

**HARRIS COUNTY HOUSING AUTHORITY**  
**Houston, Texas**

**FINANCIAL STATEMENTS**  
**March 31, 2013**

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## Independent Auditor's Report

The Board of Commissioners  
Harris County Housing Authority  
Houston, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund of the Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2013, and the related notes to the financial statements, which along with the aggregate discretely presented component units of the Authority collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units which represent \$77 million, \$19 million and \$8 million, respectively, of the assets, net position and revenues of the reporting entity. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of all the discretely presented component units were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and the aggregate discretely presented component units of the Authority as of March 31, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter Regarding a Correction of an Error***

As described in Note 12 to the financial statements, the Authority incorrectly recognized revenue related to ground leases that should have been deferred over the life of the lease. Our opinion is not modified with respect to that matter.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
December 23, 2013

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
March 31, 2013**

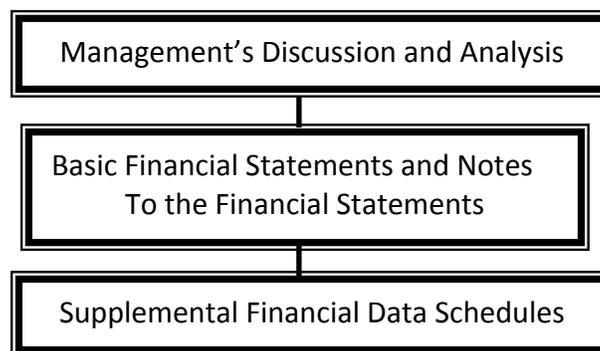
As management of the Harris County Housing Authority (the Authority), we offer the readers of the Authority's financial statements this narrative overview and analysis of our financial activities for the year ended March 31, 2013. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

The Authority is a special purpose government operating in Harris County, Texas (the County). The Authority administers federal Department of Housing and Urban Development (HUD) Section 8 housing assistance grants. The Authority was authorized to operate by the County through adoption of an order and resolution of the County Commissioners Court (the Court) on March 20, 1975. Texas statute provides for the creation and operation of the Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties*. Under LGC Chapter 392, the Authority is a unit of government and its functions are essential for the wellbeing of the community.

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

The Authority presents this discussion and analysis of its financial performance during the fiscal year (FY) ended March 31, 2013, to assist the reader in focusing on significant issues and concerns.

The Authority's FY2013 annual financial report consists of three parts — the management's discussion and analysis, the basic financial statements (which includes notes to those financial statements) and the financial data schedules.



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

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

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2013**

**Financial Highlights for FY2013.**

- The Authority's assets exceeded its liabilities as of March 31, 2013 by \$30,154,116 (net position).
- Cash and cash equivalents as of March 31, 2013 were \$4,474,476.
- The Authority had \$37,750,906 in HUD grant revenue for the year ended March 31, 2013. The Authority had total expenses of \$42,182,103 for the year ended March 31, 2013, of which \$36,373,489 was for Housing Assistance Payments (HAP).
- The Authority's total net position decreased by \$793,689 during the year.
- During the year a prior period adjustment was recorded for \$1,526,740 to properly record deferred ground lease revenue.

**Overview of the Financial Statements**

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

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

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

Between FY2012 to FY2013, the Authority saw the complete replacement of its entire board, the replacement of its Chief Executive Officer, the departure of both its Chief Administrative Officer and its Chief Financial Officer, along with many other changes in policies and procedures that improve accountability, efficiency and transparency in government. Not counting housing assistance payments or depreciation, expenses decreased by \$4,518,865 from \$9,701,189 to \$5,182,324, representing a 47% reduction in spending.

Over time, significant changes in the net position are an indicator of whether the Authority's financial health is improving or deteriorating. Assets exceeded liabilities by \$30,154,116 at the close of the fiscal year ended March 31, 2013, an overall decline of \$793,689 from March 31, 2012.

Total Current Assets increased by \$9,489,803 from the prior year due mostly to an increase in assets held for sale (land) in the amount of \$6,500,000 and an increase of \$2,009,732 in the inter-program due from Housing Choice Vouchers. Both balances are in Other Business Activities.

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2013**

Capital Assets, net of depreciation, decreased by \$8,181,104 from the prior year. The decrease is primarily the result of moving land in Other Business Activities from Capital Assets to Assets Held for Sale – a current asset. The land's purchase price was \$6,500,000. Additionally, \$1,082,011 was expensed during 2013 to expenses for development costs and efforts that were not going to move into the construction phase.

Current Liabilities increased by \$194,345 from \$7,074,474 for the year ended March 31, 2012 to \$7,268,819 for the year ended March 31, 2013. This increase is due to the current portion of the Cypresswood Estates loan recorded in the current fiscal year.

Non-Current Liabilities increased by \$1,908,043 from \$1,651,766 from the year ended March 31, 2012 to \$3,559,809 for the year ended March 31, 2013. The increase is related to the Cypresswood Estates loan (for an Affordable Housing development) recorded as a long term liability in the current fiscal year.

	<u>2013</u>	<u>As restated 2012</u>	<u>Increase/ (Decrease)</u>
<b>Assets</b>			
Current assets	\$ 12,760,729	\$ 3,270,926	\$ 9,489,803
Notes receivable	4,496,420	4,496,420	-
Investment in partnership	273,940	273,940	-
Capital assets	<u>23,451,655</u>	<u>31,632,759</u>	<u>(8,181,104)</u>
Total assets	<u>40,982,744</u>	<u>39,674,045</u>	<u>1,308,699</u>
<b>Liabilities</b>			
Current liabilities	7,268,819	7,074,474	194,345
Noncurrent liabilities	<u>3,559,809</u>	<u>1,651,766</u>	<u>1,908,043</u>
Total liabilities	<u>10,828,628</u>	<u>8,726,240</u>	<u>2,102,388</u>
<b>Net position</b>	<u>\$ 30,154,116</u>	<u>\$ 30,947,805</u>	<u>\$ (793,689)</u>

**Net Position Categories**

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>
Invested in capital assets	\$ 19,877,137	\$ 29,724,828	\$ (9,847,691)
Restricted	8,269,250	1,880,748	6,388,502
Unrestricted	<u>2,007,729</u>	<u>(657,771)</u>	<u>2,665,500</u>
<b>Total net position, as restated</b>	<u>\$ 30,154,116</u>	<u>\$ 30,947,805</u>	<u>\$ (793,689)</u>

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

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2013**

The Authority is committed to building new affordable housing using the Low Income Housing Tax Credit Program with HOME, Neighborhood Stabilization Program (NSP), and Community Development Block Grant funds provided by the Harris County Community Services Department. This unique public/public partnership is well positioned to meet the needs of affordable housing in the unincorporated areas of Harris County. This has enabled the Authority to develop seven (7) senior Low Income Housing Tax Credit and one (1) CDBG/HOME developments.

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

The Authority administers the following programs, which generate revenues for the year 2013 as follows:

	<u>2013</u>	<u>As restated 2012</u>	<u>Increase/ (Decrease)</u>
<b>Revenues - Operating</b>			
HUD PHA grants	\$ 37,750,906	\$ 35,844,402	\$ 1,906,504
Other government grants	1,954,741	6,240,541	(4,285,800)
Ground lease revenue	29,763	73,000	(43,237)
Other revenue	<u>1,261,068</u>	<u>1,334,149</u>	<u>(73,081)</u>
Total operating revenues	<u>40,996,478</u>	<u>43,492,092</u>	<u>(2,495,614)</u>
<b>Expenses</b>			
Housing assistance payments	36,373,489	36,569,356	(195,867)
Salaries and benefits	2,642,523	3,598,069	(955,546)
Office expense	2,008,772	3,241,516	(1,232,744)
Tenant services	-	398,969	(398,969)
General	531,029	2,462,635	(1,931,606)
Depreciation	<u>554,163</u>	<u>842,456</u>	<u>(288,293)</u>
Total expenses	<u>42,109,976</u>	<u>47,113,001</u>	<u>(5,003,025)</u>
Net income (loss) from operations	<u>(1,113,498)</u>	<u>(3,620,909)</u>	<u>2,507,411</u>
<b>Non-operating revenue (expenses)</b>			
Interest income	164,913	238,513	(73,600)
Interest expense	(72,127)	(75,096)	2,969
Gain (loss) on sale of fixed assets	<u>227,023</u>	<u>(342,833)</u>	<u>569,856</u>
Total non-operating revenues	<u>319,809</u>	<u>(179,416)</u>	<u>499,225</u>
<b>Change in net position</b>	(793,689)	(3,800,325)	3,006,636
<b>Net position, beginning of year, as restated</b>	<u>30,947,805</u>	<u>34,748,130</u>	<u>(3,800,325)</u>
<b>Net position, end of year</b>	<u>\$ 30,154,116</u>	<u>\$ 30,947,805</u>	<u>\$ (793,689)</u>

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2013**

Total revenues for the years ended March 31, 2013 and 2012 were \$40,996,478 and \$43,492,092, respectively. The change from 2013 to 2012 reflects a decrease of \$2,495,614 due to the completion of the DHAP-IKE Program. In 2012, the total revenues were \$2,535,352 and 2013 was \$6,456.

HUD PHA grants increased \$1,906,504 from \$35,844,402 in 2012 to \$37,750,906 in 2013, due primarily to increased Housing Choice Voucher program revenues for Housing Assistance Payments.

Other government grants decreased by \$4,285,800 and other revenue decreased by \$73,081. This decrease is attributed to HCHA receiving no new grant funding for affordable housing development. The decrease in other revenue is attributed to the Affordable Housing program's fees earned from the component units where HCHA is the General Partner.

**Analysis of Entity Wide Expenses**

Total expenses for the year ended March 31, 2013 amounted to \$42,182,103 as compared to \$47,188,097 for the year ended March 31, 2012, a decrease of \$5,005,994. This decrease is attributed to a reduction in DHAP IKE administrative expenses with the closing of the DHAP IKE program.

Housing assistance payments decreased by \$195,867 primarily due to attrition with the HCV program to bring leasing down to the appropriate level.

Salaries and benefits decreased by \$955,546 primarily due to a 36% drop in the CEO salary and a 29% reduction of staff.

Office expense decreased by \$1,232,744 primarily due to significant cuts to ongoing expenses.

Tenant services decreased by \$398,969 primarily due to the reduction in the staffing of Case Managers for the DHAP-IKE & DHAP-IKE – TEXAS grants, which were completed near the beginning of the FY2013.

Interest expense of \$72,127 represents interest for a permanent loan for Cypresswood Estates.

The general expense decreased by \$1,931,606 due to decreases in consultant and professional fees, office rent, temporary services, and printing and reproduction and office supplies.

Depreciation expense decreased by \$288,293 primarily due to the fact that HCHA no longer depreciates \$1,000,000 of DHAP leasehold improvements written off at the end FY2012.

**Capital Assets**

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

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

**HARRIS COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2013**

**Capital Assets**

	<u>March 31, 2012</u>	<u>Net Additions/ Deletions</u>	<u>March 31, 2013</u>
Land	\$ 14,312,569	\$ (6,500,000)	\$ 7,812,569
Buildings	15,233,138	(9,865)	15,223,273
Leasehold improvements	1,061,536	4,165	1,065,701
Furniture and equipment	996,380	(471,151)	525,229
Construction in progress	1,925,900	(1,098,901)	826,999
Accumulated depreciation	<u>(1,896,764)</u>	<u>(179,870)</u>	<u>(2,076,634)</u>
<b>Total</b>	<u>\$ 31,632,759</u>	<u>\$ (8,255,622)</u>	<u>\$ 23,377,137</u>

Additional information on the Authority's capital assets can be found in the notes to the Authority's basic financial statements for the year ended March 31, 2013.

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

Significant economic factors affecting the Authority are as follows:

- Debt of more than \$7 million due to HUD as a result of misspending or over-spending that occurred prior to FY2013
- An amount, yet to be finalized, which the Authority may owe back to HUD due the Authority's mismanagement of funds prior to FY2013
- Level of federal funding from the U.S. Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recession, and employment trends, which can affect resident incomes and therefore the amount of Housing Assistance Payments
- Inflationary pressure on utility rates, supplies, and other costs

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

**Contacting the Authority's Financial Management**

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Executive Officer, Harris County Housing Authority, 8933 Interchange Dr., Houston, TX 77054, (713) 669-4549.

## **FINANCIAL STATEMENTS**

**HARRIS COUNTY HOUSING AUTHORITY**  
**STATEMENT OF NET POSITION**  
**March 31, 2013**

	<u>Enterprise Fund</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 707,512	\$ 707,512
Cash and cash equivalents - restricted	4,474,476	3,065,362	7,539,838
Accounts receivable - tenants, net	4,077	27,858	31,935
Accounts receivable - HUD	7,938	-	7,938
Accounts receivable - miscellaneous	136,540	28,418	164,958
Accrued interest receivable from component units	1,564,860	-	1,564,860
Prepaid assets	72,838	1,988,932	2,061,770
Other assets	6,500,000	3,057,182	9,557,182
Total current assets	<u>12,760,729</u>	<u>8,875,264</u>	<u>21,635,993</u>
<b>NONCURRENT ASSETS</b>			
Investment in partnerships	273,940	-	273,940
Notes receivable - component units	4,496,420	-	4,496,420
Capital assets net of accumulated depreciation	23,377,137	68,397,093	91,774,230
Other assets	74,518	-	74,518
Total noncurrent assets	<u>28,222,015</u>	<u>68,397,093</u>	<u>96,619,108</u>
<b>TOTAL ASSETS</b>	<u>\$ 40,982,744</u>	<u>\$ 77,272,357</u>	<u>\$ 118,255,101</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 4,857,305	\$ 804,494	\$ 5,661,799
Accrued wages and payroll taxes payable	51,139	-	51,139
Accrued compensated absences, current	88,341	-	88,341
Accrued interest payable to HCHA	-	1,564,860	1,564,860
Current portion of mortgage notes payable	-	455,508	455,508
Current portion of notes payable	53,992	-	53,992
Unearned revenue	466,540	603,854	1,070,394
Deferred ground lease revenue	1,751,502	-	1,751,502
Total current liabilities	<u>7,268,819</u>	<u>3,428,716</u>	<u>10,697,535</u>
<b>NONCURRENT LIABILITIES</b>			
Accrued compensated absences	19,037	-	19,037
Mortgage notes payable, net of current portion	-	39,226,521	39,226,521
Notes payable, net of current portion	3,446,008	-	3,446,008
Mortgage notes payable - HCHA	-	4,496,420	4,496,420
Noncurrent liabilities - other	94,764	10,588,414	10,683,178
Total noncurrent liabilities	<u>3,559,809</u>	<u>54,311,355</u>	<u>57,871,164</u>
Total liabilities	<u>10,828,628</u>	<u>57,740,071</u>	<u>68,568,699</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	19,877,137	-	19,877,137
Restricted net position for contract obligations	8,269,250	-	8,269,250
Unrestricted net position	2,007,729	19,532,286	21,540,015
Total net position	<u>30,154,116</u>	<u>19,532,286</u>	<u>49,686,402</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 40,982,744</u>	<u>\$ 77,272,357</u>	<u>\$ 118,255,101</u>

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Year Ended March 31, 2013**

	<b>Enterprise Fund</b>	<b>Component Units</b>	<b>Total Reporting Entity</b>
<b>OPERATING REVENUES</b>			
Rental income	\$ 829,590	\$ 7,746,939	\$ 8,576,529
HUD PHA grants	37,750,906	-	37,750,906
Ground lease revenues	29,763	-	29,763
Other government grants	1,954,741	-	1,954,741
Other revenues	<u>431,478</u>	<u>362,312</u>	<u>793,790</u>
Total operating revenues	<u>40,996,478</u>	<u>8,109,251</u>	<u>49,105,729</u>
<b>OPERATING EXPENSES</b>			
Administrative	4,651,295	1,873,869	6,525,164
Utilities	57,176	761,682	818,858
Ordinary maintenance and operations	165,653	876,411	1,042,064
General	308,200	1,693,611	2,001,811
Housing assistance payments	<u>36,373,489</u>	<u>-</u>	<u>36,373,489</u>
Total operating expenses	<u>41,555,813</u>	<u>5,205,573</u>	<u>46,761,386</u>
Operating income (loss) before depreciation	(559,335)	2,903,678	2,344,343
Depreciation and amortization	<u>554,163</u>	<u>3,291,247</u>	<u>3,845,410</u>
Total operating loss	<u>(1,113,498)</u>	<u>(387,569)</u>	<u>(1,501,067)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	164,913	2,412	167,325
Interest expense	(72,127)	(1,411,159)	(1,483,286)
Gain (loss) on sale of fixed assets	<u>227,023</u>	<u>-</u>	<u>227,023</u>
Total nonoperating revenues (expenses), net	<u>319,809</u>	<u>(1,408,747)</u>	<u>(1,088,938)</u>
<b>CHANGE IN NET POSITION</b>	(793,689)	(1,796,316)	(2,590,005)
<b>DISTRIBUTIONS</b>	-	(324,498)	(324,498)
<b>TOTAL NET POSITION, BEGINNING OF YEAR (As Restated)</b>	<u>30,947,805</u>	<u>21,653,100</u>	<u>52,600,905</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 30,154,116</u>	<u>\$ 19,532,286</u>	<u>\$ 49,686,402</u>

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended March 31, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

HUD subsidies	\$ 37,750,906
Governmental grants	1,954,741
Ground lease revenue	29,763
Other revenue	1,132,473
Administration and general	133,702
Salaries and benefits	(4,651,295)
Housing operations and tenant services	(222,829)
Housing assistance payments	<u>(36,373,489)</u>
Net cash flows used in operating activities	<u>(246,028)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Increase in long term debt	3,500,000
Payments on notes payable	(1,907,931)
Proceeds on sale of assets	1,248,530
Gain on disposal of assets	195,183
Interest paid on notes payable	(72,127)
Acquisition of capital assets	<u>(15,231)</u>
Net cash flows provided by capital and related financing activities	<u>2,948,424</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Increase in notes receivable	(164,425)
Interest income	<u>164,913</u>
Net cash flows provided by investing activities	<u>488</u>

**INCREASE IN CASH AND CASH EQUIVALENTS**

2,702,884

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

1,771,592

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 4,474,476

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating loss	\$ (1,113,498)
Adjustments to reconcile cash and cash equivalents used in operating activities	
Depreciation	554,163
Effects of changes in operating assets and liabilities:	
Accounts receivable	(72,832)
Prepaid expenses	(49,662)
Other assets	(74,518)
Accounts payable and accrued expenses	615,602
Accrued wages and payroll tax payable	(5,589)
Accrued compensated absences	(43,931)
Deferred revenue	<u>(55,763)</u>

**NET CASH USED IN OPERATING ACTIVITIES**

\$ (246,028)

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

Texas statute provides for the creation and operation of the Authority under Local Government Code (LGC) Chapter 392 - *Housing Authorities Established by Municipalities and Counties*. Under LGC Chapter 392, the Authority is a unit of government and its functions are essential for the wellbeing of the community.

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

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

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

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

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

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

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity**

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

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

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

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

*Discretely Presented Component Units* - The component unit column in the basic financial statements includes the financial data of the Authority's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the Authority and are governed by separate Boards. See Note 8 for additional details relating to the Authority's relationship with the component units.

The Partnerships included in the component units column include: Cornerstone Village Apartments, L.P., Louetta Village Apartments 45, L.P., Baybrook Park Retirement Center, Ltd., TX Bammel Housing L.P., Waterside Court, Ltd., Olive Grove Manor, Ltd and Sierra Meadows, Ltd.. Each partnership has developed apartment complexes and has set aside a predetermined number of units specifically for low to moderate income housing. The fiscal year end for the discretely presented component units is December 31, 2012. As the general partner of the partnerships, the Authority receives the audited financial statements for the partnerships. Therefore, complete financial statements for each of the Limited Partnerships can be obtained from the Chief Financial Officer, Harris County Housing Authority, 8933 Interchange Drive, Houston, TX 77054.

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity** (continued)

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

**Use of Estimates**

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

**Basis of Presentation**

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

**Measurement Focus and Basis of Accounting**

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

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Investments**

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

**Restricted Assets**

Certain assets of the Authority are required to be segregated based on HUD Section 8 grant requirements. These assets are legally restricted for certain purposes, including HUD Family Self-Sufficiency program deposits.

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

**Accounts Receivable**

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

**Prepaid Assets**

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

**Investment in Partnerships**

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

**Capital Assets**

Capital assets of the Authority are defined as assets with individual costs of \$1,000 or more and estimated useful lives in excess of one year. All capital assets are stated at historical cost or estimated fair market value at the date of purchase. Donated capital assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 3 to 10 years. Leasehold improvements are depreciated over a 10-year useful life. Equipment is depreciated over 3 to 5 years, depending on the type.

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Authority reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset impairment losses have been recognized during the year ended March 31, 2013.

**Compensated Absences**

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

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

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

**Net Position**

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

Net position is displayed in three components:

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position** (continued)

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

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

**Budgets**

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

**Risk Management**

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

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

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Pronouncements**

In fiscal year 2013, the Authority implemented GASB Statement Nos. 61, 62, and 63 as follows:

- GASB Statement No. 61, *The Financial Reporting Omnibus—an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. This includes the concept of financial burden or benefit on the relationship between the primary government and the component unit. The implementation of this new standard had no impact on the Authority's 2013 financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, APB, and AICPA guidance issued before November 30, 1989. The implementation of this new standard modified certain language in disclosures related to the applicable basis of accounting in the Authority's 2013 financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* revised the financial reporting for elements of the financial statements as a consumption or acquisition of net assets that are applicable to a future reporting period. These items are distinct from assets and liabilities. This statement also identifies net position. The implementation of this new standard revised the presentation in the financial statements for those items identified as deferred outflows and inflows and revised the names and certain captioning of the statements.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits**

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

**Investments**

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments** (continued)

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

**Cash and Investments**

The Authority's cash and cash equivalents had a carrying value of \$4,474,476 and a bank balance of \$4,556,749 as of March 31, 2013. In accordance with the Money Market Mutual Fund Agreement with Amegy Bank, the entire amount in the sweep investment account purchases shares in Fidelity Institutional Money Market Government Portfolio Class I fund. This portfolio invests at least 80% of assets in U.S. Government securities and repurchase agreements for those securities, issued by entities that are chartered or sponsored by Congress but whose securities are neither issued nor guaranteed by the U.S. Treasury. Amegy Bank has provided assurance that the funds are invested in accordance with the Authority's investment policy.

**Restricted Cash**

All of the Authority's cash is restricted at March 31, 2013.

**Interest Rate Risk**

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

**Concentration of Credit Risk**

At March 31, 2013, the Authority had a sweep agreement which invested more than 30 percent of funds in a Money Market Mutual Fund. All deposits were fully collateralized as of March 31, 2013.

**Custodial Credit Risk**

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the Authority's \$4,474,476 in cash and cash equivalents at March 31, 2013, the entire balance is held in an investment account with one counterparty.

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2013, was as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers &amp; Disposals</u>	<u>Balance 2013</u>
Capital assets, not being depreciated:				
Land	\$ 14,312,569	\$ -	\$ (6,500,000)	\$ 7,812,569
Construction in progress	<u>1,925,900</u>	<u>3,977</u>	<u>(1,102,878)</u>	<u>826,999</u>
Total capital assets not being depreciated	<u>16,238,469</u>	<u>3,977</u>	<u>(7,602,878)</u>	<u>8,639,568</u>
Depreciable capital assets:				
Building	15,233,138	-	(9,865)	15,223,273
Leasehold improvements	1,061,536	4,165	-	1,065,701
Furniture and equipment	<u>996,380</u>	<u>7,089</u>	<u>(478,240)</u>	<u>525,229</u>
Total depreciable capital assets	17,291,054	11,254	(488,105)	16,814,203
Less accumulated depreciation	<u>(1,896,764)</u>	<u>(553,911)</u>	<u>374,041</u>	<u>(2,076,634)</u>
Total capital assets, being depreciated, net	<u>15,394,290</u>	<u>(542,657)</u>	<u>(114,064)</u>	<u>14,737,569</u>
<b>Total capital assets, net</b>	<u>\$ 31,632,759</u>	<u>\$ (538,680)</u>	<u>\$ (7,716,942)</u>	<u>\$ 23,377,137</u>

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

As of March 31, 2013, the Authority transferred \$6,500,000 of land related to the Patriots by the Lake project from capital assets to assets held for sale since the Authority decided to sell the land. The Authority is actively pursuing sales options. As of March 31, 2013, the land was stated at fair value.

Capital asset activity for the component units was as follows:

	<u>Capital Assets</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Louetta Village Apartments 45, LP	\$ 9,326,991	\$ (2,078,634)	\$ 7,248,357
Baybrook Park Retirement Center, Ltd	7,643,730	(2,451,527)	5,192,203
TX Bammel Housing, LP	16,452,719	(4,574,942)	11,877,777
Cornerstone Village Apartments, LP	11,793,416	(2,822,574)	8,970,842
Waterside Court, Ltd	15,735,011	(3,206,300)	12,528,711
Olive Grove Manor, Ltd	14,284,000	(2,023,416)	12,260,584
Sierra Meadows, Ltd	<u>11,010,226</u>	<u>(691,607)</u>	<u>10,318,619</u>
<b>Totals</b>	<u>\$ 86,246,093</u>	<u>\$ (17,849,000)</u>	<u>\$ 68,397,093</u>

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 4 – NOTES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE**

The Authority has Subordinate Promissory Notes with the Partnerships that were funded with pass through funds from HOME Grants. The loans accrue interest on the outstanding balances at the applicable federal interest rate in effect at the time of the loan and mature on varying dates between the years of 2027 and 2038. As of March 31, 2013, total outstanding principal and accrued interest on these loans were \$4,496,420 and \$1,564,860, respectively.

<b>Borrower</b>	<b>Loan Amount</b>	<b>Date of Loan</b>	<b>Interest Rate</b>	<b>Balance 3/31/2013</b>	<b>Accrued Interest Receivable</b>
Louetta Village Apartments 45, LP	\$ 550,000	1/1/2005	4.27%	\$ 550,000	\$ 210,766
Baybrook Park Retirement Center, Ltd	625,000	6/21/2005	4.57%	625,000	190,932
TX Bammel Housing, LP	731,420	1/18/2005	4.27%	731,420	249,855
Cornerstone Village Apartments, LP	1,390,000	4/30/2005	5.00%	1,390,000	533,184
Waterside Court, Ltd	500,000	6/22/2006	5.32%	500,000	173,592
Olive Grove Manor, Ltd	700,000	12/21/2006	4.90%	700,000	206,531
<b>Total</b>				<b>\$ 4,496,420</b>	<b>\$ 1,564,860</b>

**NOTE 5 – NOTES PAYABLE**

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

<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
\$ 1,907,931	\$ 3,500,000	\$ (1,907,931)	\$ 3,500,000	\$ 53,992

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 53,992	\$ 135,405	\$ 189,397
2015	61,345	145,269	206,614
2016	64,004	142,611	206,615
2017	66,778	139,837	206,615
2018	3,253,881	139,539	3,393,420
<b>Total</b>	<b>\$ 3,500,000</b>	<b>\$ 702,661</b>	<b>\$ 4,202,661</b>

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 5 – NOTES PAYABLE (CONTINUED)**

Notes payable activity for the component units was as follows:

	<b>Beginning</b>			<b>Ending</b>	<b>Due Within</b>
	<b>Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance</b>	<b>One Year</b>
Louetta Village Apartments 45, LP	\$ 7,499,540	\$ -	\$ (325,154)	\$ 7,174,386	\$ 120,154
Baybrook Park Retirement Center, Ltd	3,779,657	-	(63,830)	3,715,827	-
TX Bammel Housing, LP	10,566,571	-	(410,416)	10,156,155	120,248
Cornerstone Village Apartments, LP	9,879,506	-	(548,066)	9,331,440	100,000
Waterside Court, Ltd	5,124,632	-	(57,245)	5,067,387	62,292
Olive Grove Manor, Ltd	4,657,273	-	(112,778)	4,544,495	52,814
<b>Totals</b>	<u>\$ 41,507,179</u>	<u>\$ -</u>	<u>\$ (1,517,489)</u>	<u>\$ 39,989,690</u>	<u>\$ 455,508</u>

**NOTE 6 – OTHER LIABILITIES**

The summary of changes in noncurrent liabilities is as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>March 31,</b>	<b>Additions</b>	<b>Redemptions</b>	<b>March 31,</b>	<b>One Year</b>
	<b>2012</b>			<b>2013</b>	
Family self-sufficiency escrow	\$ 94,764	\$ -	\$ -	\$ 94,764	\$ -
Accrued compensated absences	151,309	16,727	(60,658)	107,378	88,341
<b>Total</b>	<u>\$ 246,073</u>	<u>\$ 16,727</u>	<u>\$ (60,658)</u>	<u>\$ 202,142</u>	<u>\$ 88,341</u>

**NOTE 7 – LEASES**

Effective August 16, 2012, the Authority entered into a lease for office space at 8933 Interchange Dr., Houston, TX. The lease term is thirty seven (37) months and expires August 31, 2015. The Authority moved their administrative offices to this site in early 2010. For the year ending March 31, 2013, the base rent was \$18,476.25 each month.

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

<b>Year Ending March 31:</b>	
2014	\$ 221,715
2015	221,715
2016	<u>92,381</u>
<b>Total minimum payments required</b>	<u>\$ 535,811</u>

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 8 – COMPONENT UNITS**

**Blended Component Unit**

HCHA Cypresswood Estates, LLC is the 100% owner of the Cypresswood Estates Development and was placed in service in June 2011. The Authority is the sole member of the LLC. The Authority received \$14,354 of developer fees during the fiscal year ended March 31, 2013 and all developer fees have been paid.

**Discretely Presented Component Units**

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

HCHA Cornerstone, LLC has negative equity of \$273 in Cornerstone Village Apartments, L.P. at December 31, 2012. The Authority and Cornerstone Village Apartments, L.P. have a sixty-five (65) year land lease agreement signed August 12, 2004. Cornerstone Village Apartments, L.P. prepaid twelve years of rent in 2005 which is being amortized at a rate of sixty-five thousand (\$65,000) per year. The Authority and JV Developers, LLC have a developer fee sharing agreement wherein JV Developers, LLC will pay a total of \$700,000 to the Authority in exchange for services. The payment of the development fees are predicated on the receipt of development fees paid from, or on behalf of Cornerstone Village Apartments, L.P. The Authority has a Note Receivable from Cornerstone Village Apartments, L.P. in the amount of \$1,390,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Bammel, LLC has negative equity of \$497 in TX Bammel Housing, L.P. at December 31, 2012. The Authority and TX Bammel Housing, L.P. have a sixty-five (65) year land lease agreement signed January 1, 2005. Under the terms of the lease, the annual lease amount for TX Bammel Housing, L.P. is sixty-five thousand (\$65,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. The Authority has a Note Receivable from TX Bammel Housing, L.P. in the amount of \$731,420. The funds for the loan were a HOME Grant from Harris County.

HCHA Louetta, LLC has negative equity of \$298,439 in Louetta Village Apartments 45, L.P. at December 31, 2012. The Authority and Louetta Village Apartments 45, L.P. have a sixty-five (65) year land lease agreement signed January 12, 2005. Under the terms of the lease, the annual lease amount for Louetta Village Apartments 45, L.P. is sixty-five thousand (\$65,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. The Authority has a Note Receivable from Louetta Village Apartments 45, L.P. in the amount of \$550,000. The funds for the loan were a HOME Grant from Harris County.

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 8 – COMPONENT UNITS (CONTINUED)**

**Discretely Presented Component Units (continued)**

HCHA Baybrook Park Retirement Center, Ltd. has negative equity of \$133 in Baybrook Park Retirement Center, Ltd. at December 31, 2012. The Authority and Baybrook Park Retirement Center, Ltd. have a sixty-five (65) year land lease agreement signed June 21, 2005. Under the terms of the lease, the annual lease amount for Baybrook Park Retirement Center, Ltd. is sixty-five thousand (\$65,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. The Authority has a Note Receivable from Baybrook Park Retirement Center, Ltd. in the amount of \$625,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Olive Grove, LLC has equity of \$273,773 in Olive Grove Manor, Ltd. at December 31, 2012. The Authority and Olive Grove Manor, Ltd. have an amended forty-five (45) year land lease agreement signed December 21, 2006. Under the terms of the lease, the annual lease amount for Olive Grove Manor, Ltd. is sixty-five thousand (\$65,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. The Authority has a Note Receivable from Olive Grove Manor, Ltd. in the amount of \$700,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Waterside, LLC has negative equity of \$310 in Waterside Court, Ltd. at December 31, 2012. The Authority and Waterside Court, Ltd. have a forty-five (45) year land lease agreement signed June 22, 2006. Under the terms of the lease, the annual lease amount for Waterside Court, Ltd. is sixty-five thousand (\$65,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements. The Authority has a Note Receivable from Waterside Court, Ltd. in the amount of \$500,000. The funds for the loan were a HOME Grant from Harris County.

HCHA Sierra Meadows, LLC has negative equity of \$46 in Sierra Meadows, Ltd. at December 31, 2012. The Authority and Sierra Meadows, Ltd. have a 45-year ground lease agreement signed December 9, 2009. Under the terms of the lease, the annual lease amount for Sierra Meadows, Ltd. is seventy-five thousand (\$75,000) with all but one thousand (\$1,000) of that waived, provided that the Project is leased to tenants in accordance with all applicable Low Income Housing requirements.

**NOTE 9 – RETIREMENT PLAN**

**Plan Description**

The Authority provides retirement for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of 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, 2013**

**NOTE 9 – RETIREMENT PLAN (CONTINUED)**

**Plan Description** (continued)

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

Under the state law governing TCDRS since 1991, the Authority has the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective March 1, 2010, the Authority adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 20-year amortization period which began March 1, 2010 using the entry age actuarial cost method. Monthly contributions by the Authority are based on the covered payroll and the employer contribution rate in effect. The PHA's contribution rate for 2012 was 9.95%. The contribution rate for 2013 is 10.12%.

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

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

**Funding Policy**

The Authority has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the Authority is actuarially determined annually. The Authority contributed to the Plan using the actuarially determined rate of 10.12% for the year ended December 2013.

The contribution rate payable by the employee members for the fiscal year ended March 31, 2013 is 7% as adopted by the Board of Commissioners. The employee contribution rate and the employer contribution rate may be changed by the Board of Commissioners within the options available in the TCDRS Act.

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 9 – RETIREMENT PLAN (CONTINUED)**

**Annual Pension Cost**

For the calendar year ending December 31, 2012, pension plan contributions by the Authority and the contributions by its employees were \$226,532 and \$156,906, respectively. The Authority's annual required contribution was determined through an actuarial valuation performed as of December 31, 2012. The Plan uses the entry age actuarial cost method and level percent of payroll to determine required contributions. Significant actuarial assumptions used to compute the annual contribution requirement are as follows:

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

Economic Assumptions:

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

**Funded Status and Funding Progress**

The funded status of the Plan as of December 31, 2012, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2012	\$ 1,144,115	\$ 1,048,680	\$ (95,435)	109.10%	\$ 2,247,543	-4.25%

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2013**

**NOTE 10 – ECONOMIC DEPENDENCY**

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

**NOTE 11 – CONTINGENCIES**

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

The Authority is currently in negotiation with HUD as the result of findings of an inspector general report related to transactions which occurred under prior management. Based on these findings, the Authority has paid \$6,773,771 to HUD and is committed to pay up to an additional \$7.7 million. Any additional amounts due will be determined as a result of negotiation with HUD.

**NOTE 12 – PRIOR PERIOD ADJUSTMENTS**

At March 31, 2012, deferred ground lease revenue was not properly recognized. The Authority received prepayments on ground leases in 2005 and recognized the entire amount as revenue instead of recognizing the lease revenue over the term of the lease on a straight-line basis. A prior period adjustment is needed to properly defer the revenue of the ground leases as of March 31, 2012.

Net position as of March 31, 2012, as previously reported	\$ 36,274,870
Adjustment for ground lease deferred revenue	<u>(1,526,740)</u>
<b>Net position - March 31, 2012, as restated</b>	<b><u>\$ 34,748,130</u></b>

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTAL INFORMATION**

**HARRIS COUNTY HOUSING AUTHORITY  
ENTITY-WIDE BALANCE SHEET SUMMARY  
March 31, 2013**

Line Item #	Accounts Description	Housing Choice	Disaster Housing	Disaster Voucher	Section 8		Cypresswood	Business	Total Enterprise		Total Reporting		
		Vouchers	Assistance Grant	Program	DHAP - IKE	Moderate Rehabilitation	Section 8 Mod Rehab SRO	Estates (Business Activities)	Activities	Elimination	Fund	Component Units	Entity
<b>CURRENT ASSETS</b>													
Cash:													
111	Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 707,512	\$ 707,512	
112	Restricted - modernization and development	-	-	-	-	-	-	-	-	-	-	-	
113	Other restricted	-	698,769	1,708,686	-	13,785	85,733	268,524	1,671,993	-	4,447,490	3,065,362	7,512,852
114	Tenant security deposits	-	-	-	-	-	-	26,986	-	-	26,986	-	26,986
115	Cash - restricted for current liabilities	-	-	-	-	-	-	-	-	-	-	-	-
100	Total cash	-	698,769	1,708,686	-	13,785	85,733	295,510	1,671,993	-	4,474,476	3,772,874	8,247,350
Accounts and notes receivable:													
121	Accounts receivable - PHA projects	88,714	-	-	-	-	-	-	-	-	88,714	-	88,714
122	HUD other projects	-	-	-	-	-	7,938	-	-	-	7,938	-	7,938
124	Other government	-	-	-	-	-	-	-	-	-	-	-	-
125	Miscellaneous	173	-	27,557	-	-	-	-	3,063	-	30,793	28,418	59,211
126	Tenants	-	-	-	657,824	-	-	6,077	-	-	663,901	27,858	691,759
126.1	Allowance for doubtful accounts - tenants	-	-	-	(659,824)	-	-	-	-	-	(659,824)	-	(659,824)
126.2	Allowance for doubtful accounts - other	-	-	-	-	-	-	-	-	-	-	-	-
127	Notes, loans, & mortgages receivable - current	-	-	-	-	-	-	-	-	-	-	-	-
128	Fraud recovery	17,033	-	-	-	-	-	-	-	-	17,033	-	17,033
129	Accrued interest receivable	-	-	-	-	-	-	-	1,564,860	-	1,564,860	-	1,564,860
120	Total receivables, net of allowances for uncollectibles	105,920	-	27,557	(2,000)	-	7,938	6,077	1,567,923	-	1,713,415	56,276	1,769,691
131	Investments - unrestricted	-	-	-	-	-	-	-	-	-	-	-	-
132	Investments - restricted	-	-	-	-	-	-	-	-	-	-	-	-
	Total current investments	-	-	-	-	-	-	-	-	-	-	-	-
142	Prepaid expenses and other assets	54,089	3,000	-	-	-	-	13,384	2,365	-	72,838	1,988,932	2,061,770
143	Inventories	-	-	-	-	-	-	-	-	-	-	-	-
143.1	Allowance for obsolete inventories	-	-	-	-	-	-	-	-	-	-	-	-
144	Interprogram - due from	94,764	231,649	-	6,648,192	-	-	-	2,365,999	(9,340,604)	-	-	-
145	Assets held for sale	-	-	-	-	-	-	-	6,500,000	-	6,500,000	-	6,500,000
150	Total current assets	254,773	933,418	1,736,243	6,646,192	13,785	93,671	314,971	12,108,280	(9,340,604)	12,760,729	5,818,082	18,578,811
<b>NONCURRENT ASSETS</b>													
Fixed assets:													
161	Land	-	-	-	-	-	-	750,000	7,062,569	-	7,812,569	13,847,614	21,660,183
162	Buildings	-	-	-	-	-	-	15,223,273	-	-	15,223,273	67,949,325	83,172,598
163	Furniture, equipment & mach - dwellings	-	-	-	-	-	-	-	-	-	-	-	-
164	Furniture, equipment & mach - admin.	230,788	189,544	22,209	-	-	-	31,378	51,310	-	525,229	4,449,154	4,974,383
165	Leasehold improvements	161,141	859,319	-	-	-	-	4,165	41,076	-	1,065,701	-	1,065,701
166	Accumulated depreciation	(271,898)	(1,003,102)	(22,209)	-	-	-	(725,678)	(53,747)	-	(2,076,634)	(17,849,000)	(19,925,634)
167	Construction in progress	-	-	-	-	-	-	-	826,999	-	826,999	-	826,999
160	Total fixed assets, net of accumulated depreciation	120,031	45,761	-	-	-	-	15,283,138	7,928,207	-	23,377,137	68,397,093	91,774,230
Notes, loans and mortgages receivable - noncurrent													
171	Notes, loans and mortgages receivable - noncurrent	-	-	-	-	-	-	-	4,496,420	-	4,496,420	-	4,496,420
174	Other assets	-	-	-	-	-	-	74,518	-	-	74,518	3,057,182	3,131,700
176	Investments in Joint Venture	-	-	-	-	-	-	-	273,940	-	273,940	-	273,940
180	Total noncurrent assets	120,031	45,761	-	-	-	-	15,357,656	12,698,567	-	28,222,015	71,454,275	99,676,290
190	<b>TOTAL ASSETS</b>	<b>\$ 374,804</b>	<b>\$ 979,179</b>	<b>\$ 1,736,243</b>	<b>\$ 6,646,192</b>	<b>\$ 13,785</b>	<b>\$ 93,671</b>	<b>\$ 15,672,627</b>	<b>\$ 24,806,847</b>	<b>\$ (9,340,604)</b>	<b>\$ 40,982,744</b>	<b>\$ 77,272,357</b>	<b>\$ 118,255,101</b>

**HARRIS COUNTY HOUSING AUTHORITY**  
**ENTITY-WIDE BALANCE SHEET SUMMARY**  
**March 31, 2013**

Line Item #	Accounts Description	Housing Choice	Disaster Housing	Disaster Voucher	Section 8		Cypresswood	Business Activities	Elimination	Total Enterprise		Total Reporting	
		Vouchers	Assistance Grant	Program	DHAP - IKE	Moderate Rehabilitation	Section 8 Mod Rehab SRO			Estates (Business Activities)	Fund	Component Units	Entity
<b>CURRENT LIABILITIES</b>													
311	Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
312	Accounts payable <= 90 days	27,924	-	101	-	33	172	16,930	24,993	-	70,153	371,064	441,217
313	Accounts payable > 90 days	-	-	-	-	-	-	-	-	-	-	-	-
321	Accrued wage/payroll taxes payable	43,771	-	-	-	190	700	-	6,478	-	51,139	-	51,139
322	Accrued compensated absences - current portion	71,614	-	-	-	-	-	-	16,727	-	88,341	-	88,341
324	Accrued contingency liability	-	-	-	-	-	-	-	-	-	-	-	-
325	Accrued interest payable	-	-	-	-	-	-	-	-	-	-	1,564,860	1,564,860
331	Accounts payable - HUD	54,709	773,771	-	3,912,272	4,308	-	-	-	-	4,745,060	-	4,745,060
332	Accounts payable - PHA projects	-	-	-	-	-	-	-	-	-	-	-	-
341	Tenant security deposits	-	-	-	-	-	-	26,986	-	-	26,986	223,648	250,634
342	Deferred revenues	-	-	36,726	429,813	-	-	-	1,751,503	-	2,218,042	603,854	2,821,896
	Current portion of LT debt - capital projects/ mortgage revenue	-	-	-	-	-	-	53,992	-	-	53,992	455,508	509,500
344	Current portion of LT debt - operating borrowings	-	-	-	-	-	-	-	-	-	-	-	-
345	Other current liabilities	-	11,837	-	-	-	-	251	-	-	12,088	-	12,088
346	Other liabilities	-	-	-	2,215	-	-	-	803	-	3,018	209,782	212,800
347	Interprogram (due to)	3,563,160	-	-	-	-	-	4,484,860	1,292,584	(9,340,604)	-	-	-
348	Loan liability - current	-	-	-	-	-	-	-	-	-	-	-	-
310	Total current liabilities	<u>3,761,178</u>	<u>785,608</u>	<u>36,827</u>	<u>4,344,300</u>	<u>4,531</u>	<u>872</u>	<u>4,583,019</u>	<u>3,093,088</u>	<u>(9,340,604)</u>	<u>7,268,819</u>	<u>3,428,716</u>	<u>10,697,535</u>
<b>NONCURRENT LIABILITIES</b>													
	Long-term debt, net of current - capital projects/ mortgage revenue	-	-	-	-	-	-	3,446,008	-	-	3,446,008	43,722,941	47,168,949
352	Long-term debt, net of current - operating borrowings	-	-	-	-	-	-	-	-	-	-	-	-
353	Non-current liabilities - other	94,764	-	-	-	-	-	-	-	-	94,764	10,588,414	10,683,178
354	Accrued compensated absences - noncurrent	19,037	-	-	-	-	-	-	-	-	19,037	-	19,037
355	Loan liability - non current	-	-	-	-	-	-	-	-	-	-	-	-
350	Total noncurrent liabilities	<u>113,801</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,446,008</u>	<u>-</u>	<u>-</u>	<u>3,559,809</u>	<u>54,311,355</u>	<u>57,871,164</u>
300	Total liabilities	<u>3,874,979</u>	<u>785,608</u>	<u>36,827</u>	<u>4,344,300</u>	<u>4,531</u>	<u>872</u>	<u>8,029,027</u>	<u>3,093,088</u>	<u>(9,340,604)</u>	<u>10,828,628</u>	<u>57,740,071</u>	<u>68,568,699</u>
<b>EQUITY</b>													
508.1	Invested in capital assets	120,031	45,761	-	-	-	-	11,783,138	7,928,207	-	19,877,137	-	19,877,137
511.1	Restricted net position	3,821,760	698,769	1,708,686	-	13,785	85,733	268,524	1,671,993	-	8,269,250	-	8,269,250
512.1	Unrestricted net position	(7,441,966)	(550,959)	(9,270)	2,301,892	(4,531)	7,066	(4,408,062)	12,113,559	-	2,007,729	19,532,286	21,540,015
513	Total equity/net position	<u>(3,500,175)</u>	<u>193,571</u>	<u>1,699,416</u>	<u>2,301,892</u>	<u>9,254</u>	<u>92,799</u>	<u>7,643,600</u>	<u>21,713,759</u>	<u>-</u>	<u>30,154,116</u>	<u>19,532,286</u>	<u>49,686,402</u>
600	<b>TOTAL LIABILITIES AND EQUITY/NET POSITION</b>	<u>\$ 374,804</u>	<u>\$ 979,179</u>	<u>\$ 1,736,243</u>	<u>\$ 6,646,192</u>	<u>\$ 13,785</u>	<u>\$ 93,671</u>	<u>\$ 15,672,627</u>	<u>\$ 24,806,847</u>	<u>\$ (9,340,604)</u>	<u>\$ 40,982,744</u>	<u>\$ 77,272,357</u>	<u>\$ 118,255,101</u>

**HARRIS COUNTY HOUSING AUTHORITY**  
**ENTITY-WIDE REVENUE AND EXPENSE SUMMARY**  
**March 31, 2013**

Line Item #	Accounts Description	Section 8				Cypresswood					Total Enterprise Fund	Component Units	Total Reporting Entity
		Housing Choice Vouchers	Disaster Housing Assistance Grant	Disaster Voucher Program	DHAP - IKE	Moderate Rehabilitation	Section 8 Mod Rehab SRO	Estates (Business Activities)	Business Activities	Elimination			
<b>REVENUE</b>													
70300	Net tenant rental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 829,590	\$ -	\$ -	\$ 829,590	\$ 7,591,409	\$ 8,420,999
70400	Tenant revenue - other	-	-	-	-	-	-	-	-	-	-	155,530	155,530
70500	Total tenant revenue	-	-	-	-	-	-	829,590	-	-	829,590	7,746,939	8,576,529
70600	HUD PHA operating grants	37,357,529	-	-	208	46,147	347,022	-	-	-	37,750,906	-	37,750,906
706.10	Capital grants	-	-	-	-	-	-	-	-	-	-	-	-
70800	Other governmental grants	1,954,741	-	-	-	-	-	-	-	-	1,954,741	-	1,954,741
71100	Investment income - unrestricted	9	9	58	-	1	3	239	164,594	-	164,913	2,412	167,325
71200	Mortgage interest income	-	-	-	-	-	-	-	-	-	-	-	-
71400	Fraud recovery	19,234	-	-	-	-	-	-	-	-	19,234	-	19,234
71500	Other revenue	33,656	-	167	6,248	128	2,321	-	399,487	-	442,007	362,312	804,319
71600	Gain or loss on sale of capital assets	-	219,383	-	-	-	-	-	7,640	-	227,023	-	227,023
72000	Investment income - restricted	-	-	-	-	-	-	-	-	-	-	-	-
70000	Total revenue	39,365,169	219,392	225	6,456	46,276	349,346	829,829	571,721	-	41,388,414	8,111,663	49,500,077
<b>EXPENSES</b>													
Administrative:													
91100	Administrative salaries	1,525,958	-	-	-	4,602	20,644	107,200	328,522	-	1,986,926	1,242,546	3,229,472
91200	Auditing fees	47,975	-	-	-	1,200	1,200	-	5,175	-	55,550	-	55,550
91300	Management fee	-	-	-	-	-	-	39,344	-	-	39,344	416,826	456,170
913.10	Bookkeeping fee	-	-	-	-	-	-	-	-	-	-	-	-
91400	Advertising and marketing	-	-	-	-	-	-	-	-	-	-	80,337	80,337
91500	Employee benefit contributions - administrative	539,054	-	-	-	591	3,426	32,342	80,184	-	655,597	-	655,597
91600	Office expense	418,946	-	17	-	135	282	20,421	52,520	-	492,321	-	492,321
91700	Legal expense	25,383	-	-	-	-	-	2,203	14,560	-	42,146	55,337	97,483
91800	Travel	-	-	-	-	-	-	-	-	-	-	-	-
91900	Other	130,990	-	-	-	-	-	111,674	1,136,747	-	1,379,411	78,823	1,458,234
	Total administrative	2,688,306	-	17	-	6,528	25,552	313,184	1,617,708	-	4,651,295	1,873,869	6,525,164
Tenant services:													
92100	Salaries	-	-	-	-	-	-	-	-	-	-	-	-
92200	Relocation costs	-	-	-	-	-	-	-	-	-	-	-	-
92300	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	-	-
92400	Other	-	-	-	-	-	-	-	-	-	-	-	-
	Total tenant services	-	-	-	-	-	-	-	-	-	-	-	-
Utilities:													
93100	Water	-	-	-	-	-	-	34,734	-	-	34,734	-	34,734
93200	Electricity	-	-	-	-	-	-	22,442	-	-	22,442	-	22,442
93300	Gas	-	-	-	-	-	-	-	-	-	-	-	-
93400	Fuel	-	-	-	-	-	-	-	-	-	-	-	-
93600	Sewer	-	-	-	-	-	-	-	-	-	-	-	-
93800	Other utilities expense	-	-	-	-	-	-	-	-	-	-	761,682	761,682
	Total utilities	-	-	-	-	-	-	57,176	-	-	57,176	761,682	818,858
Ordinary maintenance & operations:													
94100	Labor	-	-	-	-	-	-	-	-	-	-	-	-
94200	Materials and other	20,874	-	-	-	-	-	13,957	2,079	-	36,910	876,411	913,321
94300	Contracts	80,544	-	-	-	-	-	47,630	569	-	128,743	-	128,743
94500	Employee benefits contribution	-	-	-	-	-	-	-	-	-	-	-	-
	Total ordinary maintenance & operations	101,418	-	-	-	-	-	61,587	2,648	-	165,653	876,411	1,042,064
Protective services:													
95100	Labor	-	-	-	-	-	-	-	-	-	-	-	-
95200	Other contract costs	56,425	-	-	-	-	-	-	-	-	56,425	-	56,425
95300	Other	-	-	-	-	-	-	-	-	-	-	-	-
95500	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	-	-
95000	Total protective services	56,425	-	-	-	-	-	-	-	-	56,425	-	56,425
96110	Property Insurance	-	-	-	-	-	-	41,003	-	-	41,003	457,185	498,188
96120	Liability Insurance	21,947	-	-	-	-	-	-	-	-	21,947	-	21,947
96130	Workmen's Compensation	-	-	-	-	-	-	-	-	-	-	-	-
96140	All Other Insurance	-	-	-	-	-	-	-	-	-	-	-	-
96100	Total Insurance premiums	21,947	-	-	-	-	-	41,003	-	-	62,950	457,185	520,135

**HARRIS COUNTY HOUSING AUTHORITY**  
**ENTITY-WIDE REVENUE AND EXPENSE SUMMARY**  
**March 31, 2013**

Line Item #	Accounts Description	Housing Choice	Disaster Housing	Disaster Voucher	Section 8		Cypresswood	Business	Elimination	Total Enterprise		Total Reporting	
		Vouchers	Assistance Grant	Program	DHAP - IKE	Moderate Rehabilitation	Section 8 Mod Rehab SRO			Estates (Business Activities)	Fund	Component Units	Entity
<b>EXPENSES (Continued)</b>													
General expenses:													
96200	Other general expenses	\$ -	\$ -	\$ -	\$ 751	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 751	\$ 1,236,426	\$ 1,237,177
96210	Compensated absences	150,129	-	-	-	-	-	37,945	-	-	188,074	-	188,074
96300	Payments in lieu of taxes	-	-	-	-	-	-	-	-	-	-	-	-
96400	Bad debt - tenant rents	-	-	-	-	-	-	-	-	-	-	-	-
96600	Bad debt - other	-	-	-	-	-	-	-	-	-	-	-	-
96800	Severance expense	-	-	-	-	-	-	-	-	-	-	-	-
96000	Total general expenses	<u>150,129</u>	<u>-</u>	<u>-</u>	<u>751</u>	<u>-</u>	<u>-</u>	<u>37,945</u>	<u>-</u>	<u>-</u>	<u>188,825</u>	<u>1,236,426</u>	<u>1,425,251</u>
96710	Interest of mortgage payable	-	-	-	-	-	-	-	-	-	-	728,175	728,175
96720	Interest on notes payable	-	-	-	-	-	-	72,127	-	-	72,127	682,984	755,111
96730	Amortization of bond issue costs	-	-	-	-	-	-	-	-	-	-	181,589	181,589
96700	Total interest expense and amortization cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,127</u>	<u>-</u>	<u>-</u>	<u>72,127</u>	<u>1,592,748</u>	<u>1,664,875</u>
96900	Total operating expenses	<u>3,018,225</u>	<u>-</u>	<u>17</u>	<u>751</u>	<u>6,528</u>	<u>25,552</u>	<u>545,077</u>	<u>1,658,301</u>	<u>-</u>	<u>5,254,451</u>	<u>6,798,321</u>	<u>12,052,772</u>
97000	Excess of operating revenue over operating expenses	<u>36,346,944</u>	<u>219,392</u>	<u>208</u>	<u>5,705</u>	<u>39,748</u>	<u>323,794</u>	<u>284,752</u>	<u>(1,086,580)</u>	<u>-</u>	<u>36,133,963</u>	<u>1,313,342</u>	<u>37,447,305</u>
97100	Extraordinary maintenance	-	-	-	-	-	-	-	-	-	-	-	-
97200	Casualty losses - non capitalized	-	-	-	-	-	-	-	-	-	-	-	-
97300	Housing assistance payments	34,191,454	-	-	-	38,591	288,621	-	-	-	34,518,666	-	34,518,666
97350	HAP portability- in	1,854,823	-	-	-	-	-	-	-	-	1,854,823	-	1,854,823
97400	Depreciation expense	<u>40,276</u>	<u>98,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,610</u>	<u>17,974</u>	<u>-</u>	<u>554,163</u>	<u>3,109,658</u>	<u>3,663,821</u>
90000	Total expenses	<u>39,104,778</u>	<u>98,303</u>	<u>17</u>	<u>751</u>	<u>45,119</u>	<u>314,173</u>	<u>942,687</u>	<u>1,676,275</u>	<u>-</u>	<u>42,182,103</u>	<u>9,907,979</u>	<u>52,090,082</u>
Other financing sources (uses):													
10010	Operating transfer in	-	-	-	-	-	-	(1,647,074)	-	-	(1,647,074)	-	(1,647,074)
10020	Operating transfer out	-	1,192	-	-	-	-	1,614,173	31,709	-	1,647,074	-	1,647,074
10100	Total other financing sources (uses)	<u>-</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,614,173</u>	<u>(1,615,365)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
10000	<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES</b>	<u>\$ 260,391</u>	<u>\$ 119,897</u>	<u>\$ 208</u>	<u>\$ 5,705</u>	<u>\$ 1,157</u>	<u>\$ 35,173</u>	<u>\$ (1,727,031)</u>	<u>\$ 510,811</u>	<u>\$ -</u>	<u>\$ (793,689)</u>	<u>\$ (1,796,316)</u>	<u>\$ (2,590,005)</u>
<b>Memo Account Information</b>													
11030	Beginning equity	(894,570)	73,674	1,699,208	2,296,187	8,097	57,626	9,370,631	19,863,692	-	32,474,545	21,653,100	54,127,645
11040	Prior period adjustments, equity transfers correction	(2,865,996)	-	-	-	-	-	-	1,339,256	-	(1,526,740)	(324,498)	(1,851,238)
11170	Administrative Fee Equity	(7,321,935)	-	-	-	-	-	-	-	-	(7,321,935)	-	(7,321,935)
11180	Housing Assistance Payments Equity	3,821,760	-	-	-	-	-	-	-	-	3,821,760	-	3,821,760
11190	Unit months available	49,881	-	-	-	-	960	1,056	-	-	51,897	11,400	63,297
11210	Number of unit months leased	49,173	-	-	-	-	935	1,031	-	-	51,139	10,732	61,871

**SINGLE AUDIT REPORT**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Harris County Housing Authority (the Authority), as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 23, 2013. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented components units, as described in our report on the Authority's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-01.

### **Harris County Housing Authority's Response to Findings**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Baltimore, Maryland  
December 23, 2013

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

The Board of Commissioners  
Harris County Housing Authority  
Houston, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Harris County Housing Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended March 31, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-02, 2013-03, and 2013-04. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-02 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-03 and 2013-04 to be significant deficiencies.

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

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

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the enterprise fund and the aggregate discretely presented component units of the Authority as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 23, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
December 23, 2013

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended March 31, 2013**

	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Housing Choice Voucher Program	14.871	\$ 39,104,778
Disaster Voucher Program	14.871	<u>17</u>
Housing Voucher Cluster Total		<u>39,104,795</u>
Lower Income Housing Assistance - Section 8 Moderate Rehab	14.856	45,119
Section 8 Rental Moderate Rehabilitation Program - SRO	14.182	<u>314,173</u>
Section 8 Project-Based Cluster Total		<u>359,292</u>
DHAP Ike Housing Assistance Payments	DH-IKE	<u>751</u>
<b>TOTAL FEDERAL EXPENDITURES</b>		<u><u>\$ 39,464,838</u></u>

The accompanying notes are an integral part of this schedule.

**HARRIS COUNTY HOUSING AUTHORITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**March 31, 2013**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – NON-CASH FEDERAL ASSISTANCE**

The Authority did not receive any non-cash Federal assistance for the year ended March 31, 2013.

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

**I. Summary of Independent Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

- |  |              |     |               |               |
|--|--------------|-----|---------------|---------------|
| • Material weakness(es) identified?  | <u>  X  </u> | Yes | <u>      </u> | No            |
| • Significant deficiencies identified that are not considered to be material weaknesses? | <u>  X  </u> | Yes | <u>      </u> | None reported |

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

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

Identification of Major Programs

Name of Federal Program	CFDA Number	Expenditures
Housing Voucher Cluster	14.871	\$ 39,104,795

Dollar threshold used to distinguish between type A and type B programs: \$ 1,183,945

Auditee qualified as low-risk auditee?	<u>      </u>	Yes	<u>  X  </u>	No
--	---------------	-----	--------------	----

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

**II. Financial Statement Findings**

**Finding 2013-01 – Material Audit Adjustments**

***Condition***

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

***Criteria***

To be properly managed, accurate and timely accounting records should be maintained. Reconciliations should be performed between the Authority and component units to ensure accounting transactions agree.

***Cause***

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

***Effect***

Material misstatements that resulted in a prior period adjustment.

***Recommendation***

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

***Management's Response***

In Fiscal Year 2006, the Authority made a journal entry that is the subject of this finding at the direction of its then current independent financial auditors. While internal controls have certainly been at issue at the Authority under the previous management, better internal controls would not have compensated for this particular error from seven (7) years ago, nor do better internal controls generally compensate for errors made by independent auditors who are hired by and report to the Board of Commissioners. The only internal control that might have caught this error sooner is the best practice of using the same auditor for no longer than 4-5 years as HUD currently recommends. This limit on using the same auditor is the approach currently implemented by the Authority. However, this practice will only increase the likelihood that an error made by a previous independent auditor is found sooner rather than later. Despite what is suggested in the above finding, better internal controls will not generally compensate for errors made by independent auditors.

Management is pleased that the independent auditor has detected this error, and agrees that the revenue in question should have been recognized as lease revenue over the term of the lease on a straight-line basis.

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

**III. Federal Award Findings and Questioned Costs**

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

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

***Condition***

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

***Criteria***

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

***Cause***

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

***Effect***

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

***Questioned Costs***

\$6,474,605

***Recommendation***

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

***Management's Response***

The cause and source of the commingling, overspending of certain federal accounts, and funds owed back to HUD have been well documented, including partial documentation by CliftonLarsonAllen in the Authority's financial statements for Fiscal Year 2012. Since March 31, 2012, the Authority's available cash has increased by \$2,527,113, no additional DHAP funds have been spent, \$773,771 of DHAP funds have been repaid to HUD, and since October 1, 2012, all new nonfederal funds have been segregated in a separate account. Further, since October 1, 2012, all nonfederal expenses have been properly allocated to these segregated nonfederal revenues. However, until the Authority property, known as Patriots by the Lake, is sold, the Authority will not have sufficient cash to cover program reserves. This fact was reported to HUD on April 13, 2012 and has been consistently and thoroughly disclosed by management to HUD, other federal agencies, independent auditors, the Board of Commissioners and the general public from that day forward.

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

The Authority has opened separate accounts for each of its separate lines of business as of May 2013. However, because certain lines of business were significantly overdrawn due to spending that occurred under the previous management, the Authority was unable to fund those accounts until it could bring the balance in each line of business to \$0 or greater. Additionally, until HUD identified the proper Net Restricted Asset (NRA) fund amount, which occurred on June 20, 2013, and until HUD determined the final amount of monies owed back to HUD from its DHAP IKE Harris County program, which occurred by August 23, 2013, the Authority could not move forward with determining the amount owed from one Authority line of business to another.

This process is now complete, and per board approval, the appropriate journal entries have been made as of October 31, 2013. In January 2014, the Authority will fully fund separate checking accounts for its active lines of business. Within 60 days of receiving the net proceeds for the above mentioned property, the Authority is committed to completing the funding of the necessary program reserves and fully repaying any federal fund from which money was misspent.

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

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

***Condition***

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

***Criteria***

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

***Cause***

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

***Effect***

The Authority is not in compliance with HUD regulations.

***Questioned Costs***

Unable to determine

***Recommendation***

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

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

***Management's Response***

Authority management is ultimately responsible for failing to ensure that proper quality control regarding the timely determination of reasonable rent was implemented during the transition that occurred during this fiscal year. Proper quality control is now occurring, and management has established procedures to monitor and ensure that the Administrative Plan is properly followed in a timely manner.

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

<b>Federal Agency</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>Compliance Requirement:</b>	<b>Reporting</b>
<b>Type of Finding:</b>	<b>Significant Deficiency</b>

***Condition***

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

***Criteria***

HUD issued PIH notice 2012-21 which states that unaudited submissions are due no later than 2 months after the PHA's FYE. A PHA with a March 31 FYE needs to submit its unaudited submission to HUD no later than May 31.

***Cause***

The Authority did not meet deadlines required by HUD.

***Effect***

The Authority is not in compliance with HUD regulations.

***Questioned Costs***

Unable to determine

***Recommendation***

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

***Management's Response***

Management communicated with senior staff from HUD's Real Estate Assessment Center (REAC) that the Authority's unaudited submission would be postponed until management received the Quality Assurance Division (QAD) report detailing the proper Net Restricted Asset (NRA) fund amount and was able to make the proper adjustments to ensure that these amounts were reflected as of March 31, 2013.

The Authority was faced with the option of providing HUD unaudited submissions that it knew were inaccurate or waiting to ensure that the unaudited submissions were as accurate as possible, using guidance from HUD's Quality Assurance Division, which was received on June 20, 2013. The Authority chose the route of providing the more accurate, albeit tardy, unaudited submissions. Given the journal entries approved by the Board of Commissioners and made as of October 31, 2013, the Authority will be able to provide timely submissions to REAC going forward.

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

**Finding 2012-01 – Material Audit Adjustments**

***Condition***

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

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

***Recommendation***

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

***Status***

A similar finding was noted in the current year. See finding number 2013-01.

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

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

***Condition***

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

***Recommendation***

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

***Status***

A similar finding was noted in the current year. See finding number 2013-02.

**HARRIS COUNTY HOUSING AUTHORITY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year Ended March 31, 2013**

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

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

***Condition***

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

***Recommendation***

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

***Status***

This finding has been cleared in the current year.

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

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

***Condition***

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

***Recommendation***

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

***Status***

This finding has been cleared in the current year.

**Finding 2012-05 – Housing Choice Voucher Program, CFDA #14.871**

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

***Condition***

Testing of 12 Housing Choice Voucher tenant files found exceptions in 3 files, which included the following:

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

**HARRIS COUNTY HOUSING AUTHORITY**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**Year Ended March 31, 2013**

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

***Recommendation***

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

***Status***

A similar finding was noted in the current year. See finding number 2013-03.