

For the Year Ended September 30, 2006

**AND SUPPLEMENTAL INFORMATION
AND REPORTS**

BASIC FINANCIAL STATEMENTS

**HERNANDO COUNTY
HOUSING AUTHORITY**

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The NCT Group CPAs, L.L.P.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

We have audited the accompanying basic financial statements of Hernando County Housing Authority as of and for the year ended September 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Hernando County Housing Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Hernando County Housing Authority as of September 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2007 on our consideration of the Hernando County Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

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

The NCT Group CPAs, L.L.P.

The NCT Group CPAs, L.L.P.
Lakeland, Florida
June 26, 2007

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

The Hernando County Board of County Commissioners created the Hernando County Housing Authority (HCHA) on May 3, 1977 through resolution no. 77-32 pursuant to the provisions of Chapter 421, Florida Statutes. A governing body of five (5) Commissioners develops the policies and goals of the Authority; almost all its funding through the U.S. Department of Housing and Urban Development (HUD). Therefore, HCHA must administer its program in compliance with HUD rules and regulations and is annually graded by HUD. Over the years HUD has graded HCHA as a Standard Performing Agency.

HCHA is dedicated to enhancing the quality of life in Hernando County, Florida by providing and effectively managing affordable housing programs. To further our goal, HCHA has adopted the formal mission statement "HCHA is committed to educating, organizing, advocating and ensuring the provisions of adequate, affordable housing within strong viable communities for Hernando County citizens, particularly those with very low to moderate incomes". HCHA seeks to achieve the highest and best use of its housing and housing programs for people of low and moderate income through its' de-concentration efforts, and efforts to create viable mixed-income affordable housing communities throughout our jurisdiction.

As management of Hernando County Housing Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Since the last audit period in FY 2005, the Authority has continued to make progress both financially and operationally. This may be attributed to a progressive and committed Board of Commissioners, Executive Director and staff.

Financial Highlights

In addition to the following highlights, a more descriptive explanation of the following items is provided later in this report.

- The assets of the Authority exceeded its liabilities as of September 30, 2006 by \$1,038,858 (net assets).
- The Authority's cash balance as of September 30, 2006 was \$955,041 representing an increase of \$37,693 from September 30, 2005.
- The Authority had total operating revenue of \$1,970,763 and total operating expenses of \$1,970,485 for the year ended September 30, 2006.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Overview of the Financial Statements

The financial statements included in this annual report are those of a Florida established housing authority which is a public body corporate and politic and are considered to be special districts (governmental entities). The following entity wide financial statements are included:

- Statement of Net Assets – reports the Authority's assets and liabilities at the end of the fiscal year and provides information about the nature and amounts of investment of resources and obligations to creditors.
- Statement of Revenue, Expenses and Change in Net Assets – the results of activity over the course of the fiscal year. It details the costs associated with operating the facility and how those costs were funded. It also provides an explanation of the change in net assets from the previous fiscal year end to the current fiscal year end.
- Statement of Cash Flows – reports the Authority's cash flows in and out from operating, investments and financing activities. It details the sources of the Authority's cash, what it was used for, and the change in cash over the course of the fiscal year.
- The financial statements also include notes that provide required disclosures and other information necessary to gather the full meaning of the material presented in the statements.

An analysis of entity wide net assets, revenues, and expenses has been provided, and includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. This analysis also reflects the Authority's net assets and changes in assets. The Authority's net assets are the differences between what the Authority owns (i.e., assets) and what the Authority owes (i.e., liabilities), and are considered one way to measure the Authority's financial health.

Over a period of time, changes in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Readers should consider other non-financial factors such as fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authority's capital assets to assess the overall health of the Authority.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Analysis of Entity Wide Net Assets (Statement of Net Assets)
Total Assets for FYE 2005 was \$1,068,483 and at FYE 2006 the amount was \$1,100,071. This represents a net increase of \$31,588. The net increase was due primarily to increases in cash (\$37,693) and decreases in receivables (\$1,854), prepaid expenses (\$290) and capital assets (\$3,961).

The most significant increase in assets related to cash which increased \$37,693. The increase was primarily due to the net income of \$31,758 and the net reduction of receivables and prepaid expenses noted above.

Capital Assets decreased by \$3,961 due to depreciation expense for the year.

Current Liabilities decreased from \$21,245 in FYE 2005 to \$19,324 in FYE 2006 for a net decrease of \$1,921.

Summary of Assets, Liabilities and Net Assets		2006	2005
Assets:			
Total Current Assets	\$	954,090	\$ 919,513
Total Restricted Assets		31,468	30,496
Net Capital Assets		114,513	118,474
Liabilities and Net Assets:			
Liabilities:			
Current Liabilities	\$	19,324	\$ 21,245
Non-current Liabilities		41,889	40,138
Total Liabilities		61,213	61,383
Net Assets:			
Invested in Capital Assets, Net of Related Debt		114,513	118,474
Unrestricted		924,345	888,626
Total Net Assets		1,038,858	1,007,100
Total Liabilities and Net Assets			
	\$	1,100,071	\$1,068,483

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Analysis of Entity Wide Revenue (Statement of Revenue, Expenses and Changes in Net Assets)

The following provides the programs administered by the Authority and the revenues generated from these programs during FYE 2006 and 2005:

	2006	2005
Operating Revenue		
HUD Grants	\$ 1,819,168	\$ 1,922,421
Other government grants	106,772	92,341
Fraud Recovery	9,558	7,756
Other revenue	35,265	29,427
Total Operating Revenue	<u>1,970,763</u>	<u>2,051,945</u>
Operating Expenses		
Salaries and employee benefits	222,490	209,602
Other administrative expenses	66,733	75,981
Utilities	3,310	2,729
Insurance and other general expenses	16,415	48,520
Housing assistance payments	1,657,576	1,442,009
Depreciation expense	3,961	3,961
Total Operating Expenses	<u>1,970,485</u>	<u>1,782,802</u>
Operating Income	278	269,143
Non-operating Revenue		
Investment income-unrestricted	31,480	23,990
Net Income	31,758	293,133
Net Assets, beginning of year	1,007,100	713,967
Net Assets, end of year	<u>\$ 1,038,858</u>	<u>\$ 1,007,100</u>

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

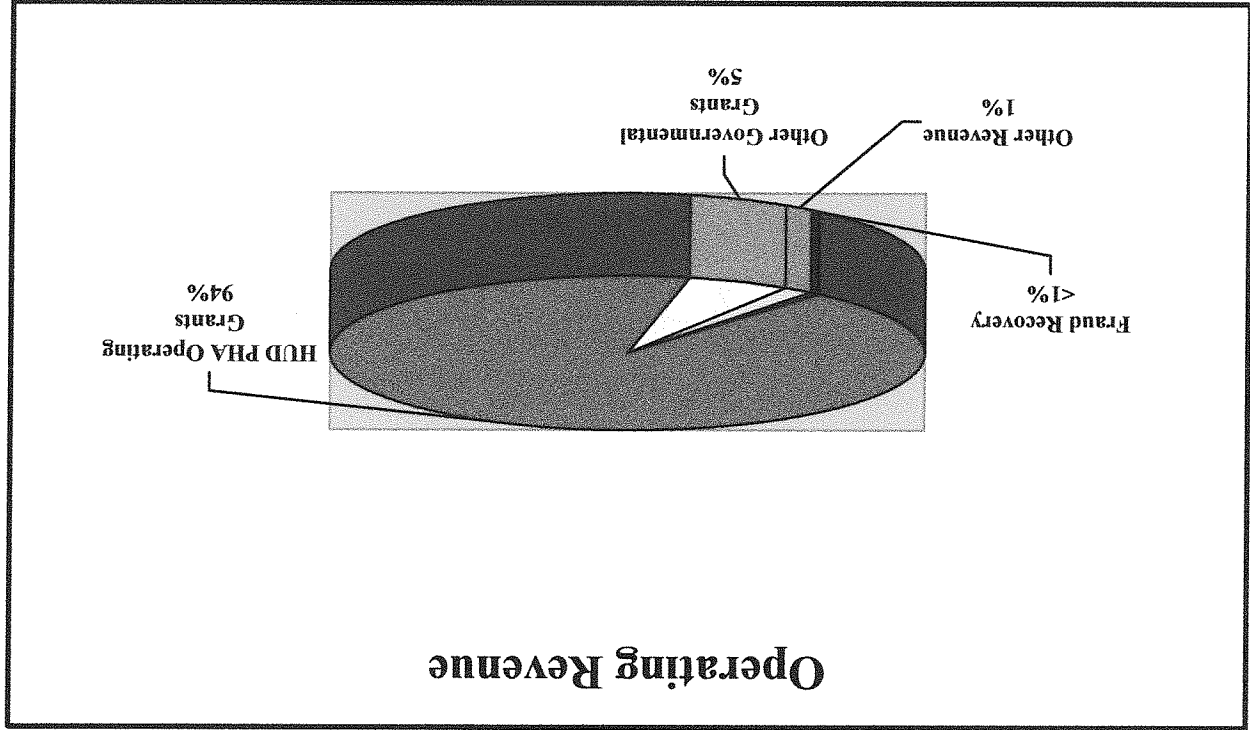
Analysis of Entity Wide Revenue (Statement of Revenue, Expenses and Changes in Net Assets) (continued)

Overall operating revenue decreased \$81,182 from the prior year. This is primarily attributed to HUD grants decreasing by \$103,253 from the prior year due to reductions in the funding level for the current year. Other government grants increased by \$14,431 over the prior year due to increased activity in the Authority's SHIP program. Fraud recovery and other income increased for a total of \$7,640.

Overall operating expenses increased by \$187,683. The most significant increase was in housing assistance payments which increase \$215,567 due to increased utilization and changes in tenant rents.

Salaries and employee benefits increase by \$12,888 or 6.15% over the prior year due to cost of living increases and increases in employee benefit payments. While insurance and other general expenses decreased by \$32,105 due to non-recurring charges in 2005.

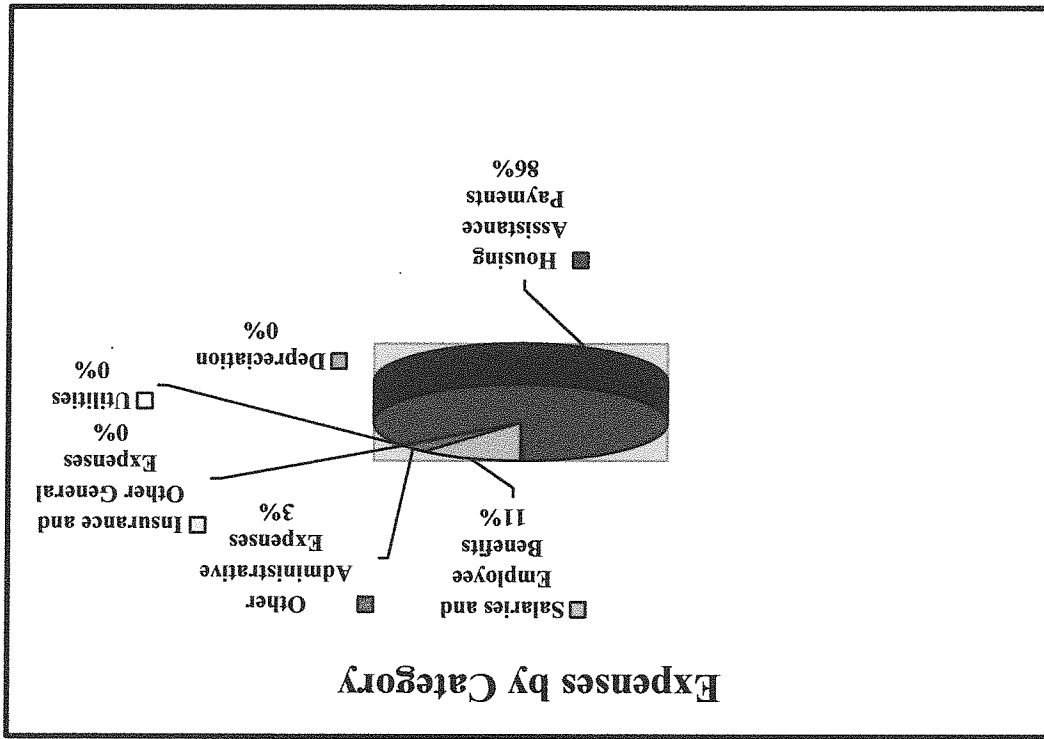
The diagram below illustrates the percentage of revenues generated from these programs by the Authority during FYE 2006.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005**

**Analysis of Entity Wide Expenses
(Statement of Revenue, Expenses and Changes in Net Assets)**

The diagram below illustrates the percentage of expenses during FYE 2006.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Future Plans

The Hernando County Housing Authority established the goals of:

- 1) Developing a 60-unit elderly apartment complex through a partnership with Greater Miami Neighborhood, Inc. The apartments will be located on Barnett Road in the south central side of Brooksville. Financing has been applied for and the application is currently under review by the Florida Housing Finance Corp.;
- 2) The Housing Authority will continue to assist private development in the financing of affordable housing outside the traditional realm of assisted housing by issuing tax-exempt bonds and with State Housing Initiative Partnership (SHIP) funding.
- 3) Continue to improve its Section 8 Housing Choice Voucher program by increasing housing opportunities and improving the operational aspects of the program.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF NET ASSETS
As of September 30, 2006

ASSETS		
Current Assets:		
Cash - unrestricted	923,573	
Accounts receivable	25,622	
Prepaid expenses and other assets	4,895	
Restricted Assets:		
Cash - other restricted	31,468	
Capital Assets:		
Land	104,158	
Furniture and equipment - administration	36,806	
Accumulated depreciation	(26,451)	
Total Capital Assets	<u>114,513</u>	
Total Assets	<u>\$ 1,100,071</u>	
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable - ≤ 90 days	5,019	
Accrued payroll	3,885	
Accrued compensated absences - current portion	10,420	
Non-current Liabilities:		
Non-current liabilities - other	31,468	
Accrued compensated absences - non current	10,421	
Total Non-current Liabilities	<u>41,889</u>	
Total Liabilities	<u>61,213</u>	
Net Assets:		
Invested in capital assets - net of related debt	114,513	
Unrestricted net assets	924,345	
Total Net Assets	<u>1,038,858</u>	
Total Liabilities and Net Assets	<u>\$ 1,100,071</u>	

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2006

<p>Cash Flows From Operating Activities</p> <p>Receipts:</p> <p>Government operating subsidies and grants</p> <p>Other income</p> <p>Disbursements:</p> <p>Payments to and benefits for employees</p> <p>Payments to suppliers</p> <p>Payments to landlords</p>	<p>Receipts:</p> <p>Government operating subsidies and grants</p> <p>Other income</p> <p>Disbursements:</p> <p>Payments to and benefits for employees</p> <p>Payments to suppliers</p> <p>Payments to landlords</p>
<p>Total Receipts</p> <p>\$ 1,935,490</p> <p>37,127</p> <p style="border-top: 1px solid black;">1,972,617</p>	<p>Total Disbursements</p> <p>222,155</p> <p>86,673</p> <p>1,657,576</p> <p style="border-top: 1px solid black;">1,966,404</p>
<p>Cash Flows From Investing Activities</p> <p>Investment Income</p>	<p>Cash Flows From Investing Activities</p> <p>Investment Income</p>
<p>Cash, beginning of year</p> <p>917,348</p> <p style="border-top: 1px solid black;">\$ 955,041</p>	<p>Reported as:</p> <p>Cash - unrestricted</p> <p>Cash - restricted</p> <p style="border-top: 1px solid black;">\$ 923,573</p> <p>31,468</p> <p style="border-top: 1px solid black;">\$ 955,041</p>
<p>Net Increase in Cash</p> <p>37,693</p>	<p>Total Cash</p> <p>923,573</p> <p style="border-top: 1px solid black;">\$ 955,041</p>
<p>Net Cash Provided by Operating Activities</p> <p>6,213</p>	<p>Reconciliation of Operating Income to Cash Flows Provided by Operating Activities</p> <p>Operating income</p> <p>Adjustments to reconcile operating income to net cash provided by operating activities:</p> <p>Depreciation expense</p> <p>(Increase) decrease in:</p> <p>Accounts receivable - PHA projects</p> <p>Accounts receivable - fraud recovery</p> <p>Accounts receivable - other governments</p> <p>Prepaid expenses and other assets</p> <p>Increase (decrease) in:</p> <p>Accounts payable ≤ 90 days</p> <p>Accrued payroll</p> <p>Accrued compensated absences</p> <p>Non-current liabilities - other</p>
<p>Net Cash Provided by Operating Activities</p> <p>\$ 6,213</p>	<p>Net Cash Provided by Operating Activities</p> <p>3,961</p> <p>(4,598)</p> <p>(3,098)</p> <p>9,550</p> <p>290</p> <p>(1,477)</p> <p>(1,222)</p> <p>1,557</p> <p>972</p> <p style="border-top: 1px solid black;">\$ 6,213</p>

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Hernando County Housing Authority (the "Authority") is a public body corporate and politic organized under Chapter 421 of the Florida State Statutes to operate housing projects for the benefit of lower income families by providing decent, safe and sanitary dwellings within the financial means of such families.

Where the United States Department of Housing and Urban Development ("HUD") subsidizes housing, total rent is determined by the Authority within guidelines established by HUD. The tenant's portion of such rent and the housing assistance provided by HUD are also determined using the agency's guidelines.

Reporting Entity

The Governmental Accounting Standards Board has established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under these criteria the Authority is considered to be a *primary government*, since it is a special purpose government that has a separate governing body, is legally separate and is fiscally independent of other state or local governments.

The Authority is a legally separate public body corporate and politic organized under Chapter 421 of the Florida State Statutes to provide low-rent housing for qualified individuals in accordance with laws, rules and regulations prescribed by the United States Department of Housing and Urban Development ("HUD"). The members of its Board of Commissioners are appointed by the Governor of the State of Florida.

The Authority is a related organization of the State of Florida since the members of its Board of Commissioners are appointed by the Governor. The State of Florida is not financially accountable for the Authority as it cannot impose its will on the Authority and there is no potential for the Authority to provide financial benefit to, or impose financial burdens on the State of Florida. Accordingly, the Authority is not a component unit of the State of Florida.

In determining how to define the reporting entity, management has considered all potential component units. The determination to include a component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. These criteria include manifestation of oversight responsibility; including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential dual inclusion and organizations included in the reporting entity although the primary organization is not financially accountable. Based on the application of these criteria, the Authority does not have any component units.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation and Accounting

Proprietary Fund:

In accordance with uniform financial reporting standards for United States Department of Housing and Urban Development housing programs, the financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America.

Based on compelling reasons offered by The United States Department of Housing and Urban Development, the Authority reports its operations under the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting. The enterprise fund emphasizes the flow of economic resources measurement focus. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues are recorded when they are earned and expenses are recorded at the time liabilities are incurred.

Pursuant to the election option made available through Governmental Accounting Standards Board Statement No. 20, management has elected to apply all statements and interpretations issued by the Financial Accounting Standards Board on or before November 30, 1989 to its proprietary fund operations except those that conflict with or contradict Statements issued by the Governmental Accounting Standards Board.

The enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the Board of Commissioners has decided that the determination of revenues earned, costs incurred, and/or net income necessary for management accountability is appropriate. The intent of the governing body is that the costs (expenses including depreciation) of providing services to the public on a continuing basis be financed or recovered primarily through user charges.

Program/Activity Accounting

The accounting records are established in a manner which enables the Authority to ensure observance of limitations and restrictions placed on the use of resources available to it. The accounting records are also maintained in a manner that provides the Authority with the ability to monitor the financial results associated with certain other activities or otherwise provide for management accountability.

Separate identifiable accounts are maintained within the accounting records for each program/activity. However, all of the programs/activities are part of a single enterprise fund for financial reporting purposes.

The programs/activities included in the accompanying financial statements include all programs/activities of the Authority that relate to providing housing assistance to lower income families and all other programs, functions and activities over which the Board has oversight responsibility and financial accountability.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program/Activity Accounting (continued)
These programs/activities are as follows:

Section 8 Housing Assistance – Housing Choice Voucher Program (CFDA 14.871):
This fund accounts for the activity associated with the projects and other facilities subsidized by the United States Department of Housing and Urban Development under Annual Contributions Contract A-2999.

State Housing Initiative Partnership Program (CSFA 52.901):
This fund accounts for the activity associated with the projects and other facilities subsidized by the State of Florida through the State Housing Initiative Partnership (SHIP) Program and Hernando County, Florida.

Bond Program:
This fund accounts for the activities of the Authority's Multi-Family Tax Exempt Bond Program. The Authority is authorized under Part I Chapter 421 of the Florida Statutes, to issue tax-exempt bonds to finance the acquisition, construction, or reconstruction of qualified multi-family rental housing developments for persons or families of low, moderate, or middle incomes.

Budgets
Budgets are prepared on an annual basis for each fund and program and are used as a management tool throughout the accounting cycle. Budgets are not however legally adopted nor legally required for financial statement presentation.

Income Taxes
The Authority is a public body corporate and politic exempt from Federal and State income taxes.

Capital Assets
Capital assets are recorded at cost if their cost exceeds \$100. Donated assets are recorded at fair market value at the date of donation.

Depreciation is calculated using the straight-line method over the useful life of the related asset. The useful life established for equipment is 5 years.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences The Authority's policy allows employees to accumulate unused vacation leave as follows:

Maximum	
Carryover	
in Hours	
240	Date of hire to end of 5th year
360	Start of 6th year to end of 10th year
480	Start of 11th year and over

Employee's that have accrued hours in excess of the maximum lose the excess hours as of January 1 of each year. Employees are paid for unused leave upon termination of employment.

Sick leave is accrued at the rate of .04615 for each hour worked. Accumulated unused sick leave is carried forward.

Operating and Non-operating Revenue and Expenses

The Authority recognizes operating revenue and expenses as a result of providing low rent housing and other services. The principal operating revenues of the Authority consist of tenant rental charges, operating subsidies and grants and other revenue received from ancillary operations such as maintenance charges to tenants and similar operations. Operating expenses include the costs of housing assistance payments to landlords, administrative expenses, and costs associated with providing program services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Government Grants and Subsidies

The subsidies and operating grants received by the Authority from HUD under Annual Contributions Contracts are recorded as operating revenue in the period earned in accordance with accounting principles generally accepted in the United States of America.

The Housing Choice Vouchers Program Annual Contributions Contract with HUD provides for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments covering the difference between the maximum rental on a dwelling unit and the amount of rent contribution by the participating family plus related administrative expenses.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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 and 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 those estimates.

NOTE B - CASH

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a bank failure, the housing authority's deposits may not be returned to it. At year end, the housing authority's deposits were entirely covered by federal depository insurance or guaranteed by qualified public depositories in Florida pursuant to Chapter 280.07, Florida Statutes.

Cash

Cash in the accompanying financial statements consists of demand deposits in financial institutions and cash on hand.

Deposits

All deposits are carried at cost and are in financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") and collateralized. Florida Statutes Chapter 280 sets forth the qualifications and requirements that a financial institution must meet in order to become a qualified depository. The Statute also defines the amount and type of collateral that must be pledged in order to remain qualified.

Florida Statute 218.45 requires deposits of governmental entities be made only with Qualified Public Depositories (QPDs). Public funds on deposit in QPDs are protected against loss due to insolvency by: (1) federal deposit insurance; (2) the pledge of securities as collateral; and (3) a contingent liability agreement that allows the Chief Financial Officer of the State of Florida to assess QPDs if the securities pledged by an insolvent QPD are insufficient. The agreement for collateralization of public funds is with the State of Florida and not with the Authority. Similar to FDIC, the State of Florida is guaranteeing the deposit.

Total bank balances at September 30, 2006 were \$ 975,813 and the total carrying value was \$ 955,041 at September 30, 2006.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE C - CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2006 were as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Not being depreciated:				
Land	\$ 104,158	\$ -	\$ -	\$ 104,158
Being depreciated:				
Administrative equipment	36,806	-	-	36,806
Less: accumulated depreciation:				
Administrative equipment	22,490	-	(3,961)	26,451
Total capital assets, net being depreciated, net	14,316	-	3,961	10,355
Capital assets, net	\$ 118,474	\$ -	\$ 3,961	\$ 114,513

NOTE D - RETIREMENT PLAN

Certain full-time employees are participants in the Florida Retirement System (System), a multiple employer, cost-sharing public retirement system. The System, which is controlled by the State Legislature and administered by the State of Florida, Division of Retirement, covers approximately 625,000 full-time employees of various governmental units within the State of Florida. Participants can choose from two options: the Florida Retirement System Pension Plan or the Florida Retirement System Investment Plan.

The Pension Plan provides for vesting of benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 or with 30 years of service. Early retirement is available after six years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based upon age, average compensation, and years of service credit where average compensation is computed as the average of an individual's five highest years of earnings. Employees are not required to contribute to the Pension Plan.

The Investment Plan provides for vesting after one year of creditable service. Retirement benefits are based on the employee's account balance. Employees are not required to contribute to the Investment Plan.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2006

NOTE D - RETIREMENT PLAN (continued)

Hernando County Housing Authority has no responsibility to the System other than to make the periodic payments required by the state statutes. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and requires supplementary information for the System. The report may be obtained by writing to Florida Division of Retirement, 2639 Monroe Street, Building C, Tallahassee, Florida 32399-1560.

Participating employer contributions are based upon state-wide rates established by the State of Florida. These rates, which include the health insurance subsidy contributions of 1.11% and an administrative and educational plan fee of .08%, are applied to employee salaries as follows: regular employees – 7.83%; senior management – 10.45%. Hernando County Housing Authority's contributions made during the year ending September 30, 2006 was \$ 12,529, equal to the actuarially determined required contribution requirements for the year. The Authority has determined, in accordance with GASB Statement No. 27, that there was no pension liability before or at transition.

NOTE E - COMMITMENTS AND CONTINGENCIES

Federal Subsidies and Grants

The Authority receives a substantial amount of its support from the Federal government in the form of subsidies and grants. If a significant reduction in the level of this support were to occur, it may have an effect on the Authority's programs and activities.

Government grants require the fulfillment of certain conditions as set forth in laws, rules, regulations, and grant agreements. Failure to fulfill the conditions could result in the return of funds to grantors. The Authority's management believes that disallowances, if any, would be immaterial.

SUPPLEMENTAL INFORMATION



**HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF NET ASSETS
AS OF SEPTEMBER 30, 2006**

LINE ITEM NO.	ACCOUNT DESCRIPTION	CPDA NO. 14,871 HOUSING CHOICE VOUCHERS PROGRAM	STATE/ LOCAL PROGRAM	BUSINESS ACTIVITIES	TOTAL
ASSETS					
111	Cash - unrestricted	\$ 588,909	\$ 68,943	\$ 265,721	\$ 923,573
113	Cash - other restricted	31,468	-	-	31,468
100	Total Cash	620,377	68,943	265,721	955,041
Other Current Assets:					
121	Accounts receivable - PHA projects	6,816	-	-	6,816
124	Accounts receivable - other governments	-	15,708	-	15,708
128	Accounts receivable - fraud recovery	3,098	-	-	3,098
142	Prepaid expenses and other assets	2,448	2,447	-	4,895
144	Interprogram - due from other funds	1,318	28,518	-	29,836
	Total Other Current Assets	13,680	46,673	-	60,353
150	Total Current Assets	634,057	115,616	265,721	1,015,394
Non-current Assets:					
161	Land	-	104,158	-	104,158
164	Furniture and equipment - administration	36,806	-	-	36,806
166	Accumulated depreciation	(26,451)	-	-	(26,451)
160	Capital Assets - Net	10,355	104,158	-	114,513
180	Total Non-current Assets	10,355	104,158	-	114,513
190	TOTAL ASSETS	\$ 644,412	\$ 219,774	\$ 265,721	\$ 1,129,907
LIABILITIES AND NET ASSETS					
Current Liabilities:					
312	Accounts payable - ≤ 90 days	\$ 2,156	\$ 2,863	\$ -	\$ 5,019
321	Accrued payroll	2,464	1,421	-	3,885
322	Accrued compensated absences - current portion	6,355	4,065	-	10,420
347	Interprogram - due to other funds	28,518	1,318	-	29,836
310	Total Current Liabilities	39,493	9,667	-	49,160
Non-current Liabilities:					
353	Non-current liabilities - other	31,468	-	-	31,468
354	Accrued compensated absences - non current	6,355	4,066	-	10,421
350	Total Non-current Liabilities	37,823	4,066	-	41,889
300	Total Liabilities	77,316	13,733	-	91,049
Net Assets:					
508.1	Invested in capital assets - net of related debt	10,355	104,158	-	114,513
512.1	Unrestricted net assets	556,741	101,883	265,721	924,345
513	Total Net Assets	567,096	206,041	265,721	1,038,858
600	TOTAL LIABILITIES AND NET ASSETS	\$ 644,412	\$ 219,774	\$ 265,721	\$ 1,129,907

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2006

CPDA Number	CSFA Identifying Number	Beginning (Receivable) Payable	Cash Received	Expended	Ending (Receivable) Payable
FEDERAL ASSISTANCE - DIRECT					
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Lower income housing assistance program:					
Annual contributions, Section 8 Housing Choice Voucher Program					
14,871	ACC A-3608	\$ -	\$ 28,706	\$ 28,706	\$ -
14,871	ACC A-3608	\$ -	1,790,462	1,790,462	\$ -
Total		\$ -	\$ 1,819,168	\$ 1,819,168	\$ -
STATE ASSISTANCE					
STATE OF FLORIDA, FLORIDA HOUSING FINANCE CORPORATION					
Passed Through: Hernando County, Florida					
State Housing Initiatives Partnership Program					
52,901	None	\$ (25,258)	\$ 116,322	\$ 106,772	\$ (15,708)

SUPPLEMENTAL REPORTS



**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**

Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

We have audited the financial statements of Hernando County Housing Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated June 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hernando County Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hernando County Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by Hernando County Housing Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (2006-B-1, 2006-B-2 and 2006-B-3) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hernando County Housing Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the reportable conditions described above, we consider items 2006-B-1, 2006-B-2 and 2006-B-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hernando County Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2006-C-1.

We noted certain matters that we reported to management of Hernando County Housing Authority in a separate letter dated June 26, 2007.

This report is intended solely for the information and use of management, Board of Commissioners, others within the Hernando County Housing Authority, and is not intended to be and should not be used by anyone other than these specified parties.

The NCT Group CPAs, L.L.P.

The NCT Group CPAs, L.L.P.
Lakeland, Florida
June 26, 2007

**Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

Compliance

We have audited the compliance of Hernando County Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Hernando County Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hernando County Housing Authority's management. Our responsibility is to express an opinion on Hernando County Housing Authority's compliance based on our audit.

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

In our opinion, Hernando County Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that 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 2006-C-1.

Internal Control over Compliance

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

A control deficiency in Hernando County Housing Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hernando County Housing Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Hernando County Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Hernando County Housing Authority's internal control.

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

Hernando County Housing Authority's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Hernando County Housing Authority's response and, accordingly, we express no opinion on it.

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

The NCT Group CPAs, L.L.P.

The NCT Group CPAs, L.L.P.
Lakeland, Florida
June 26, 2007

**HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2006**

PRIOR AUDIT FINDINGS

FINDINGS-FINANCIAL STATEMENT AUDIT

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of the basic financial statements as required to be reported by *Government Auditing Standards*.

There were no findings that are required to be reported under *Government Auditing Standards*.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs as required to be reported by Circular A-133, Section .510.

There were no findings that are required to be reported in accordance with OMB Circular A-133.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Internal control over financial reporting:

Type of auditor's report issued: Unqualified
 Material weakness(es) identified? Yes X No
 Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X No
 Non-compliance material to the financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No
 Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X No
 Type of auditor's report issued on compliance for major programs: Unqualified
 Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA No. 14.971
 Name of Federal program or cluster Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between type A and type B programs \$ 300,000
 Auditee qualified as low-risk auditee? Yes X No

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (concluded)
For the Year Ended September 30, 2006

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Control Deficiencies - Material Weaknesses

**2006-B-1 - Out of Balance Condition of General Ledger - Transactions not Recorded in
Conformity with Accounting Principles Generally Accepted in the United States of
America**

Condition-

Our audit procedures disclosed that the transactions that went through the bank accounts during the current year were not being recorded properly in the general ledger, causing the trial balances for each individual program to be out of balance.

In addition it was noted that Housing Assistance Payments were not being recorded in accordance with accounting principles generally accepted in the United States of America. The Housing Assistance payments were not being recorded at the time the checks were written but were being recorded as expense at the time the checks cleared the bank. Therefore the Authority is not able to identify all checks that may have been written but have not cleared the bank. We also noted several checks that have been on the outstanding checklists for well over 90 days.

The Authority is attempting to pool their cash resources in order to maximize their earning potential. However, the individual bank accounts that were established for each individual program are not being used for their intended purpose and as a result cash has been commingled.

The individual bank account balances are not being swept into the sweep account and invested overnight thereby reducing the earning potential.

In addition, the bank reconciliation process currently in use does not properly reconcile the bank balance to the general ledger and the outstanding check list does not include all checks that may be outstanding.

Recommendation-

It is recommended that the Authority implement procedures to ensure that all transactions are recorded properly in the individual programs in accordance with accounting principles generally accepted in the United States of America. We further recommend that procedures be implemented to ensure that the individual program trial balances are in balance.

The Authority must identify which bank accounts relate to which programs and implement procedures to ensure that the accounts are only used for the specified program.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (concluded)
For the Year Ended September 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies – Material Weaknesses (continued)

2006-B-1 – Out of Balance Condition of General Ledger – Transactions not Recorded in Conformity with Accounting Principles Generally Accepted in the United States of America (continued)

Recommendation (continued)-

The sweep account could be used as a common paymaster account to facilitate the payment of vendors and that account could be associated with one of the programs for accounting purposes. This would require the establishment of inter-program due to/from accounts and the implementation of procedures to utilize such accounts. Procedures for prompt reimbursement will also be necessary.

The bank reconciliation process needs to be revised to properly reconcile the bank balance to the general ledger.

Old outstanding checks need to be investigated and handled in accordance with applicable laws related to abandoned property.

Training of concerned personnel to accomplish these objectives will also be necessary.

Management should perform procedures to ensure that the accounting functions are properly performed and approve all reconciliations.

Management Response-

The Authority will implement the recommendations by establishing separate bank accounts for each program that agrees with an account in the general ledger separately rather than in the aggregate. All activity will be reflected in the individual accounts in the general ledger and the reconciliations will be reconciled separately as well. Management will review all adjustments and reconciliations to insure accuracy on a monthly basis.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (concluded)
For the Year Ended September 30, 2006

B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies - Material Weaknesses (continued)

2006-B-2 - Portable Vouchers

Condition-

Our audit procedures disclosed that the Authority does not have adequate internal controls over the processing of portable vouchers from the point of accepting the portable voucher through the billing and collection process. The Authority set up a new fund in order to keep track of the billings and collections for the portable vouchers, however, the balances in these accounts were incepton to date balances that included several years' worth of portable vouchers.

Recommendation-

The Authority should establish appropriate internal controls over portable vouchers from the point of acceptance through the billing and collection function.

Policies and procedures should be developed to ensure that all such transactions are recorded in the subsidiary ledger and general ledger properly and on a timely basis. Review procedures should also be implemented to ensure that the subsidiary ledgers are properly maintained and reconciled to the general ledger on a monthly basis.

Management Response-

The authority will implement the recommendation. Portable vouchers will not be maintained in a separate general ledger. Since they are part of the Section 8 general ledger, they will be maintained there. Receivables and payables will be recorded as such on the Section 8 general ledger. The authority will maintain a separate subsidiary record of the detail of the receivables due from other housing authorities and the payables due to other housing authorities for portable vouchers. This will be monitored and reconciled to the general ledger monthly.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (concluded)
For the Year Ended September 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies – Material Weaknesses (continued)

2006-B-3 – Journal Entries

Condition-

Our audit procedures disclosed that journal entries are not properly supported. We also noted that journal entries are not being reviewed and approved by management.

Recommendation-

All journal entries should be supported by documentation that adequately describes the purpose of the entry. The entries should be supported by documentation that illustrates the need for the entry, why the entry is necessary and how the amounts are derived.

Management should review and approve all entries prior to recording and that review should be documented.

Management Response-

The recommendation will be implemented. Management will review all adjustments to the general ledger and proper explanations and documentation will support the adjustments. The journal vouchers will be numbered sequentially and maintained in a folder in order.

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - (concluded)
For the Year Ended September 30, 2006

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Control Deficiency

2006-C-1 – Section 8 Housing Choice Voucher Program – Quality Control Re-inspections

Condition-

Our audit procedures disclosed that all Housing Quality Standard inspections are being performed by the executive director and that there are no quality control re-inspections being performed. We have however been informed that during the 2006-2007 fiscal year the Authority has made arrangements to have someone from a neighboring housing authority perform the re-inspections.

Recommendation-

We recommend that the Authority continue with the arrangements with the neighboring housing authority to ensure that such re-inspections are performed. We further recommend that the results of the comparisons between the original inspection and the re-inspection be in writing and provided by the neighboring housing authority directly to the Board Chair for review.

Management Response-

Management agrees with this condition and will follow the recommendations as presented. The Housing Authority will continue its arrangement with its neighboring housing authority to conduct HQS quality inspections.