

For the Year Ended September 30, 2007

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 financial statements of the business-type activities of Hernando County Housing Authority as of and for the year ended September 30, 2007, which collectively comprise Hernando County Housing Authority's basic financial statements as listed in the table of contents. These 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 Hernando County Housing Authority as of September 30, 2007 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 24, 2008 on our consideration of Hernando County Housing Authority's internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 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 financial statements that collectively comprise Hernando County Housing Authority's basic financial statements. 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 stated in all material respects in relation to the basic financial statements taken as a whole.

The NCT Group CPA's, L.L.P.

The NCT Group CPA's, L.L.P.
Lakeland, Florida
June 24, 2008

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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; this autonomous Board is appointed by the Governor of the State of Florida. However, HCHA receives 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. HUD currently considers the Authority to be a troubled authority.

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, 2007. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Since the last audit period in FY 2006, 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, 2007 by \$1,253,456 (net assets).
- The Authority's cash balance as of September 30, 2007 was \$1,140,956 representing an increase of \$185,915 from September 30, 2006.
- The Authority had total operating revenue of \$2,186,066 and total operating expenses of \$2,045,610 for the year ended September 30, 2007.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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, 2007**

Analysis of Entity Wide Net Assets (Statement of Net Assets)

Total Assets for FYE 2007 was \$1,307,360 and at FYE 2006 the amount was \$1,100,071. This represents a net increase of \$207,289. The net increase was due primarily to increases in cash (\$185,915), an increase in receivables (\$8,890), a decrease in prepaid expenses (\$386) and a net increase in capital assets (\$12,870).

The most significant increase in assets related to cash which increased \$185,915. The increase was primarily due to the net income of \$214,598 reduced by the purchase of capital assets (\$20,609).

The net increase in capital assets (\$12,870) is attributed to the purchase of capital assets (\$20,609) decreased by \$7,739 due to depreciation expense for the year.

Current liabilities increased from \$19,324 in FYE 2006 to \$20,038 in FYE 2006 for a net increase of \$714.

Summary of Assets, Liabilities and Net Assets		2006	2007
Assets:			
Total Current Assets	\$	954,090	\$1,158,590
Total Restricted Assets		31,468	21,387
Net Capital Assets		114,513	127,383
Liabilities and Net Assets:			
Liabilities:			
Current Liabilities	\$	19,324	\$ 20,038
Non-current Liabilities		41,889	33,866
Total Liabilities		61,213	53,904
Net Assets:			
Invested in Capital Assets, Net of Related Debt		114,513	127,383
Unrestricted		924,345	1,126,073
Total Net Assets		1,038,858	1,253,456
Total Liabilities and Net Assets			
	\$	1,100,071	\$1,307,360

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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 2007:

	2006	2007
Operating Revenue		
HUD Grants	\$ 1,819,168	\$ 2,004,418
Other government grants	106,772	110,584
Fraud Recovery	9,558	26,586
Other revenue	35,265	44,478
Total Operating Revenue	<u>1,970,763</u>	<u>2,186,066</u>
Operating Expenses		
Salaries and employee benefits	222,490	248,537
Other administrative expenses	66,733	80,776
Utilities	3,310	2,812
Insurance and other general expenses	16,415	14,445
Housing assistance payments	1,657,576	1,691,301
Depreciation expense	3,961	7,739
Total Operating Expenses	<u>1,970,485</u>	<u>2,045,610</u>
Operating Income	278	140,456
Non-operating Revenue		
Investment income-unrestricted	31,480	74,142
Net Income	31,758	214,598
Net Assets, beginning of year	1,007,100	1,038,858
Net Assets, end of year	<u>\$ 1,038,858</u>	<u>\$ 1,253,456</u>

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

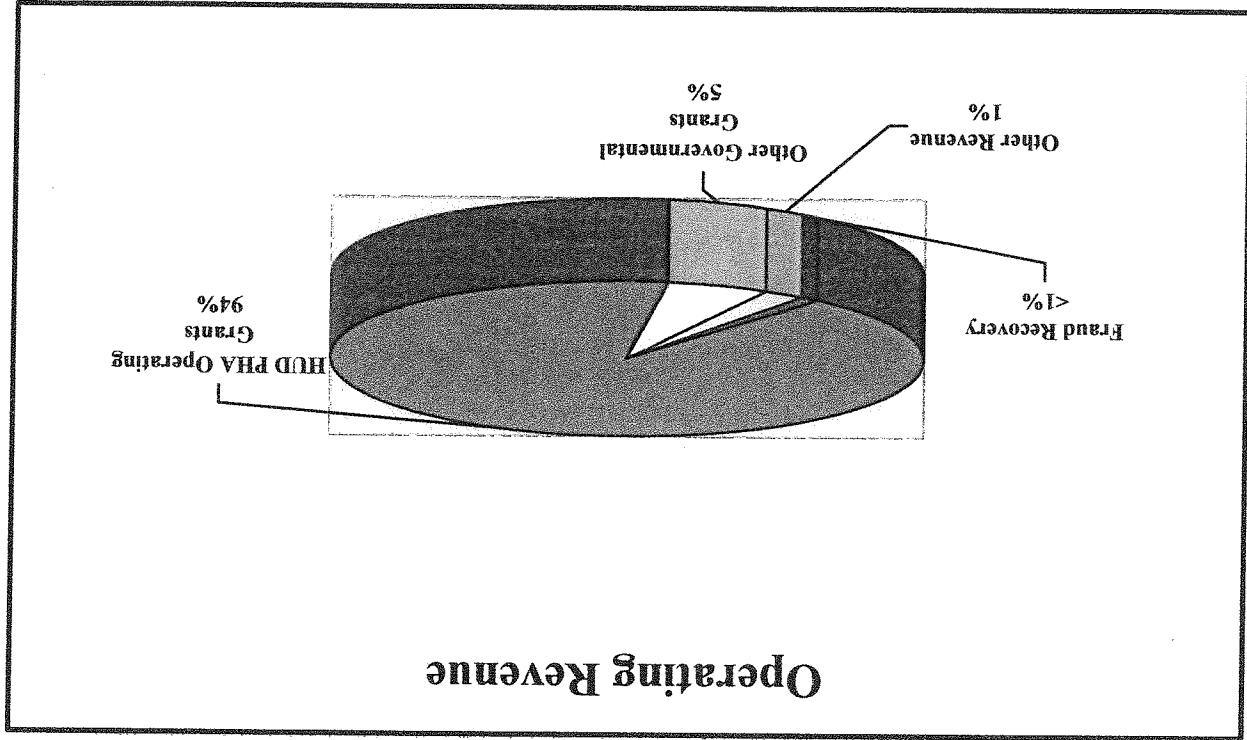
Analysis of Entity Wide Revenue (Statement of Revenue, Expenses and Changes in Net Assets) (continued)

Overall operating revenue increased \$215,303 from the prior year. This is primarily attributed to HUD grants increasing by \$185,250 from the prior year due to increases in the funding level for the current year. Other government grants increased by \$3,812 over the prior year due to increased activity in the Authority's SHIP program. Fraud recovery and other income increased for a total of \$26,241.

Overall operating expenses increased by \$75,125. The most significant increases were an increase in salaries and benefits of \$26,047, an increase in other operating expenses of \$14,043 and an increase in housing assistance payments of \$33,725 due to increased utilization and changes in tenant rents.

Salaries and employee benefits increase by \$26,047 or 11.7% over the prior year due to cost of living increases and increases in employee benefit payments. While other administrative expenses increased by \$14,043 due to maintenance costs associated with office equipment and computers.

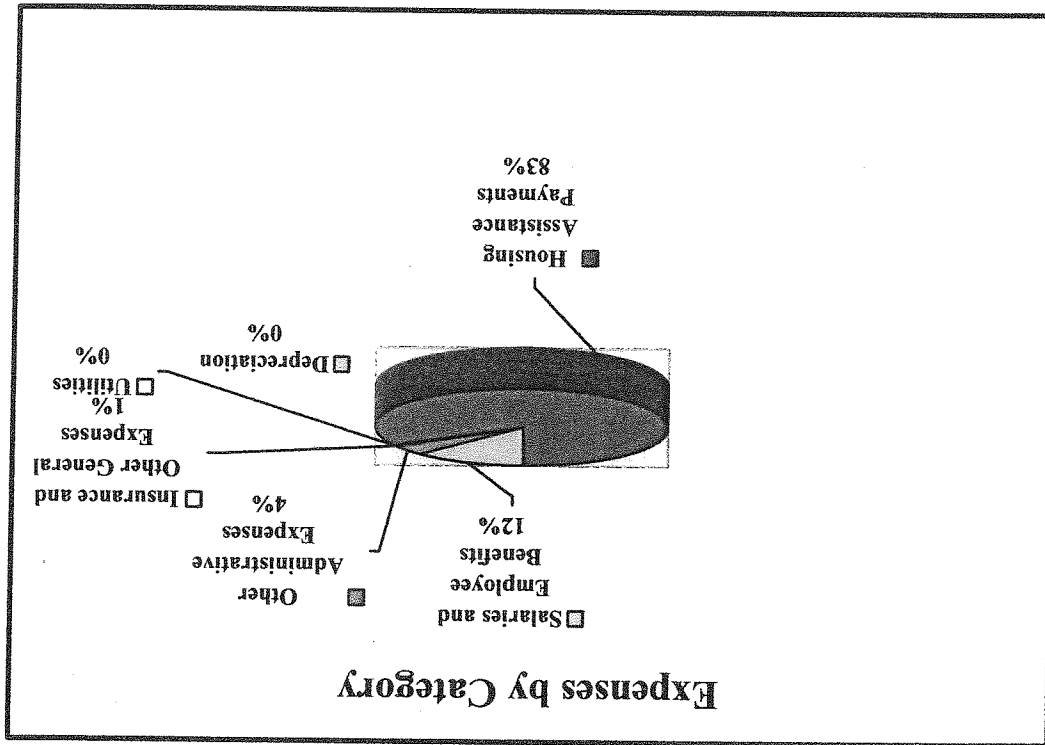
The diagram below illustrates the percentage of revenues generated from these programs by the Authority during FYE 2007.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007**

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

The diagram below illustrates the percentage of expenses during FYE 2007.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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, 2007

ASSETS	
Current Assets:	
Cash - unrestricted	\$ 1,119,569
Accounts receivable	34,512
Prepaid expenses and other assets	4,509
Total Current Assets	1,158,590
Restricted Assets:	21,387
Cash - other restricted	21,387
Capital Assets:	104,158
Land	104,158
Furniture and equipment - administration	57,415
Accumulated depreciation	(34,190)
Total Capital Assets	127,383
Total Assets	\$ 1,307,360
LIABILITIES AND NET ASSETS	
Current Liabilities:	\$ 1,986
Accounts payable - ≤ 90 days	1,986
Accrued payroll	5,574
Accrued compensated absences - current portion	12,478
Total Current Liabilities	20,038
Non-current Liabilities:	21,387
Non-current liabilities - other	21,387
Accrued compensated absences - non current	12,479
Total Non-current Liabilities	33,866
Total Liabilities	53,904
Net Assets:	127,383
Invested in capital assets - net of related debt	127,383
Unrestricted net assets	1,126,073
Total Net Assets	1,253,456
Total Liabilities and Net Assets	\$ 1,307,360

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For The Year Ended September 30, 2007

		Operating Revenue			
		HUD grants	2,004,418		
		Other government grants	110,584		
		Fraud recovery	26,586		
		Other revenue	44,478		
		Total Operating Revenue	2,186,066		
		Operating Expenses			
		Administrative salaries	177,128		
		Auditing fees	19,500		
		Employee benefit contributions	71,409		
		Other operating administrative	61,276		
		Water/Sewer	756		
		Electric	2,056		
		Insurance	14,445		
		Housing assistance payments	1,691,301		
		Depreciation expense	7,739		
		Total Operating Expenses	2,045,610		
		Operating Income	140,456		
		Non-operating Revenue			
		Investment income - unrestricted	74,142		
		Net Income	214,598		
		Net Assets, beginning of year	1,038,858		
		Net Assets, end of year	<u>1,253,456</u>		
		\$	1,253,456		

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2007

Cash Flows From Operating Activities		
Receipts:		
Government operating subsidies and grants		\$ 2,118,381
Other income		58,795
Total Receipts		<u>2,177,176</u>
Disbursements:		
Payments to and benefits for employees		242,732
Payments to suppliers		110,761
Payments to landlords		1,691,301
Total Disbursements		<u>2,044,794</u>
Net Cash Provided by Operating Activities		<u>132,382</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets		(20,609)
Cash Flows From Investing Activities		<u>74,142</u>
Investment income		
Net Increase in Cash		<u>185,915</u>
Cash, beginning of year		955,041
Cash, end of year		<u>\$ 1,140,956</u>
Reported as:		
Cash - unrestricted		\$ 1,119,569
Cash - restricted		21,387
Total Cash		<u>\$ 1,140,956</u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities		
Operating income		\$ 140,456
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		7,739
(Increase) decrease in:		
Accounts receivable - PHA projects		3,935
Accounts receivable - fraud recovery		(12,269)
Accounts receivable - other governments		(556)
Prepaid expenses and other assets		386
Increase (decrease) in:		
Accounts payable ≤ 90 days		(3,033)
Accrued payroll		1,689
Accrued compensated absences		4,116
Non-current liabilities - other		(10,081)
Net Cash Provided by Operating Activities		<u>\$ 132,382</u>

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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, 2007

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, 2007

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, 2007

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, 2007

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 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, 2007 were \$ 1,155,650 and the total carrying value was \$ 1,140,956 at September 30, 2007.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2007

NOTE C - CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2007 were as follows:

	Balance	Beginning	of Year	Additions	Deletions	of Year	End
	Balance	Balance	of Year	Additions	Deletions	of Year	End
Not being depreciated:							
Land	\$ 104,158	\$ 104,158					\$ 104,158
Being depreciated:							
Administrative equipment	36,806	20,609					57,415
Less: accumulated depreciation:							
Administrative equipment	26,451	7,739					34,190
Total capital assets, being depreciated, net	10,355	12,870					23,225
Capital assets, net	\$ 114,513	\$ 12,870					\$ 127,383

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 (concluded)
September 30, 2007

NOTE D - RETIREMENT PLAN (concluded)

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 .05%, are applied to employee salaries as follows: regular employees – 9.85%; senior management – 13.12%. Hernando County Housing Authority's contributions made during the year ending September 30, 2007 was \$ 17,351, 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.

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SUPPLEMENTAL INFORMATION

HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF NET ASSETS
AS OF SEPTEMBER 30, 2007

CFDA NO.	HOUSING CHOICE VOUCHERS PROGRAM	STATE/ LOCAL PROGRAM	BUSINESS ACTIVITIES	TOTAL
14.871				
ASSETS				
111	\$ 765,767	\$ 74,563	\$ 279,239	\$ 1,119,569
113	21,387	-	-	21,387
100	787,154	74,563	279,239	1,140,956
Other Current Assets:				
121	2,881	-	-	2,881
124	-	16,264	-	16,264
128	15,367	-	-	15,367
142	2,731	1,778	-	4,509
144	96,152	-	-	96,152
Total Other Current Assets	117,131	18,042	-	135,173
150	904,285	92,605	279,239	1,276,129
Non-current Assets:				
Capital Assets:				
161	-	104,158	-	104,158
164	57,415	-	-	57,415
166	(34,190)	-	-	(34,190)
160	23,225	104,158	-	127,383
Total Non-current Assets	23,225	104,158	-	127,383
190	\$ 927,510	\$ 196,763	\$ 279,239	\$ 1,403,512
TOTAL ASSETS				
LIABILITIES AND NET ASSETS				
312	\$ 1,005	\$ 981	\$ -	\$ 1,986
321	3,142	2,432	-	5,574
322	7,766	4,712	-	12,478
347	-	96,152	-	96,152
310	11,913	104,277	-	116,190
Non-current Liabilities:				
353	21,387	-	-	21,387
354	7,767	4,712	-	12,479
350	29,154	4,712	-	33,866
Total Non-current Liabilities	41,067	108,989	-	150,056
Net Assets:				
508.1	23,225	104,158	-	127,383
512.1	863,218	(16,384)	279,239	1,126,073
513	886,443	87,774	279,239	1,253,456
Total Net Assets				
600	\$ 927,510	\$ 196,763	\$ 279,239	\$ 1,403,512
TOTAL LIABILITIES AND NET ASSETS				

HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

LINE ITEM	ACCOUNT DESCRIPTION	HOUSING CHOICE VOUCHERS PROGRAM	STATE/ LOCAL PROGRAM	BUSINESS ACTIVITIES	TOTAL
	REVENUE				
706	HUD PHA operating grants	\$ 2,004,418	\$ -	\$ -	\$ 2,004,418
708	Other government grants	-	110,584	-	110,584
711	Investment income - unrestricted	55,004	5,620	13,518	74,142
714	Fraud recovery	26,586	-	-	26,586
715	Other revenue	44,478	-	-	44,478
700	EXPENSES	2,130,486	116,204	13,518	2,260,208
911	Administrative: Administrative salaries	110,247	66,881	-	177,128
912	Auditing fees	19,500	-	-	19,500
915	Employee benefit contributions - administrative	47,671	23,738	-	71,409
916	Other operating - administrative	36,557	24,719	-	61,276
931	Utility Expenses: Water/Sewer	378	378	-	756
932	Electric	1,028	1,028	-	2,056
961	General Expenses: Insurance	6,746	7,699	-	14,445
962	Other general expense	-	-	-	-
969	Total Operating Expenses	222,127	124,443	-	346,570
970	Excess of Operating Revenue Over (Under) Operating Expenses	1,908,359	(8,239)	13,518	1,913,638
973	Housing assistance payments	1,691,301	-	-	1,691,301
974	Depreciation expense	7,739	-	-	7,739
900	Total Expenses	1,921,167	124,443	-	2,045,610
1001	Transfers in	151,385	-	-	151,385
1002	Transfers out	(41,357)	(110,028)	-	(151,385)
	TOTAL OTHER FINANCING SOURCES (USES)	110,028	(110,028)	-	-
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	319,347	(118,267)	13,518	214,598
1103	MEMO ACCOUNT INFORMATION				
	Net Assets Beginning of Year	567,096	206,041	265,721	1,038,858
	Net Assets End of Year	886,443	87,774	279,239	1,253,456

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 Year Ended September 30, 2007

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	\$ -	\$ 38,562	\$ 38,562	\$ -
14.871	ACC A-3608	\$ -	1,965,856	1,965,856	-
	Total	\$ -	\$ 2,004,418	\$ 2,004,418	\$ -
STATE ASSISTANCE					
STATE OF FLORIDA, FLORIDA HOUSING FINANCE CORPORATION					
Passed Through:					
Hernando County, Florida					
State Housing Initiatives Partnership Program					
52.901	None	\$ (15,708)	\$ 110,028	\$ 110,584	\$ (16,264)

SUPPLEMENTAL REPORTS

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The NCT Group CPAs, L.L.P.

Certified Public Accountants and Consultants

**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, 2007, and have issued our report thereon dated June 24, 2008. 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 questioned costs (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 and 2007-C-1.

We noted certain matters that we reported to management of Hernando County Housing Authority in a separate letter dated June 24, 2008.

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 24, 2008



The NCT Group CPAs, L.L.P.

Certified Public Accountants and Consultants

**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, 2007. 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, 2007. 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 and 2007-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 an entity'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 entity'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 the entity'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 is 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 24, 2008

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2007

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**

Last year the findings included a discussion of how the audit procedures disclosed that the transactions that went through the bank accounts during the 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. It was also noted that several checks that had been on the outstanding checklists for well over 90 days.

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

The finding also discussed that the individual bank account balances were not being swept into the sweep account and invested overnight thereby reducing the earning potential.

In addition the audit disclosed that the bank reconciliation process in use does not properly reconcile the bank balance to the general ledger and the outstanding check list did not include all checks that may have been outstanding.

Status:

This finding was not properly addressed during the year and the findings have been repeated for the current year in the Schedule of Findings and Questioned Costs.

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – (concluded)
For the Year Ended September 30, 2007

Significant Control Deficiencies – Material Weaknesses (concluded)

2006-B-2 – Portable Vouchers

Last year the audit disclosed that the Authority did 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 had 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 inception to date balances that included several years' worth of portable vouchers.

Status:

This finding was not properly addressed during the year and the findings have been repeated for the current year in the Schedule of Findings and Questioned Costs.

2006-B-3 – Journal Entries

Last year the audit disclosed that journal entries are not properly supported. We also noted that journal entries are not being reviewed and approved by management.

Status:

This finding was not properly addressed during the year and the findings have been repeated for the current year in the Schedule of Findings and Questioned Costs.

Control Deficiency

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

Last year the audit disclosed that all Housing Quality Standard inspections were being performed by the executive director and that there were no quality control re-inspections being performed.

Status:

This finding was not properly addressed during the year and the findings have been repeated for the current year in the Schedule of Findings and Questioned Costs.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2007

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Internal control over financial reporting:

Type of auditor's report issued: Unqualified
 Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Non-compliance material to the financial statements noted? Yes

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

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 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 No

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

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

Criteria-

The Authority is required to maintain its accounting records on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The Authority is also responsible for designing and maintaining internal controls that allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition-

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

The Authority is still 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 still not being used for their intended purpose and as a result cash has been commingled.

The individual bank account balances are not always 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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

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)

Effect-

The Authority is not maintaining its accounting records on the accrual basis in accordance with
accounting principles generally accepted in the United States of America and internal controls are
not properly designed.

Recommendation-

We continue to recommend 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 trail 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.

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.

It should also be noted that the general ledger system currently in use is not fully understood by
Authority and does not appear to be able to handle transactions in a manner that provides for
proper recording. The Authority may want to determine if another software program will provide
for all of the functions needed to provide for proper accountability.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

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 (concluded)

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.

2006-B-2 - Portable Vouchers

Criteria-

The Authority is required to maintain its accounting records on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority is also responsible for designing and maintaining internal controls that allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Condition-

Our audit procedures again disclosed that the Authority does not have adequate internal controls over the processing of portable vouchers from the point of accepting the 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 are still incepton to date balances that included several years' worth of portable vouchers.

Effect-

The Authority does not have adequate internal controls over the processing of portable vouchers from the point of accepting the voucher through the billing and collection process.

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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies – Material Weaknesses (continued)

2006-B-2 – Portable Vouchers (concluded)

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.

2006-B-3 – Journal Entries

Criteria-

The Authority is required to maintain its accounting records on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The Authority is also responsible for designing and maintaining internal controls that allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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.

Effect-

The Authority has not properly designed internal controls that allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Control Deficiencies

2006-B-3 – Journal Entries (concluded)

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.

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

Criteria-

According to HUD regulations the Authority is responsible for performing Housing Quality Inspections in order to ensure that tenants are residing in units that are safe and sanitary. In order to ensure that the inspections performed are being performed in accordance with specified housing quality standards the Authority is also responsible for performing re-inspections for quality control purposes.

Condition-

Our audit procedures again 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.

Effect-

Required quality control re-inspections are not being performed.

Recommendation-

We continue to recommend that the Authority make 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 make arrangements with its neighboring housing authority to conduct HQS quality inspections.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
(continued)

Control Deficiencies (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SECTION 8 HOUSING CHOICE VOUCHER PROGRAM - CFDA 14.871

2007-C-1 Section 8 Housing Choice Voucher Program Tenant Files

Criteria-

HUD requires that a housing authority maintain adequate records to document their determinations of eligibility, order of selection, income and rent. Housing authorities are required to accurately complete HUD Form 50058, *Family Report*, based on the verified information and to submit it to HUD. Errors noted by HUD are required to be corrected by the housing authority on a timely basis. HUD requires that information concerning criminal background checks be removed from tenant files upon admittance to the program.

Condition-

Our audit procedures included selecting a representative sample of Section 8 Housing Choice Voucher Program tenants for which we examined the tenant files in accordance with the OMB Circular A-133 Compliance Supplement.

Our audit procedures for the current year were conducted in June 2008, and not only covered the fiscal year ended September 30, 2007 but also included reviewing the information available in each tenant file through the date of our field work.

Our current year audit procedures disclosed several instances of noncompliance with applicable laws, rules and regulations and the Authority's own policies and procedures. We consider these to be reportable conditions. More specifically, our findings were as follows:

The following findings indicate the number of instances that the related condition was noted out of the ten files examined. See *Population and Sample Size* below for further information concerning the sample.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
(continued)

Control Deficiencies (continued)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SECTION 8 HOUSING CHOICE VOUCHER PROGRAM - CFDA 14.871

2007-C-1 Section 8 Housing Choice Voucher Program Tenant Files (continued)

**NUMBER OF
INSTANCES**

FINDINGS

HUD REQUIREMENTS

Related to Rent Determination

1	The utility allowance used on Form 50058 was not correct.
1	The tenant's file includes 2 income calculations – no explanation was documented in the file as to the proper amount to be used on Form 50058.

Other Information

1	Names included in Form 50058 were not spelled correctly.
4	Form 9886 was noted dated by all adult family members.
1	The dates of birth included in Form 50058 were not correct.
2	The dates of inspection on Form 50058 were not correct.
3	The inspection of the concerned unit was performed more than twelve months since the last inspection.
5	Income coding indicating the type of income was not correct on Form 50058.

AUTHORITY REQUIREMENTS

2	Birth certificates and/or social security cards were not in the tenant file.
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HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (continued)
For the Year Ended September 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM -

(continued)

2007-C-1 Section 8 Housing Choice Voucher Program Tenant Files (continued)

Effect of Conditions-

The conditions described above have the following effects:

Effect on Financial Statements-

The conditions related to tenant income and expense are critical components of the determination of the amount of rent that a tenant is required to pay to the landlord under the Section 8 Housing Choice Voucher Program. Errors in the composition or calculation of these amounts have an impact on the amount of rent that the Authority pays to the landlord on behalf of a Section 8 Housing Choice Voucher Program participant and the amount of subsidy the Authority receives from HUD.

Compliance-

The conditions noted above also affect the documentation of the Authority's compliance with the laws, rules and regulations that govern the Section 8 Housing Choice Voucher Program.

Population and sample size-

NUMBER OF VOUCHERS

285

SAMPLE SIZE:

25

Questioned costs-

There are no questioned costs associated with this finding.

Recommendations-

Authority personnel, to ensure that all required information that the tenant provides and all required forms and information is included in the file, should carefully review the information provided by the tenant. The basic information concerning each household member (copies of birth certificates, social security cards and other information of on-going applicability) should be compared to the information on the 50058 to ensure that the required information is present and accurate.

The Authority should carefully review the supporting documentation for items of income and expense to ensure that everything reported by the tenant is supported and that the support is current and adequate.

We recommend that all personnel involved with the maintenance of tenant files receive additional training.

We also recommend that a supervisory review of tenant files be conducted and documented in the files. This could be accomplished by initialing the rent determination or re-examination section checklists.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (concluded)
For the Year Ended September 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM -

(concluded)

2007-C-1 Section 8 Housing Choice Voucher Program Tenant Files (continued)

Management Response-

The Housing Authority will review all files in question, and make corrections. Staff has been informed to double check/review all files for completeness. The Housing Authority will continue to have staff attend training seminars to ensure they are knowledgeable on all current HUD regulations. Supervisory review of files will continue and will include initialing of review worksheets and documents.