



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

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

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

**Financial Highlights for FY2010**

- The Authority's assets exceeded its liabilities as of March 31, 2010 by \$31,577,013 (net assets).
- Unrestricted Cash and Investments as of March 31, 2010 were \$22,422,498.
- The Authority had \$64,778,086 in HUD grant revenue for the year ended March 31, 2010.
- The Authority had total expenses of \$66,443,488 for the year ended March 31, 2010, of which \$48,291,563 was for Housing Assistance Payments (HAP).
- The Authority's total net assets increased by \$3,784,182 during the year primarily due to the Disaster Housing Assistance Program (DHAP).

**Overview of the Financial Statements**

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

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

**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 \$31,577,013 at the close of the fiscal year ended March 31, 2010, an overall improvement in the Authority's financial health from the prior year.

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

**Net Assets**

	March 31, 2010	March 31, 2009	Increase (Decrease)
Current Assets	\$ 29,189,428	\$ 44,997,874	\$ (15,808,446)
Restricted Assets	649,316	2,564,426	(1,915,110)
Investment in Partnerships	343,940	343,940	-
Notes Receivable	4,496,420	4,496,420	-
Fixed assets	18,411,465	13,909,551	4,501,914
<b>Total assets</b>	<b>53,090,569</b>	<b>66,312,211</b>	<b>(13,221,642)</b>
Noncurrent liabilities	885,731	3,372,952	(2,487,221)
Current liabilities	20,627,825	35,146,428	(14,518,603)
<b>Total liabilities</b>	<b>21,513,556</b>	<b>38,519,380</b>	<b>(17,005,824)</b>
<b>Net assets</b>	<b>\$ 31,577,013</b>	<b>\$ 27,792,831</b>	<b>\$ 3,784,182</b>

**Net Asset Categories**

Description	March 31, 2010	March 31, 2009	Increase (Decrease)
Invested in capital assets	\$ 17,642,079	\$ 13,909,551	\$ 3,732,528
Restricted for program costs	548,122	2,460,764	(1,912,642)
Unrestricted	13,386,812	11,422,516	1,964,296
<b>Total net assets</b>	<b>\$ 31,577,013</b>	<b>\$ 27,792,831</b>	<b>\$ 3,784,182</b>

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

The Authority is committed to building new affordable housing using the Low Income Housing Tax Credit Program with HOME, Neighborhood Stabilization Program (NSP), and Community Development Block Grant funds provided by the Harris County Community Services Department. This unique public/private partnership is well positioned to meet the needs of affordable housing in the unincorporated areas of Harris County. This has enabled the Authority to develop six (6) senior Low Income Housing Tax Credit developments. In 2010 the Authority will build one (1) NSP development and one (1) Tax Credit development.

The Authority's increases in net assets were primarily due to the addition of the Disaster Housing Assistance Programs. This program (DHAP) began on September 1, 2007 to provide funds for housing assistance and case management services for eligible families to help rebuild their lives and return to self-sufficiency.

The Authority's fixed assets consist of leasehold improvements, automobiles and business equipment which are being depreciated over three to ten years depending on asset type. The Authority has no debt related to these fixed assets.

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

Change in Net Assets  
(000's)

Description	March 31, 2010	March 31, 2009	Increase (Decrease)
<b><i>Revenues – Operating</i></b>			
HUD PHA Grants	\$ 64,778	\$ 111,024	\$ (46,246)
Other Government Grants	3,644	520	3,124
Ground lease revenue	71	72	(1)
Other Revenue	1,295	14,200	(12,905)
<b>Total Operating Revenues</b>	<b>69,788</b>	<b>125,816</b>	<b>(56,028)</b>
<b><i>Expenses</i></b>			
Housing assistance payments	48,292	75,038	(26,746)
Salaries and benefits	4,029	2,172	1,857
Office expense	10,303	34,257	(23,954)
Tenant services	2,993	6,454	(3,461)
Interest expense-notes payable	45	27	18
General	104	290	(186)
Depreciation	678	749	(71)
<b>Total expenses</b>	<b>66,444</b>	<b>118,987</b>	<b>(52,543)</b>
<b>Net Income (Loss) from Operations</b>	<b>3,344</b>	<b>6,829</b>	<b>(3,485)</b>
<b><i>Non-operating revenues (expenses)</i></b>			
Interest income-unrestricted	159	504	(345)
Interest income-unrestricted from Components Units	256	252	4
Interest income-restricted	23	4	19
Gain (loss) on sale of investments	2	(1,245)	1,247
<b>Total Non-operating revenues</b>	<b>440</b>	<b>(485)</b>	<b>925</b>
<b>Change in Net Assets</b>	<b>3,784</b>	<b>6,343</b>	<b>(2,560)</b>
<b>Net Assets April 1</b>	<b>27,793</b>	<b>21,449</b>	<b>6,344</b>
<b>Net Assets March 31</b>	<b>\$ 31,577</b>	<b>\$ 27,793</b>	<b>\$ 3,784</b>

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

**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's budget is based on the HUD awarded units.

Section 8 Occupancy Report Information	March, 2010	March, 2009
<b><i>HUD Awarded Units</i></b>		
Housing Choice Voucher Program (HCVP)		
Unit Months Available	43,034	26,916
Moderate rehabilitation-Unit Months Available	96	96
<b>Total awarded/budgeted</b>	<b>43,130</b>	<b>27,012</b>
<b><i>Leased Units</i></b>		
HCVP Unit Months Leased	42,122	25,859
Moderate rehabilitation Unit Months Leased	94	96
<b>Total actual</b>	<b>42,216</b>	<b>25,955</b>
Year to date average percentage leased	98%	96%
Difference - awarded/budgeted vs. leased	914	1,057

**Fixed Assets**

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

**Fixed Assets**

Description	March 31, 2009	Net Additions/(Deletions)	March 31, 2010
Land	\$ 11,749,177	\$ 5,032,122	\$ 16,781,299
Leasehold Improvements	1,889,798	26,096	1,915,894
Furniture and Equipment	963,023	(9,259)	953,764
Accumulated Depreciation	(692,447)	(547,045)	(1,239,492)
<b>Total</b>	<b>\$ 13,909,551</b>	<b>\$ 4,501,914</b>	<b>\$ 18,411,465</b>

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, 2010.

**Economic Factors and Next Year's Budget**

Significant economic factors affecting the Authority are as follows:

- Federal funding of the U.S. Department of Housing and Urban Development
- Disaster Housing Assistance Program (DHAP)

**Harris County Housing Authority**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2010**

**Economic Factors and Next Year's Budget-continued**

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

<b>Section 8 Occupancy Report Information</b>	<b>Apr – May 2010</b>
<i>HUD Awarded Units</i>	
HCVP Unit Months Available	7,780
Moderate rehabilitation-Unit Months Available	16
<b>Total awarded/budgeted</b>	<b>7,796</b>
<i>Leased Units</i>	
HCVP Unit Months Leased	7,562
Moderate rehabilitation Unit Months Leased	16
<b>Total actual</b>	<b>7,578</b>
Year to date average percentage leased	97%
Difference - awarded/budgeted vs. leased	218

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 seven (7) years.

**Contacting the Authority's Financial Management**

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Dr., Houston, TX 77054, (713) 669-4510.

# HARRIS COUNTY HOUSING AUTHORITY

## STATEMENT OF NET ASSETS MARCH 31, 2010

ASSETS	Housing Enterprise Fund	Component Units
<b>Current Assets</b>		
Cash and cash equivalents	\$ 19 421 198	\$ 963 825
Investments	3 001 300	-
Accounts receivable	-	92 137
Accounts receivable - other government	901 089	-
Accounts receivable - HUD	3 227 861	-
Accounts receivable - misc	1 680 733	29 961
Allowance for doubtful accounts	( 10 163)	-
Accrued interest receivable from Component Units	934 477	-
Accrued interest receivable-other	14 441	-
Prepaid assets	18 492	2 023 714
Other assets	-	580 189
<b>Total current assets</b>	<b>29 189 428</b>	<b>3 689 826</b>
<b>Restricted assets</b>		
Cash and cash equivalents - restricted	649 316	2 704 005
<b>Total restricted assets</b>	<b>649 316</b>	<b>2 704 005</b>
<b>Noncurrent assets</b>		
Investment in Partnerships	343 940	-
Notes receivable - Component Units	4 496 420	-
Intangible assets net of accumulated amortization	-	2 648 219
Fixed assets net of accumulated depreciation	15 942 735	66 017 026
Construction in progress	2 468 730	-
<b>Total noncurrent assets</b>	<b>23 251 825</b>	<b>68 665 245</b>
<b>Total Assets</b>	<b>\$ 53 090 569</b>	<b>\$ 75 059 076</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 5 612 145	\$ 4 626 404
Accrued wages and payroll taxes payable	221 529	-
Housing assistance payable	523 775	-
Accrued interest payable to HCHA	-	913 203
Current portion of long term debt	-	100 000
Deferred revenue	14 270 376	-
<b>Total current liabilities</b>	<b>20 627 825</b>	<b>5 639 607</b>
<b>Noncurrent liabilities</b>		
Family self sufficiency liabilities	101 194	-
Accrued compensated absences	15 151	-
Notes Payable	769 386	-
Mortgage notes payable-HCHA	-	4 496 420
Mortgage notes payable	-	40 479 839
<b>Total noncurrent liabilities</b>	<b>885 731</b>	<b>44 976 259</b>
<b>Total Liabilities</b>	<b>21 513 556</b>	<b>50 615 866</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	17 642 079	23 688 986
Restricted	548 122	2 704 005
Unrestricted	13 386 812	(1 949 781)
<b>Total Net Assets</b>	<b>31 577 013</b>	<b>24 443 210</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 53 090 569</b>	<b>\$ 75 059 076</b>

See the Accompanying Notes to Financial Statements

# HARRIS COUNTY HOUSING AUTHORITY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2010

	Housing Enterprise Fund	Component Units
<b>Operating Revenues</b>		
Rental income	\$ -	\$ 6 316 004
HUD PHA grants	64 778 086	-
Ground lease revenues	71 000	-
Other government grants	3 643 962	-
Other revenues	1 294 945	130 786
<b>Total Operating Revenues</b>	<u>69 787 993</u>	<u>6 446 790</u>
<b>Operating Expenses</b>		
Housing assistance payments	48 291 563	-
Salaries and benefits	4 028 913	956 792
Office expense	10 303 044	-
Tenant services	2 993 332	-
Maintenance	-	581 651
General	103 564	2 377 549
Interest expense-mortgages	-	885 783
Interest expense-notes payable	44 688	424 779
Depreciation and amortization	678 384	3 105 280
<b>Total Operating Expenses</b>	<u>66 443 488</u>	<u>8 331 834</u>
<b>Net Income (Loss) from Operations</b>	<u>3 344 505</u>	<u>(1 885 044)</u>
<b>Non-operating revenues (expenses)</b>		
Interest income-unrestricted	158 465	16 630
Interest income-unrestricted from Component Units	255 919	-
Interest income-restricted	23 418	-
Gain (loss) on investments	1 875	-
<b>Total Non-operating revenues (expenses)</b>	<u>439 677</u>	<u>16 630</u>
<b>Change in Net Assets</b>	3 784 182	(1 868 414)
Total Net Assets-Beginning of Period	27 792 831	22 880 841
Capital Contributions	-	3 430 783
<b>Total Net Assets - End of Period</b>	<u>\$ 31 577 013</u>	<u>\$ 24 443 210</u>

See the Accompanying Notes to Financial Statements

# HARRIS COUNTY HOUSING AUTHORITY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2010

	Housing Enterprise Fund
Cash Flows from Operating Activities:	
Cash Received:	
Receipts from HUD - grants	\$ 64 778 086
Other government grants	3 643 962
Ground lease revenue	71 000
Other revenue	1 294 945
Deferred Revenue	(6 464 041)
Cash paid:	
Administrative and general	(18 425 145)
Salaries and benefits	(4 017 782)
Housing assistance payments	(48 291 563)
Net cash used by operating activities	(7 410 538)
Cash Flow from Capital and Related Financing Activities:	
Cash paid for notes, loans and mortgages payable	(2 467 931)
Cash paid for net fixed asset additions	(5 180 298)
Net cash used for capital and related financing activities	(7 648 229)
Cash Flow from Investing Activities	
Cash received for interest income-unrestricted	211 912
Cash received for interest income-restricted	23 418
Cash received for investments	11 006 325
Net cash provided by investing activities	11 241 655
Net Increase (Decrease) In Cash and Cash Equivalents	(3 817 112)
Cash and Cash Equivalents At Beginning of Year	23 887 626
Cash and Cash Equivalents At End of Year	\$ 20 070 514

See the Accompanying Notes to Financial Statements

# HARRIS COUNTY HOUSING AUTHORITY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2010 (Continued)

	Housing Enterprise Fund <u>(memo only)</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Net Income (Loss) from Operations	\$ 3 344 505
Noncash Changes to Income:	
Depreciation	678 384
Changes in Assets and Liabilities:	
Net (Increase) Decrease in Assets:	
Accounts receivable-net	3 122 958
Other assets	( 18 492)
Net Increase (Decrease) in Liabilities:	
Accounts payable	(4 953 721)
Accrued personnel costs, including benefits	11 131
Deferred revenue	(9 586 999)
Other current liabilities	( 8 304)
Net Cash Provided (Used) by Operating Activities	<u>\$ (7 410 538)</u>

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010

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

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

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

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

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

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

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

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

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

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (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 was extended through February 28, 2010, with updates and modifications. See Note 4 following for additional disclosure related to the Interlocal Agreement. At February 28, 2010, the Interlocal Agreement was not extended.

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

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

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

- Section 8 Housing Choice Voucher Program –  
CFDA No. 14.871 - Grant number - TX441V00043053
- Lower Income Housing Assistance Program  
Section 8 Moderate Rehabilitation –  
CFDA No. 14.856 – Grant number - TX441MR0003
- Section 8 Moderate Rehabilitation  
Single Room Occupancy (SRO) Program –  
CFDA No. 14.249 – Grant number – TX441SR0001
- HOME Investment Partnerships Program (passed through the County) –  
CFDA No. 14.239 – Grant number – C0953
- Neighborhood Stabilization Program –  
CFDA No. 14.228 – Grant number – C0859

All programs are accounted for in the Housing Enterprise Fund. See Note 5 for additional disclosure related to compliance with these HUD grants.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (continued) – For the fiscal year ending March 31, 2010, the PHA also received additional funding under the Disaster Voucher Program, and various Disaster Housing Assistance Programs. These are also accounted for in the Housing Enterprise Fund.

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

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

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

Discretely Presented Component Units – The component unit column in the basic financial statements includes the financial data of the PHA's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the PHA and are governed by separate Boards. See Note 18 for additional details relating to the PHA's relationship with the component units.

The Partnerships' included in the component units column include: Cornerstone Village Apartments, L.P., Louetta Village Apartments 45, L.P., Baybrook Park Retirement Center, Ltd., TX Bammel Housing L.P., Waterside Court, Ltd., and Olive Grove Manor, Ltd. Each partnership has developed apartment complexes and has set aside a predetermined number of units specifically for low to moderate income housing. The fiscal year-end for the discretely presented component units is December 31, 2009. As the general partner of the partnerships, the PHA receives the audited financial statements for the partnerships. Therefore, complete financial statements for each of the Limited Partnerships can be obtained from Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Drive, Houston, TX 77054.

Blended Component Units - In the fiscal year ended March 31, 2010, the PHA formed an LLC for the development of Cypresswood Estates. For financial reporting purposes, Cypresswood Estates is included in the operations and activities of the PHA as a blended component unit.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

GASB 52, *Land and Other Real Estate Held as Investments by Endowments* requires endowments and government entities to report their land and other real estate held for investment at fair value. The PHA has no land or real estate held for investment at this time.

GASB 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. This pronouncement did not change the presentation of the PHA's financial statements.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Measurement Focus and Basis of Accounting(continued)** – GASB 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' *Statements on Auditing Standards* into the Governmental Accounting Standards Board's (GASB) authoritative literature. This pronouncement did not change the presentation of the PHA's financial statements.

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

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

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

**Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Fixed Assets** – Fixed assets include leasehold improvements made to the building the PHA is leasing and equipment used in the PHA'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 PHA has no infrastructure assets.

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

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of Long-Lived Assets** – In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the PHA reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. In the fiscal year ended March 31, 2010, an additional \$26,623 was recorded as depreciation to recognize the impairment of assets.

**Budgets** – The PHA's Finance Policies and Procedures provide for budget preparation annually primarily to satisfy HUD compliance requirements. The HUD Section 8 housing programs and the Department of Homeland Security's Disaster Housing Assistance Programs generate income through administrative fees paid by HUD to cover the PHA's costs to administer these programs. The affordable housing program generates ground lease revenue and developer fee revenue available for other housing programs. The annual administrative operating budget for the HUD Section 8, Disaster Housing Assistance Programs and affordable housing programs are incorporated into the PHA'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 PHA's Finance department projects the subsequent fiscal year's housing assistance payment obligations and the related income from administrative fees for the HUD Section 8, Disaster Housing Assistance Programs and affordable housing programs. The administrative budget is used to track actual expenses against those budgeted throughout the fiscal year. Annual budgets for administrative costs and HAP are approved by the PHA's Board of Commissioners and by HUD. Necessary changes to the budget are also approved by the PHA's Board of Commissioners and by HUD throughout the year. The PHA's Finance department presents detailed administrative budget reports along with financial information on HAP affordable housing and other program costs to the PHA's Board of Commissioners for review at each board meeting.

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

All employees of the PHA are covered by workers' compensation program insurance through American International Companies. Premiums on workers' compensation are determined by position class code, at actuarially determined rates.

Through the County, the PHA provides medical, dental, vision and basic life and disability insurance to eligible employees. The PHA pays the full cost of employee 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%.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

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

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

The PHA and the County did not renew the Interlocal Agreement that expired February 28, 2010 so the PHA provides the medical, dental, vision and basic life and disability insurance to eligible employees as of March 1, 2010. Coverage for eligible employees is the same as it was with the County and is provided by Aetna.

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

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

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

The compensated absences policy with the non-renewal of the Interlocal agreement is generally the same as the former policy. The changes include a limit of accrued vacation is two times the annual vacation amount. Under the new policy, Employees accrue 10 days of sick leave per year. Sick leave is allowed to be accumulated up to a total of 60 calendar days and is not paid upon termination.

**Other Long Term Obligations** – Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund statements. The face amount of debt issued is reported as other financing sources.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

### NOTE (2) DEPOSITS AND INVESTMENTS

#### Deposits:

Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) currently is available for funds deposited at any one financial institution up to a maximum of \$250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available. In accordance with the Sweep Agreement with Amegy Bank all funds are transferred to a Money Market Mutual Fund account on a daily basis.

#### Investments:

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

The PHA's Investment policy is reviewed and approved annually by the Board of Commissioners. The Investment Policy includes a list of authorized investment instruments. In accordance with the Money Market Mutual Fund agreement with Amegy bank, the PHA's daily balance is used to purchase shares of Fidelity Institutional Money Market Government Portfolio Class I (FIGXX). Fidelity Institutional Money Market Government Portfolio Class I is ranked by Lipper as #13 out of 167 U.S. Government Money Market Funds for its one year performance, #4 out of 125 funds for its five year performance and #5 out of 82 funds for its 10 year performance. It is ranked Aaa by Moodys.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (2) DEPOSITS AND INVESTMENTS (Continued)

#### Authorized Investments:

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

1. Direct obligations of the Federal Government which are backed by the full faith and credit of the United States.
2. Obligations of Federal Government Agencies.
3. Securities of Federal Government sponsored Agencies.
4. Demand and savings deposits at commercial banks, mutual savings banks, savings and loan associations and credit unions if deposits are insured by either the Federal Insurance Fund (NCUSIF).
5. Municipal depository fund or local government investment pool established by the State of Texas or other State chartered municipality as long as the securities purchased meet certain requirements.
6. Money market deposit accounts not to exceed 30 percent of invested funds at depository institutions that may not be insured fully by the FDIC or NCUSIF provided that the certificates are fully backed by 100 percent collateral consisting of securities backed by the federal government and when amounts exceed the \$250,000 insurance limitation.
7. Super NOW accounts as long as they meet the insurance and collateral requirements.
8. Certificates of deposit issued by institutions that are insured by an agency of the Federal Government. Certificates can exceed the \$250,000 federal insurance limitation provided that the excess is 100 percent collateralized by clearly identified U.S. Government securities.
9. Repurchase agreements for a term not to exceed 30 days when issued by federally insured depositories for securities insured by the U.S Government and provided that the seller meets the additional requirements of HUD Notice PIH 96-33 as extended.
10. Sweep accounts provided that the agreements include all the requirements applicable to any of the above.

#### Cash and Investments:

The PHA had cash and investments which are also considered cash equivalents of \$20,070,514 as of March 31, 2010. The cash equivalents consist of certificate of deposits in the amount of \$1,000,000 and bank balances that are part of the sweep investment account. In accordance with the Money Market Mutual Fund Agreement with Amegy Bank, the entire amount in the sweep investment account purchases shares in Fidelity Institutional Money Market Government Portfolio Class I fund. This portfolio invests at least 80% of assets in U.S. Government securities and repurchase agreements for those securities, issued by entities that are chartered or sponsored by Congress but whose securities are neither issued nor guaranteed by the U.S. Treasury. Amegy bank has provided assurance that the funds are invested in accordance with the PHA's investment policy.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (2) DEPOSITS AND INVESTMENTS (Continued)

The PHA had \$3,001,300 of investments that are not considered cash equivalents as of March 31, 2010. These investments are as follows:

#### Bonds

Institution name	Symbol	Interest rate	Maturity date	Principal
Federal National Mortgage Association	FNMA	1.50%	11/21/2011	\$ 1 001 550
Federal Home Loan Bank	FHLB	1.00%	06/30/2010	999 750
Federal Home Loan Bank	FHLB	1.25%	09/30/2010	1 000 000
				<u>\$ 3 001 300</u>

#### Restricted Cash:

The PHA had \$649,316 in restricted cash at March 31, 2010. The balance consists of \$548,122 restricted for future Housing Assistance Payments (see Note 13) and \$101,194 restricted for payment of the liability for Family Self-sufficiency.

### RISK DISCLOSURES

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

Concentration of Credit Risk: At March 31, 2010, the PHA has a sweep agreement which invested more than 30 percent of funds in a Money Market Mutual Fund. The balances were not backed by collateral for amounts exceeding the \$250,000 FDIC insurance limitation.

Custodial Credit Risk: Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the PHA's \$20,070,514 in cash and cash equivalents at March 31, 2010, \$18,570,492 is held in an investment account with one counterparty.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010 (Continued)

### NOTE (3) FIXED ASSETS

Fixed asset activity, for the year ended March 31, 2010, was as follows:

#### Harris County Housing Authority

	Balances April 1, 2009	Additions (Dispositions)	Depreciation	Balances March 31, 2010
Land	\$ 11 680 777	\$ 2 631 792	\$ -	\$ 14 312 569
Leasehold Improvements	1 889 798	26 096	-	1 915 894
Furniture and Equipment	963 023	( 9 259)	-	953 764
Construction in progress	68 400	2 400 330	-	2 468 730
Accumulated Depreciation	( 692 447)	131 339	( 678 384)	(1 239 492)
Totals	<u>\$ 13 909 551</u>	<u>\$ 5 180 298</u>	<u>\$ ( 678 384)</u>	<u>\$ 18 411 465</u>
Housing Vouchers				\$ 282 565
Disaster Housing Assistance Program				1 381 633
Disaster Voucher Program				3 085
Affordable Housing				14 982 372
Cypresswood Estates				1 761 810
				<u>\$ 18 411 465</u>

Depreciation expense, for the year ended March 31, 2010 totaled \$678,384.

#### Component Units

	Balances January 1, 2009	Additions (Dispositions)	Depreciation	Balances December 31, 2009
Land	\$ 170 305	\$ -	\$ -	\$ 170 305
Land & Site Improvements	11 010 537	-	-	11 010 537
Buildings	59 718 462	-	-	59 718 462
Furniture and Equipment	2 037 827	-	-	2 037 827
Personal Property	2 170 024	-	-	2 170 024
Commercial Space	74 031	-	-	74 031
Intangible Assets Net of Amortization	2 424 622	223 597	-	2 648 219
Accumulated Depreciation	(6 236 189)	-	(2 927 971)	(9 164 160)
Totals	<u>\$ 71 369 619</u>	<u>\$ 223 597</u>	<u>\$ (2 927 971)</u>	<u>\$ 68 665 245</u>

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (4) INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS

On March 4, 2003, pursuant to the Interlocal Cooperation Act, Chapter 791 Texas Government Code, an Interlocal Agreement between the PHA and the County was approved by the Court pertaining to the basic operations of the PHA. This Interlocal Agreement was subsequently been extended through February 28, 2010. On February 28, 2010 the Interlocal Agreement expired and was not renewed.

Significant provisions of the expired agreement are described below.

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

**Personnel** – The parties will agree on staffing at the time of execution of the Interlocal Agreement and any extensions. Any additional staffing will require the prior approval of both the PHA and the County. The staff, as agreed on by the PHA and the County will administer all aspects of the PHA's daily operations. It is expressly understood and agreed that the individuals who fill such positions are nominally Housing PHA Employees employed through the County.

The PHA shall reimburse the County for the time that the staff spends on PHA business only. Within the first 10 days of each month, the Harris County Auditor shall prepare a statement and proper backup showing the actual staff salary and benefits expenses incurred by the County for staffing the PHA's operations during the previous calendar month. The PHA shall promptly pay the total due to the County upon receipt of a correct and verified statement.

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

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

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

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

#### NOTE (4) INTERLOCAL AGREEMENT WITH HARRIS COUNTY TEXAS (Continued)

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

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

Sublease agreement – The PHA rented its administrative offices from the County through a sublease at 8410 Lantern Point Drive in Houston, Texas. The PHA paid \$1 per month as rent for the facilities, including utilities that have been provided by the County and telecommunications services. The PHA paid for any special modifications or alterations that it desired in the rented space. The PHA moved their offices from this space to 8933 Interchange in the year ended March 31, 2010. An impairment of \$26,623 for leasehold improvements and other assets was recognized in the current fiscal year.

#### NOTE (5) HOUSING AND URBAN DEVELOPMENT PROGRAMS

##### SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

A majority of the PHA's operations are funded from HUD Section 8 Housing Choice Voucher Program (HCVP) grant funds. For the fiscal year ended March 31, 2010, the PHA had total HUD Section 8 grant revenues of \$28,257,177 of which \$27,872,600 was for HCVP including revenues related to the Disaster Voucher Program (DVP). The PHA's total HAP payments for the fiscal year ended March 31, 2010 were \$27,820,204 of which \$27,502,694 was for HCVP including HAP payments related to the Disaster Voucher Program (DVP). For the current year, the PHA has \$45,925 in unclaimed HAP checks to qualified recipients. The PHA also has a liability for \$101,194 for the Family Self Sufficiency program of HCVP that was discontinued in the fiscal year ending March 31, 2005.

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

##### AFFORDABLE HOUSING AND HOME GRANT FUNDS

The County's Community and Economic Development Department has awarded the PHA over \$6 million from the HUD HOME Investment Partnerships Program and Neighborhood Stabilization Program for the purpose of acquiring and co-developing affordable housing for seniors and families using the federal Low Income Housing Tax Credit program. The PHA anticipates participating with for-profit developers to create more than 178 units of affordable Intergenerational Housing in the unincorporated areas of the County over the next 24 months or by December 2010. The objectives of the PHA in participating in this program are to facilitate affordable housing and provide additional revenue to support housing programs from ground lease revenue and rental on the facilities after an initial development recovery period.

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

#### NOTE (5) HOUSING AND URBAN DEVELOPMENT PROGRAMS-(Continued)

##### AFFORDABLE HOUSING AND HOME GRANT FUNDS-(continued)

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.

##### DISASTER HOUSING ASSISTANCE PROGRAMS (DHAP)

In late 2007, the Department of Housing and Urban Development (HUD) took over disaster housing assistance from the Federal Emergency Management Agency (FEMA). HUD contracted with Harris County Housing Authority to administer 6,667 of these vouchers in the Houston area. The PHA identifies this program as DHAP-HCHA. The agreement allows the PHA to receive \$1,000 (One-thousand dollars) per voucher for placement fees in addition to case management fees, administrative fees and reimbursement for housing assistance payments.

This program was expected to end on March 1, 2009 but HUD provided for transitional rent payments through October 2009. As part of transitioning eligible participants to the Housing Choice Voucher Program, the PHA received additional administrative fees. In the fiscal year ending March 31, 2010, the PHA has recognized income of \$3,189,000 in administrative fees and \$366,500 of placement fees. The PHA has also recognized income of \$1,407,227 for reimbursement of housing assistance payments. A total of \$3,445,737 of payments received from HUD for the operation of the Disaster Housing Assistance Program has not yet been earned by the PHA and is included in deferred revenue. The PHA calculated the amount not earned under this program in the subsequent fiscal year and reimbursed HUD \$3,445,737 for unearned placement fees and housing assistance payments on April 19, 2010.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (5) HOUSING AND URBAN DEVELOPMENT PROGRAMS-(Continued)

#### DISASTER HOUSING ASSISTANCE PROGRAMS (DHAP) – (continued)

In addition to the vouchers issued by HUD for disaster assistance in the Houston area, the PHA also agreed to administer approximately 994 disaster vouchers for victims that have relocated to other parts of the United States. The PHA identifies this program as DHAP-USA. The agreement with HUD for administration of this program is the same as the agreement for administering the Houston area program. In the fiscal year ending March 31, 2010, the PHA has recognized income of \$430,448 in administrative fees and \$50,500 of placement fees. The PHA has also recognized income of \$805,747 for reimbursement of housing assistance payments reimbursements. A total of \$2,262,719 of payments received from HUD for the operation of the DHAP-USA has not yet been earned by the PHA and is included in deferred revenue. The PHA calculated the amount not earned under this program in the subsequent fiscal year and reimbursed HUD \$2,262,719 for unearned placement fees and housing assistance payments on April 19, 2010.

At March 31, 2008, HUD contracted with the PHA to administer the Disaster Housing Assistance Program Housing for the Housing Authority's of Slidell, Jefferson Parish, St. Bernard Parish and New Orleans Phase 2B. In the fiscal year ending March 31, 2010 the PHA has recognized income of \$76,500, \$83,000, \$104,500 and \$557,500, respectively, of placement fees. This program was expected to end on March 1, 2009 but HUD provided for transitional rent payments through October 2009. As part of transitioning eligible participants to the Housing Choice Voucher Program, the PHA received additional administrative fees. A total of \$503,938, \$1,616,916, \$138,537 and \$0, respectively payments received from HUD for the operation of these programs has not yet been earned by the PHA and is included in deferred revenue. The PHA calculated the amount not earned under this program in the subsequent fiscal year and reimbursed HUD \$503,938, \$1,616,916, \$138,537 and \$0, respectively, for unearned placement fees and housing assistance payments on April 6, 2010.

On September 13, 2008, Hurricane Ike hit the greater Houston-Galveston area and caused much destruction. To respond to the increased need for housing, HUD developed a disaster housing assistance program known as DHAP-Ike. The program is very similar to the original Disaster Housing Assistance Program. HUD assistance for victims of Hurricane Ike was extended through October 31, 2010.

HUD contracted with the PHA to administer 4,966 of these vouchers in the Houston area. The PHA identifies this program as DHAP-Ike. The agreement allows the PHA to receive \$1,000 (One-thousand dollars) per voucher for placement fees in addition to case management fees, administrative fees and reimbursement for housing assistance payments. In the fiscal year ending March 31, 2010, the PHA has recognized income of \$5,599,301 in administrative fees and \$969,000 of placement fees. The PHA has also recognized income of \$16,081,295 for reimbursement of housing assistance payments and \$2,551,200 of case management reimbursements. A total of \$8,886,024 of payments received from HUD for the operation of DHAP-Ike has not yet been earned by the PHA and is included in deferred revenue.

# **HARRIS COUNTY HOUSING AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010 (Continued)**

### **NOTE (5) HOUSING AND URBAN DEVELOPMENT PROGRAMS-(Continued)**

#### **DISASTER HOUSING ASSISTANCE PROGRAMS (DHAP) – (continued)**

In addition to the vouchers issued by HUD for Hurricane Ike disaster assistance in the Houston area, the PHA also agreed to administer approximately 1,085 disaster vouchers for victims that have relocated to other parts of Texas. The PHA identifies this program as DHAP-Ike TX. The agreement with HUD for administration of this program is the same as the agreement for administering the Houston area program. In the fiscal year ending March 31, 2010, the PHA has recognized income of \$1,420,001 in administrative fees and \$296,000 of placement fees. The PHA has also recognized income of \$2,177,090 for reimbursement of housing assistance payments reimbursements and \$354,100 of case management reimbursements. A total of \$1,803,155 of payments received from HUD for the operation of the DHAP-Ike-TX has not yet been earned by the PHA and is included in deferred revenue.

The funds received for Disaster Housing Assistance Programs are reported as Department of Homeland Security funds under program 97.109.

### **NOTE (6) DISASTER HOUSING ASSISTANCE PROGRAM ADMINISTRATION AGREEMENT**

The PHA entered into an agreement with Mir, Fox & Rodriguez, P.C., for project management of the DHAP programs for the PHA. Under the agreement, Mir, Fox & Rodriguez implemented project management components including, planning and designing the social service and case management core processes, coordinating education, communication and training, monitoring and control of the program among other things. The PHA has a balance of \$292,797 in advanced Housing Assistance Payments with Mir Fox Rodriguez at March 31, 2010. Advances are included in Accounts Receivable-Miscellaneous in the Housing Enterprise Fund.

### **NOTE (7) ACCOUNTS RECEIVABLE**

The main components of Accounts Receivable-miscellaneous are \$997,231 of Security and Utility deposit assistance payments that are to be refunded to the PHA when tenants exit the Disaster Housing Assistance Program and \$336,190 of developer fees.

### **NOTE (8) NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE**

The PHA has Subordinate Promissory Notes with the Partnerships that were funded with pass through funds from HOME Grants. The loans accrue interest on the outstanding balances at the applicable federal interest rate (AFR) in effect at the time of the loan and mature on varying dates between the years of 2027 and 2038. As of March 31, 2010, total outstanding principal and accrued interest on these loans were \$4,496,420 and \$934,477 respectively.

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010 (Continued)

#### NOTE (9) HURRICANE IKE DAMAGE ASSESSMENT

The Harris County Housing Authority conducted four eligible FEMA activities during Hurricane Ike and is currently working with the State of Texas and FEMA regarding FEMA reimbursement.

The four items are:

Point of Distributions (PODs) – Harris County Housing Authority, through chapter 392 of the state and local government code ask PHA's to respond to housing needs. The PHA coordinated POD sites in the greater Houston area during Hurricane Ike. This coordination included project management and providing support staff at site locations as necessary. As project manager, the PHA also coordinated the quantity of food supplies to be delivered to the POD sites, security and law enforcement resources, volunteers and timely reporting of activities at each site location. The PHA also provided timely information to local officials regarding selection and closures of new and existing site locations based on demand and needs.

Social Service Senior Assistance – The Social Service Senior Assistance Project was implemented to assist Harris County Senior Tax Credit housing locations with (1) daily hot meals twice per day, along with water and ice, (2) social service needs assessment to determine health status and other immediate needs and (3) identification of other residential locations if necessary. The PHA kept seniors safe for a period of two weeks with food, water and special needs to low-income housing tax credit properties in Harris County.

The Housing Services Center – The Housing Services Center (HSC) was developed by the PHA to assist FEMA in the hard hit Southeast region of Harris County. The HSC was designed to provide (1) FEMA Registration for affected residents, (2) on-site social services for referrals and (3) short-term housing information (e.g. up-to-date listing of hotels). The HSC was requested by area mayors of 7 cities to assist residents that did not have electricity or operating phones.

Emergency Assessment and life saving triage – The PHA organized and trained 120 emergency safety inspectors to protect life and property in Harris County. This was in accordance with chapter 392 of the local government code and is in line with FEMA regulations to help citizens immediately after a disaster. The PHA conducted this assessment throughout all of Harris County. However, the PHA may only be eligible for reimbursement of expenditures for the unincorporated areas of Harris County and those cities in Harris County without a PHA. The estimated re-imbursement from FEMA is three million dollars (\$3,000,000).

#### NOTE (10) DONATIONS

The PHA donated a total of \$85,000 to other organizations during the fiscal year ending March 31, 2010. \$50,000 was donated to Helping a Hero.Org, \$25,000 to Space Center Rotary Fund and \$10,000 to National Japanese American Memorial Fund.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (11) COMPENSATED ABSENCES PAYABLE

When the Interlocal Agreement with the County was not renewed, the PHA employees were no longer considered employees of the County and accrued absences of \$119,478 were paid. To retain employees, the PHA agreed that employees that had been employed one year or greater would begin employment with the PHA with two weeks of vacation time. For the year ended March 31, 2010 accrued compensated absences totaled \$75,756 of which \$60,604 is considered due within one year.

### NOTE (12) LEASES

Effective September 1, 2007, the PHA entered into a lease for office space at 8933 Interchange Dr., Houston, TX to operate the Disaster Housing Assistance Program. The lease term is sixty (60) months and expires August 31, 2012. The PHA moved their administrative offices to this site in March 2009. Mir, Fox & Rodriguez, P.C. made the payments on the lease in accordance with the administrative contract as described in Note 6 through February 2010. For the year ending March 31, 2010 the base rent was \$23,403 per month.

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

<u>Year ending March 31,</u>	
2011	\$ 298 084
2012	327 645
2013	<u>141 651</u>
Total	<u>\$ 767 380</u>

Effective March 1, 2008, the PHA entered into a lease for office space at 3600 MacArthur Blvd., New Orleans, LA to operate the Disaster Housing Assistance Program in Louisiana as per their agreement with the Housing Authority of New Orleans. The lease term is twenty-four (24) months and expires February 28, 2010. The contract with the Housing Authority of New Orleans was completed in December 2008. The PHA and the Housing Authority of New Orleans reached an agreement to transfer the lease agreement to the Housing Authority of New Orleans in April 2009.

Effective November 7, 2008, the PHA entered into a lease for office space at 8950 Kirby Drive, Houston, TX to operate the Disaster Housing Assistance Program for Hurricane Ike. The lease term commences January 1, 2009 and expires December 31, 2010. For the year ending March 31, 2010 the base rent was \$13,931 per month.

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

<u>Year ending March 31,</u>	
2011	<u>\$ 125 381</u>

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (13) RESTRICTED NET ASSETS

The PHA has recorded \$548,122 in restricted net assets for the year ending March 31, 2010. This amount reflects the difference in Housing Assistance Payment revenue received from HUD and the amount of Housing Assistance Payments made for eligible vouchers. These funds are restricted for future payments of eligible vouchers.

### NOTE (14) PURCHASE OF PROPERTY

On February 6, 2009 the PHA purchased 91.9 acres of property for \$6,509,202 on Lake Houston for a new development to be known as Patriots on the Lake. A loan from Amegy Bank in the amount of \$3,250,000 was used to help finance the purchase (see Note 15).

On May 28, 2009, the PHA purchased 9.973 acres of land for \$750,000 at Kuykendahl Road and Bammelwood Drive for a new development to be known as 'Cypresswood Estates'. The PHA was awarded \$4 million dollars in Neighborhood Stabilization Program funds by the Harris County Community Services Department on April 20, 2009. The funds financed the purchase and are to assist in the development of this project.

On December 9, 2009 the PHA purchased approximately 9 acres for \$1,881,792 at Beltway 8 and East of Wilson Rd for the development to be known as Sierra Meadows. The PHA was awarded \$2,030,000 in HOME funds by the Harris County Community Services Department on June 9, 2009. The funds financed the purchase and are to assist in the development of this project.

### NOTE (15) NOTES PAYABLE

The PHA entered into an agreement with Amegy Bank for a loan of \$3,250,000 on February 6, 2009 which was used to help finance the purchase of 91.9 acres of land on Lake Houston. The promissory note calls for payments of interest only beginning one month after the date of execution for twenty-four (24) months with a balloon payment of the entire unpaid principal and any accrued interest at that time. Interest is at a variable rate of 1.75% above the rate published in *The Wall Street Journal's "Money Rates"* table (the 'Index rate') as its prime rate with adjustments in such varying rate to be made on the same day as any change in the Index rate. The balance of this loan was repaid in fiscal year ended March 31, 2010. Total interest of \$44,688 was paid in fiscal year 2010 on this note.

The PHA entered into an agreement with Sterling Bank for a construction loan of \$1,975,000 on March 31, 2010 to help finance the construction of Cypresswood Estates project. The promissory note calls for interest only payments during the construction term. Interest will accrue during the construction term at the greater of the Adjusted Prime Rate as then in effect or 4.25% per annum. Payments are due monthly beginning April 30, 2010. At March 31, 2010 the amount drawn on this loan by the PHA was \$769,386. Beginning on the first day of the first month following the permanent term commencement date, payments of principal and interest are due in an amount that will repay the balance in 360 equal monthly installments. Interest on the permanent loan accrues at a fixed rate per annum of 6.30%

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

#### NOTE (16) CONSTRUCTION IN PROGRESS

The PHA has several projects under construction. They include Patriots by the Lake, Cypresswood Estates and Sierra Meadows.

Patriots by the Lake is a 91 acre master planned community to be constructed at Lake Houston in Northwest Houston, Texas. The vision for Patriots on the Lake is to create a model community that embodies the American patriotic spirit in a tangible form that all could experience, celebrate and honor the sacrifice of men and women who fought to protect America's freedom. The development is expected to consist of veteran's services, a senior housing community, civic and recreational venues and an array of for-sale housing opportunities. Patriots by the Lake has \$1,351,399 in Construction in Progress at March 31, 2010. In January 2010, the Environmental Protection Agency (EPA) determined that approximately 28.44 acres of the 91 acre site are subject to Section 404 of the Clean Water Act. As such, the discharge of dredged and/or fill material into the 28.44 acres requires a Department of the Army permit. The PHA is working with the EPA and the Department of the Army on this determination.

Cypresswood Estates is an 88-unit senior housing development to be constructed at 15403 Kuykendahl Road near FM 1960 in Northwest Houston, Texas. The project has a 12-14 month construction timeline and is scheduled to open April 2011. The PHA is the sole developer of the project with Development Consultant Services provided by Integrated Housing Solutions, LLC. The total project cost is \$11,272,779, of which 85% is grant funds. Cypresswood Estates is funded by Neighborhood Stabilization Program grant funds in the amount of \$4,000,000 and Community Development Block Grant funds in the amount of \$5,574,826. The project will also carry a permanent loan of approximately \$1,700,000. The project's General Contractor and Management Company is an affiliate of the Developer Consultant, Integrated Housing Solutions (HIS), LLC. Cypresswood Estates has \$1,011,810 in Construction in Progress at March 31, 2010.

Sierra Meadows is a 90-unit LIHTC senior development to be constructed at Beltway 8 near Wilson Road in Northeast Houston, Texas. The project has a 12-14 month construction timeline and is scheduled to open May 2011. The PHA will serve as co-developer of the project, with Integrated Real Estate Development. The partnership includes HCHA Sierra Meadows, LLC serving as the Managing General Partner. The tax credit investor has not yet been determined. HCHA is 100% owner of the General Partnership while Integrated Sierra Meadows Development, LLC will serve as the developer.

#### NOTE (17) RETIREMENT PLAN

##### Plan Description

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

## HARRIS COUNTY HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

#### NOTE (17) RETIREMENT PLAN – (Continued)

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

Under the state law governing TCDRS since 1991, the PHA has the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective March 1, 2010, the PHA adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 20-year amortization period which began March 1, 2010 using the entry age actuarial cost method. Monthly contributions by the PHA are based on the covered payroll and the employer contribution rate in effect. The PHA's initial contribution rate is 10.56%.

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

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

#### Funding Policy

The PHA has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the PHA based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the PHA is actuarially determined annually. The PHA contributed using the actuarially determined rate of 10.56% for the month of March 2010.

The contribution rate payable by the employee members for March 2010 is the rate of 7% as adopted by the Board of Commissioners. The employee contribution rate and the employer contribution rate may be changed by the Board of Commissioners, within the options available in the TCDRS Act.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2010 (Continued)

### NOTE (17) RETIREMENT PLAN – (Continued)

#### Annual Pension Cost

For the PHA's fiscal year ending March 31, 2010, the pension cost for the TCDRS plan and the actual contributions for its employees were \$8,358 and \$5,609 respectively. The annual required contributions are actuarially determined as a percent of the covered payroll of the participating employees, and are in compliance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*.

The preliminary actuarial study for the plan adopted by the PHA with an assumed participation date of March 1, 2010, is as follows:

	Employee Deposit Rate	7%
	Employer Matching Percentage	225%
Plan Provisions	Prior Service Percentage	160%
	Vesting and Retirement at Age 60	8 years
	Retirement with Age & Service	Rule of 75
Savings Rate	Future Service	22.80%
	Normal Cost	8.09%
	Unfunded Actuarial Liability	2.16%
Employer	Total	10.25%
Contribution Rate	Unfunded Actuarial Liability (UAL)	\$ 449,300
	Amortization Period in Years	20 Years
	Ratio of UAL to Annualized Payroll	21.19%
Additions to the	Vesting & Retirement at Age 60	
Total Rate	8 years	0.15%
	Rule of 75	0.03%

#### Other Information :

Number of eligible employees	41
Average length of service (including "other system service")	3.94
Average age of eligible employees	40
Annualized payroll for the eligible employees	\$2,120,775

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (18) COMPONENT UNITS

#### Blended Component Unit

HCHA Cypresswood Estates, LLC is the 100% owner of the Cypresswood Estates Development. Harris County Housing Authority is the sole member of the LLC. HCHA Cypresswood Estates, LLC and Harris County Housing Authority have a development agreement wherein Harris County Housing Authority will receive a total of \$1,018,203 in exchange for services. HCHA Cypresswood Estates, LLC has a development consultant agreement with RES HIS, LLC, doing business as Integrated Housing Solutions, LLC wherein HCHA Cypresswood Estates, LLC will pay a total of \$100,000 to Integrated Housing Solutions, LLC in exchange for services. The payment of the development fees and consultant fees are predicated on the performance of duties. The PHA received \$300,703 of developer fees related to the development agreement as of March 31, 2010. Additionally, the PHA has paid Integrated Housing Solutions \$30,000 of consultant fees related to the consultant agreement as of March 31, 2010.

#### Discretely Presented Component Units

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

Sierra Meadows, Ltd. is the owner of the Sierra Meadows Development. The partnership is represented by HCHA Sierra Meadows, LLC as the General Partner with .01% ownership interest. The Harris County Housing Authority serves as the sole member of the General Partner and also serves as Limited Partner with .01% ownership interest.

HCHA Cornerstone, LLC has contributed capital of \$336 in Cornerstone Village Apartments, L.P. Harris County Housing Authority and Cornerstone Village Apartments, L.P. has a sixty-five (65) year land lease agreement signed August 12, 2004. Cornerstone Village Apartments, L.P. prepaid twelve years of rent in 2005 which is being amortized at a rate of Sixty-Five thousand (\$65,000) per year. Harris County Housing Authority (HCHA) and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of \$700,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Cornerstone Village Apartments, L.P. The PHA is owed \$160,000 of developer fees related to the development agreement as of March 31, 2010. Harris County Housing Authority has a Note Receivable from Cornerstone Village Apartments, L.P. in the amount of \$1,390,000. The funds for the loan were a HOME Grant from Harris County.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (18) COMPONENT UNITS (Continued)

HCHA Bammel, LLC has contributed capital of \$522 in TX Bammel Housing, L.P. Harris County Housing Authority and TX Bammel Housing, L.P. have a sixty-five (65) year land lease agreement signed January 1, 2005. Under the terms of the lease, the annual lease amount for TX Bammel Housing, L.P. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Southwest Housing Development Company, Inc. have a developer fee sharing agreement wherein Southwest Housing Development Company, Inc. will pay a total of \$600,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of TX Bammel Housing, L.P. The PHA has received \$225,000 of developer fees related to the developer agreement as of March 31, 2010. Harris County Housing Authority has a Note Receivable from TX Bammel Housing, L.P. in the amount of \$731,420. The funds for the loan were a HOME Grant from Harris County.

HCHA Louetta, LLC has contributed capital of \$100 in Louetta Village Apartments 45, L.P. Harris County Housing Authority and Louetta Village Apartments 45, L.P. have a sixty-five (65) year land lease agreement signed January 12, 2005. Under the terms of the lease, the annual lease amount for Louetta Village Apartments 45, L.P. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of \$403,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Louetta Village Apartments 45, L.P. The PHA is owed \$176,190 of developer fees as of March 31, 2010. Harris County Housing Authority has a Note Receivable from Louetta Village Apartments 45, L.P. in the amount of \$550,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Baybrook Park Retirement Center, Ltd. has contributed capital of \$10 in Baybrook Park Retirement Center, Ltd. Harris County Housing Authority and Baybrook Park Retirement Center, Ltd. have a sixty-five (65) year land lease agreement signed June 21, 2005. Under the terms of the lease, the annual lease amount for Baybrook Park Retirement Center, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Hettig Development Group XI, Ltd. have a developer fee sharing agreement wherein Hettig Development Group XI, Ltd. will pay a total of \$406,000 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Baybrook Park Retirement Center, Ltd. The PHA has been paid \$340,940 of developer fees related to the developer agreement as of March 31, 2010. Harris County Housing Authority has a Note Receivable from Baybrook Park Retirement Center, Ltd. in the amount of \$625,000. The funds for the loan were a HOME Grant from Harris County.

# HARRIS COUNTY HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Continued)

### NOTE (18) COMPONENT UNITS (Continued)

HCHA Olive Grove, LLC has contributed capital of \$273,410 in Olive Grove Manor, Ltd. Harris County Housing Authority and Olive Grove Manor, Ltd. have an amended forty-five (45) year land lease agreement signed December 21, 2006. Under the terms of the lease, the annual lease amount for Olive Grove Manor, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Artisan/American Corp. have a developer fee sharing agreement wherein Artisan/American Corp. will pay a total of \$840,000 to HCHA in exchange for services. The balance of the payments of the development fees are predicated on the receipt of development fees paid from, or on the behalf of Olive Grove Manor, Ltd. The PHA has been paid the development fees in full as of March 31, 2010. Harris County Housing Authority has a Note Receivable from Olive Grove Manor, Ltd. in the amount of \$700,000. The funds for the loan were a HOME Grant from Harris County.

At December 31, 2008, Olive Grove Manor, Ltd. was involved in two lawsuits with subcontractors who claim nonpayment for services performed during construction of the Project. In January 2010 the Partnership received indemnity from the general contractor with respect to one of the lawsuits. The second lawsuit was settled without payment by the Partnership and dismissed with prejudice in January 2010. The Partnership received indemnity from the general contractor and the Developer with respect of this claim and defense costs as part of the settlement and reimbursed the PHA for their expenditures of legal and consulting fees.

HCHA Waterside, LLC has contributed capital of \$10 in Waterside Court, Ltd. Harris County Housing Authority and Waterside Court, Ltd. have a forty-five (45) year land lease agreement signed June 22, 2006. Under the terms of the lease, the annual lease amount for Waterside Court, Ltd. is Sixty-five thousand (\$65,000) with all but One thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. Harris County Housing Authority (HCHA) and Hettig Development Group X, Ltd. have a developer fee sharing agreement wherein Hettig Development Group X, Ltd. will pay a total of \$980,110 to HCHA in exchange for services. The balance of the payments of the development fees are predicated on the receipt of development fees paid from, or on the behalf of Waterside Court, Ltd. The PHA has been paid \$948,000 in developer fees as of March 31, 2010. Harris County Housing Authority has a Note Receivable from Waterside Court, Ltd. in the amount of \$500,000. The funds for the loan were a HOME Grant from Harris County.

Harris County Housing Authority (HCHA) and Integrated Sierra Meadows, LLC have a developer fee sharing agreement wherein Integrated Sierra Meadows, LLC will pay a total of \$717,500 to HCHA in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Sierra Meadows, Ltd. The PHA has not received any developer fees related to the development agreement as of March 31, 2010.

HARRIS COUNTY HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2010  
(Continued)

**NOTE (19) SUBSEQUENT EVENTS**

In April 2010, the PHA remitted a total of \$7,967,847 in unearned Housing Assistance Payments and Placement Fees to HUD for advances received under the Disaster Housing Assistance Program (See Note 5).

Management has evaluated subsequent events through June 16, 2010 the date the financial statements were available to be issued.

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RICHARD W. BREEDLOVE, CPA  
President

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

June 16, 2010

Board of Commissioners  
Harris County Housing Authority  
Houston, Texas

We have audited the general purpose financial statements of the Harris County Housing Authority as of and for the year ended March 31, 2010, and have issued our report thereon dated June 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

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

*Breedlove & Co., P.C.*

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# BREEDLOVE & CO., P.C.

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RICHARD W. BREEDLOVE, CPA  
President

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

June 16, 2010

Board of Commissioners  
Harris County Housing Authority  
Houston, Texas

### Compliance

We have audited the compliance of the Harris County Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2010. The Harris County Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Harris County Housing Authority's management. Our responsibility is to express an opinion of their compliance based on our audit.

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

In our opinion, the Harris County Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2010.

### Internal Control over Compliance

The management of the Harris County Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Harris County Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harris County Housing Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Breallone & Co., P.C.*

## REQUIRED SUPPLEMENTARY INFORMATION

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# HARRIS COUNTY HOUSING AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION-BUDGET COMPARISON MARCH 31, 2010

	All Programs			
	Original Budget	Revised Budget as of 3/31/10	Actual	Variance Positive (Negative)
<b>Operating Revenues</b>				
HUD PHA Grants-Administrative Fees Earned	\$ 11 358 278	\$ 13 158 278	\$ 12 993 770	\$ ( 164 508)
HUD PHA Grants-Placement Fees Earned	556 000	2 456 000	2 503 500	47 500
HUD PHA Grants-Case Management Fees	3 177 100	3 177 100	2 905 300	( 271 800)
Port-in Admin	102 000	132 000	120 720	( 11 280)
Co-Developer Fee	1 775 000	1 325 000	1 125 884	( 199 116)
Other Revenues	-	-	48 340	48 340
Interest Income	169 684	169 684	181 883	12 199
<b>Total Operating Revenues</b>	<u>17 138 062</u>	<u>20 418 062</u>	<u>19 879 397</u>	<u>( 538 665)</u>
<b>Operating Expenses</b>				
Salaries	2 255 819	3 255 819	3 236 901	18 918
Social Security	172 570	422 570	337 951	84 619
Health Insurance	267 455	297 455	292 747	4 708
Employee Benefit Contributions	286 492	161 492	158 909	2 583
Consulting and Professional Services	7 938 145	9 038 145	8 987 041	51 104
Auditing Fees	112 400	132 400	129 779	2 621
Bank Service charges	12 000	12 000	12 973	( 973)
Insurance	55 000	58 000	57 688	312
Case Management Fees	3 177 100	2 987 100	2 977 290	9 810
Membership Dues and Subscriptions	12 000	22 000	21 767	233
Printing and Reproduction	70 000	150 000	149 128	872
Postage	60 000	60 000	51 284	8 716
Telephone	10 000	10 000	4 283	5 717
Temporary and Professional Services	399 000	103 500	102 951	549
Vehicle Gas, Oil and Maintenance	14 000	18 500	19 436	( 936)
Legal	427 000	427 000	129 821	297 179
Staff Travel and Training	167 000	197 000	194 339	2 661
Board of Commissioners Travel and Training	45 000	45 000	19 890	25 110
Office Supplies	218 000	328 000	327 225	775
Other General Expenses-Port Out Admin Fees	10 000	24 500	24 383	117
Maintenance and Utilities	80 000	80 000	42 760	37 240
Donations	-	-	85 000	( 85 000)
Computer Equipment and Software Maintenance	45 000	45 000	25 366	19 634
Security Deposit and Utility Deposit	-	-	16 042	( 16 042)
Interest on Note Payable	-	-	44 688	( 44 688)
Office Rent	-	-	23 898	( 23 898)
<b>Total Administrative Expenses</b>	<u>15 833 981</u>	<u>17 875 481</u>	<u>17 473 540</u>	<u>401 941</u>
<b>Residual Receipts (Deficit)</b>	<u>\$ 1 304 081</u>	<u>\$ 2 542 581</u>	<u>\$ 2 405 857</u>	<u>\$ ( 136 724)</u>

See the accompanying Independent Auditors' Report

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## SUPPLEMENTAL SCHEDULES

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HARRIS COUNTY HOUSING AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARCH 31, 2010

**SUMMARY OF AUDITORS RESULTS**

We issued an unqualified opinion on the financial statements for the fiscal year ended March 31, 2010.

There are no significant deficiencies in internal control that are disclosed by our audit of the financial statements that are considered material weaknesses.

Our audit did not disclose any noncompliance that is material to the financial statements.

There are no significant deficiencies in internal control over major programs disclosed by our audit that are considered material weaknesses.

Our report on compliance for major programs was unqualified.

Our audit disclosed no findings required to be reported by Section 510(a) of OMB Circular A-133.

The Disaster Housing Assistance Program was identified as a major program.

The dollar threshold used to distinguish between Type A and Type B programs was \$2,006,298.

The auditee qualified as a low-risk auditee.

**STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

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

**CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**MARCH 31, 2010**

		<u>CFDA #</u>	<u>IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Housing and Urban Development:				
DIRECT	Lower Income Housing Assistance			
	Program--Section 8 Moderate Rehabilitation	14.856	TX441MR0003	\$ 57 344
	Program--Section 8 Moderate Rehabilitation-SRO	14.182	TX441SRO001	327 233
DIRECT	Section 8 - Housing Choice Vouchers	14.871	TX 441VO0043053	26 767 175
DIRECT	Housing Choice Vouchers-Disaster Voucher Program	14.871	TX441DH	<u>1 105 425</u>
				28 257 177
Department of Homeland Security				
DIRECT	Disaster Housing Assistance Program	97.109		36 520 909
Passed through Harris County, Texas:				
	HOME Investment Partnership Program	14.239	CO953	1 882 297
	Neighborhood Stabilization Program	14.228	CO859	<u>1 761 665</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 68 422 048</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED MARCH 31, 2010**

**NOTE 1. BASIS OF PRESENTATION**

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

Line Item	Account Description	Sec 8 Mod Rehab SRO HUD	Section 8 MOD Rehab HUD	Housing Choice Vouchers HUD	Disaster Housing Assistance Program Grant 97109	DVP	Business Activities	Cypresswood Estates (Blended Component Unit)	Component Units	TOTAL
<b>ASSETS:</b>										
<b>CURRENT ASSETS:</b>										
<b>Cash:</b>										
111	Cash - unrestricted	29,255	5,051	413,041	16,751,716	1,142,351	286,783	793,001	963,825	20,385,023
112	Cash - restricted - modernization and development	-	-	-	-	-	-	-	-	-
113	Cash - other restricted	-	-	348,122	-	-	-	-	-	3,252,127
114	Cash - tenant security deposits	-	-	-	-	-	-	-	2,704,005	101,194
115	Cash - restricted for payment of current liability	-	-	101,194	-	-	-	-	-	23,738,344
100	Total cash	29,255	5,051	1,062,357	16,751,716	1,142,351	286,783	793,001	3,667,830	-
<b>Accounts and notes receivables:</b>										
121	Accounts receivable - PHA projects	-	-	-	-	-	-	-	-	-
122	Accounts receivable - HUD other projects	2,870	-	570,218	2,117,636	536,937	-	-	-	3,227,861
124	Accounts receivable - other government	-	-	131,703	-	-	-	769,386	-	901,089
125-000	Accounts receivable - miscellaneous-partner	-	-	-	-	-	-	-	-	-
125-050	Accounts receivable - miscellaneous-other	-	-	40,218	1,165,705	124,323	346,887	3,600	29,961	1,710,694
125	Accounts receivable - miscellaneous-total	-	-	40,218	1,165,705	124,323	346,887	3,600	29,961	1,710,694
126	Accounts receivable - tenants - dwelling rents	-	-	-	-	-	-	-	92,137	92,137
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-	-	-	-	-	-	-
126.2	Allowance for doubtful accounts - other	-	-	(10,163)	-	-	-	-	-	(10,163)
127	Notes, loans & mortgages receivable - current	-	-	-	-	-	-	-	-	-
128	Fraud recovery	-	-	-	-	-	-	-	-	-
128.1	Allowance for doubtful accounts - fraud	-	-	-	-	-	-	-	-	-
129	Accrued interest receivable	-	-	14,441	-	-	934,477	-	-	948,918
120	Total receivables, net of allowances for doubtful accounts	2,870	-	732,176	3,297,782	661,260	1,381,364	772,986	122,098	6,870,556
<b>Current investments</b>										
131	Investments - unrestricted	-	-	-	3,001,300	-	-	-	-	3,001,300
132	Investments - restricted	-	-	-	-	-	-	-	-	-
135	Investments - restricted for payment of current liability	-	-	-	-	-	-	-	-	-
142	Prepaid expenses and other assets	-	-	16,692	-	445	1,355	-	2,023,714	2,042,206
143	Inventories	-	-	-	-	-	-	-	-	-
143.1	Allowance for obsolete inventories	-	-	-	-	-	-	-	-	-
144	Interprogram - due from	-	-	-	-	-	300,000	-	-	500,000
145	Assets held for sale	-	-	-	-	-	-	-	-	-
150	TOTAL Current Assets	32,125	5,051	1,811,225	23,050,798	1,804,056	2,069,502	1,563,987	3,813,642	36,152,386
<b>NONCURRENT ASSETS:</b>										
<b>Fixed assets:</b>										
161	Land	-	-	-	-	-	-	-	-	-
162	Buildings	-	-	-	-	-	13,362,569	750,000	75,181,186	14,312,569
163	Furniture, equipment & machinery - dwellings	-	-	-	-	-	-	-	-	-
164	Furniture, equipment & machinery - administration	-	-	327,692	532,553	22,209	51,310	-	-	953,764
165	Leasehold improvements	-	-	15,499	1,859,319	-	41,076	-	-	1,915,894
166	Accumulated depreciation	-	-	(166,147)	(1,030,230)	(19,124)	(23,922)	-	(9,164,160)	(10,403,632)
167	Construction in progress	-	-	105,521	-	-	1,351,399	1,011,810	-	2,468,730
168	Infrastructure	-	-	-	-	-	-	-	-	-
160	Total fixed assets, net of accumulated depreciation	-	-	282,565	1,381,633	3,085	14,982,372	1,761,810	66,017,026	84,428,491
<b>Other Non Current Assets</b>										
171	Notes, loans & mortgages receivable - non current	-	-	-	-	-	4,196,420	-	-	4,496,420
172	Notes, loans & mortgages receivable - non current - past due	-	-	-	-	-	-	-	-	-
173	Grants Receivable - non current	-	-	-	-	-	-	-	-	-
174	Other assets	-	-	-	-	-	-	-	3,228,408	3,228,408
176	Investment in Partnerships	-	-	-	-	-	343,940	-	-	343,940
180	Total Noncurrent Assets	-	-	282,565	1,381,633	3,085	19,822,732	1,761,810	69,245,434	92,497,259
190	Total Assets	32,125	5,051	2,093,790	24,432,431	1,807,141	21,892,234	3,327,797	75,059,076	128,649,645

See the accompanying Independent Auditor's Report

Harris County Housing Authority  
Financial Data Schedule-Balance Sheet (continued)

March 31, 2010

Account Description	Sec 8 Mod Rehab SRO 14,249	Section 8 MOD Rehab 14,856	Housing Choice Vouchers 14,871	Disaster Housing Assistance Program Grant 97,109	DVP	Business Activities	Cypresswood Estates (Blended Component Unit)	Component Units	TOTAL
<b>LIABILITIES AND EQUITY:</b>									
<b>LIABILITIES:</b>									
<b>Current Liabilities</b>									
311 Bank overdraft	-	-	51,011	647,905	149	48,505	-	4,626,404	5,373,974
312 Accounts payable ≤ 90 days	-	-	-	-	-	-	-	-	-
313 Accounts payable > 90 days past due	-	-	-	-	-	-	-	-	-
321 Accrued wage/payroll taxes payable	650	650	199,569	7,455	207	12,998	-	-	221,529
322 Accrued compensated absences - current portion	-	-	-	-	-	-	-	-	-
324 Accrued contingency liability	-	-	-	-	-	-	-	-	-
325 Accrued interest payable	25,170	-	498,605	-	-	-	-	913,203	913,203
331 Accounts payable - HUD PHA programs	-	-	-	-	-	-	-	-	523,775
332 Accounts payable - PHA Projects	-	-	-	-	-	-	-	-	-
333 Accounts payable - other government	-	-	-	-	-	-	-	-	-
341 Tenant security deposits	311	888	-	13,838,677	40,500	390,000	-	-	14,270,376
342 Deferred revenues	-	-	-	-	-	-	-	-	-
343 Current portion of Long-Term debt - capital projects/mortgage revenue bonds	-	-	-	-	-	-	-	-	-
344 Current portion of Long-Term debt - operating borrowings	-	-	-	-	-	-	-	-	-
345 Other current liabilities	-	-	42,025	4,818,347	3,900	303	-	-	4,864,575
346 Accrued liabilities - other	-	-	-	-	-	-	500,000	-	500,000
347 Inter-program - due to	-	-	-	-	-	-	-	100,000	100,000
348 Loan Liability - current	-	-	-	-	-	-	-	-	-
310 Total Current Liabilities	26,131	1,338	791,210	19,312,384	44,756	451,806	500,000	5,639,607	26,767,432
<b>Non Current Liabilities</b>									
351 Long-term debt, net of current- capital projects/ mortgage revenue bonds	-	-	-	-	-	-	-	-	-
352 Long-term debt, net of current- operating borrowings	-	-	-	-	-	-	-	-	-
353 Noncurrent liabilities- other	-	-	101,194	-	-	-	-	-	101,194
354 Accrued Compensated Absences - non current	-	-	15,151	-	-	-	-	-	15,151
355 Loan Liability - non current	-	-	-	-	-	-	-	-	-
356 FASB 5 Liabilities	-	-	-	-	-	-	-	-	-
357 Accrued Pension and OPEB Liabilities	-	-	-	-	-	-	-	-	-
350 TO Total Noncurrent Liabilities	-	-	116,345	-	-	-	-	-	-
300 Total Liabilities	26,131	1,338	907,555	19,312,384	44,756	451,806	500,000	5,639,607	26,767,432
<b>EQUITY:</b>									
508.1 Invested in Capital Assets, Net of related Debt	-	-	282,565	1,381,633	3,085	14,982,372	992,424	23,688,986	41,331,065
509.2 Fund balance reserved	-	-	-	-	-	-	-	-	-
511.2 Unreserved, designated fund balance	-	-	548,122	-	-	-	-	2,704,005	3,252,127
511.1 Restricted Net Assets	-	-	355,548	3,738,414	1,759,300	6,458,056	1,065,987	(1,949,781)	11,437,031
512.1 Unrestricted Net Assets	5,994	3,513	-	-	-	-	-	-	-
512.2 Unreserved, undesignated fund balance	-	-	-	-	-	-	-	-	-
513 Total Equity/Net Assets	5,994	3,513	1,186,235	5,120,047	1,762,385	21,440,428	2,058,411	24,443,210	56,020,223
600 Total Liabilities and Equity/Net Assets	32,125	5,051	2,093,790	24,432,431	1,807,141	21,892,234	3,327,797	75,059,076	128,649,645

Line Item #	Account Description	Sec 8 Mod Rehab SRO H.249	Section 8 MOD Rehab. H.856	Housing Choice Vouchers H.871	Disaster Housing Assistance Program Grant 97.199	DVP 14.DVP	Business Activities	Cypresswood Estates (Blended) Component Unit	Component Units	TOTAL
<b>REVENUE:</b>										
70300	Net tenant rental revenue									
70400	Tenant revenue - other								6,316,004	6,316,004
70500	Total tenant revenue								6,316,004	6,316,004
70600-010	Housing assistance payments	267,254	50,256	24,581,715	20,471,359	1,004,932				46,375,516
70600-020	Ongoing administrative fees earned	59,979	7,088	2,185,460	10,640,750	100,493				12,993,770
70600-030	Hard to house fee revenue									
70600-031	FSS coordinator grant									
70600-040	Actual independent public accountant audit costs									
70600-050	Total preliminary fees earned									
70600-060	All other fees				5,408,800					5,408,800
70600	HUD PHA operating grants	327,233	57,344	26,767,175	36,520,909	1,105,425				64,778,086
70610	Capital Grants									
70710	Management fee									
70720	Asset management fee									
70730	Book keeping fee									
70740	Front line service fee									
70750	Other fees									
70700	Total fee revenue									
70800	Other government grants									
71100-010	Housing assistance payments			3,405	20,013		1,882,297	1,761,665		3,643,962
71100-020	Administrative fee	64	5	16	159,579	871	253,831	18	16,630	431,014
71100	Investment income - unrestricted	64	5	3,421	179,592	871	253,831	18	16,630	454,432
71200	Mortgage interest income									
71300	Proceeds from disposition of assets held for sale									
71400-010	Housing assistance payments									
71400-020	Administrative fee									
71400	Fraud recovery									
71500	Other revenue			1,964,280	7,382		937,140	300,703	130,786	3,340,291
71600	Gain or loss on the sale of fixed assets									
72000-010	Housing assistance payments									
72000-020	Administrative fee									
72000	Investment income - restricted									
70000	TOTAL REVENUE	327,297	57,349	28,734,876	36,707,883	1,106,296	3,073,268	2,062,386	6,463,420	78,532,775
<b>EXPENSES:</b>										
<b>Administrative</b>										
91100	Administrative salaries									
91200	Auditing fees	53,699	5,889	1,214,237	732,250	55,500	1,515,907		956,792	4,534,274
91300	Management fee			60,115	50,777		18,887			129,779
91310	Book-keeping fee								321,733	321,733
91400	Advertising and marketing									
91500	Employee benefit contributions - administrative									
91600	Office expense	2,411	875	253,291	116,550	12,966	65,538			451,431
91700	Legal expense	3,349	289	446,013	91,518	4,616	123,450	3,975		673,210
91800	Travel			36,740			93,081		60,286	190,107
91810	Allocated overhead									
91900	Other - admin			762,568	7,369,948	93	1,237,625		28,914	9,399,148
	Subtotal	59,459	6,853	2,772,964	8,361,043	73,175	3,054,488	3,975	1,367,725	15,699,682
92000	Asset management fee									

See the accompanying Independent Auditor's Report

Harris County Housing Authority  
Financial Data Schedule-Revenue and Expenses (continued)  
March 31, 2010

Account Description	Sec 8 Mod Rehab SRO 11,310	Section 8 MOD Rehab. 11,856	Housing Choice Vouchers 11,871	Disaster Housing Assistance Program Grant 97,109	DVP 14 DVP	Business Activities	Cypresswood Estates (Blended Component Unit)	Component Units	TOTAL
<b>Tenant services</b>									
Tenant services - salaries									
Relocation costs									
Tenant services - other									
Subtotal				2,977,781	15,551				2,993,332
<b>Utilities</b>				2,977,781	15,551				2,993,332
Water									
Electricity									
Gas									
Fuel									
Labor									
Sewer									
Employee benefit contributions- utilities									
Other utilities expense									
Subtotal								563,567	563,567
<b>Ordinary maintenance &amp; operation</b>									
Ordinary maintenance and operations - labor									
Ordinary maintenance and operations - materials & other									
Garbage and trash removal contracts								581,651	581,651
Heating & cooling contracts									
Snow removal contracts									
Elevator maintenance contracts									
Landscape and grounds contracts									
Unit turnaround contracts									
Electrical contracts									
Plumbing contracts									
Extermination contracts									
Janitorial contracts									
Routine maintenance contracts									
Miscellaneous contracts									
Total ordinary maintenance and operations - contract costs									
Employee benefit contributions- ordinary maintenance								581,651	581,651
Subtotal									
<b>Protective services</b>									
Protective services - labor									
Protective services- other contract costs									
Protective services - other									
Employee benefit contributions- protective services									
Subtotal									

Account Description	Sec 8 Mod Rehab SRO 11,210	Section 8 MOD Rehab. 11,856	Housing Choice Vouchers HST	Disaster Housing Assistance Program Grant 67,100	DVP 14 DVP	Business Activities	Cypresswood Estates (Blended) Component Unit	Component Units	TOTAL
<b>General expenses</b>									
Property insurance									
Liability insurance						3,100		307,063	310,163
Workmen's compensation			48						226
All other insurance			54,588			178			54,588
Total insurance premiums			54,636			3,278		307,063	364,977
Other General Expenses									
Compensated absences			42,306			5,974		1,095,986	1,144,266
Payments in lieu of taxes			(2,630)						(2,630)
Bad debt - tenant rents									
Bad debt - mortgages									
Bad debt - other									
Severance expense									
Subtotal			39,676			5,974		1,095,986	1,141,636
Interest of mortgage (or bonds) payable									
Interest on notes payable (short and long term)									
Amortization of bond issue costs									
Total interest expense and amortization cost									
<b>TOTAL OPERATING EXPENSES</b>									
96900	59,459	6,853	2,867,276	11,338,824	88,726	3,108,328	3,975	5,226,554	22,700,095
97000	267,838	50,496	25,867,600	25,369,059	1,017,570	(35,160)	2,038,411	1,236,866	55,832,680
Extraordinary maintenance									
Casualty losses - non-capitalized									
Mainstream									
Home-Ownership									
Litigation									
Hope VI - Section 8									
Moving to work									
Tenant protection									
All other									
Housing assistance payments									
HAP portability-in									
Depreciation expense									
Fraud losses									
Capital outlays- governmental funds									
Debt principal payment- governmental funds									
Dwelling units rent expense									
<b>TOTAL EXPENSES</b>									
OTHER FINANCING SOURCES (USES)									
Operating transfers in									
Operating transfers out									
Operating transfers from/to primary government									
Prior Period Adjustments, Equity/Net Assets									
Proceeds from notes, loans and bonds									
Proceeds from property sales									
Extraordinary items (net gain/loss)									
Special items (net gain/loss)									
Inter project excess cash transfer in									
Inter project excess cash transfer out									
Transfers between program and project - in									
Transfers between program and project - out									
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>									
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	326,713	57,109	31,313,245	32,366,231	1,101,061	3,118,714	3,975	8,331,834	76,618,882
100100									
10000	584	240	(2,578,469)	3,567,726	5,235	730,355	2,038,411	(1,868,414)	1,915,768

See the accompanying Independent Auditor's Report

## March 31, 2010

See the accompanying Independent Auditor's Report