

**HERNANDO COUNTY
HOUSING AUTHORITY**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
AND REPORTS**

For the Year Ended September 30, 2008

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The NCT Group CPA's, 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, 2008, 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, 2008 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 September 10, 2009 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 and state financial assistance 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
September 10, 2009

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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, 2008. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Since the last audit period in FY 2007, 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, 2008 by \$1,420,880 (net assets).
- The Authority's cash balance as of September 30, 2008 was \$1,359,569 representing an increase of \$218,613 from September 30, 2007.
- The Authority had total operating revenue of \$2,249,993 and total operating expenses of \$2,122,412 for the year ended September 30, 2008.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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 Changes 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 fluctuation 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, 2008**

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

Total Assets for FYE 2008 was 1,515,853 and at FYE 2007 the amount was \$1,307,360. This represents a net increase of \$208,493. The net increase was due primarily to increases in cash of \$218,613, an increase in receivables of \$7,373, an increase in allowance for doubtful accounts of (\$13,733), an increase in prepaid expenses of \$3,260 and a net decrease in capital assets of \$7,020.

The most significant increase in assets related to cash which increased \$218,613. The increase was primarily due to the net income of \$167,424 reduced by the purchase of capital assets (\$999), along with the addition of depreciation expense of \$8,019 and bad debt expense of \$13,733, with the remaining increase due to changes in receivables and payables.

The net decrease in capital assets \$7,020 is attributed to the purchase of capital assets (\$999) decreased by \$8,019 due to depreciation expense for the year.

Current Liabilities increased from \$20,038 in FYE 2007 to \$46,146 in FYE 2008 for a net increase of \$26,108. This was due to an increase in accounts payable of \$20,460, and an increase in accrued payroll of \$5,660.

Summary of Assets, Liabilities and Net Assets

	2007	2008
<u>Assets:</u>		
Total Current Assets	\$1,158,590	\$987,232
Total Restricted Assets	21,387	408,258
Net Capital Assets	127,383	120,363
Total Assets	\$1,307,360	\$1,515,853
 <u>Liabilities and Net Assets:</u>		
<u>Liabilities:</u>		
Current Liabilities	\$20,038	\$46,146
Non-current Liabilities	33,866	48,827
Total Liabilities	\$53,904	\$94,973
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	\$127,383	\$120,363
Restricted	-	371,897
Unrestricted	1,126,073	928,620
Total Net Assets	\$1,253,456	\$1,420,880
Total Liabilities and Net Assets	\$1,307,360	\$1,515,853

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Operating Revenue		
HUD grants	\$2,004,418	\$2,077,349
Other government grants	110,584	113,899
Fraud recovery	26,586	3,767
Other revenue	44,478	54,978
Total Operating Revenue	<u>2,186,066</u>	<u>2,249,993</u>
 Operating Expenses		
Administrative salaries	177,128	196,494
Auditing fees	19,500	16,593
Employee benefit contributions	71,409	79,582
Office expense	57,781	52,116
Travel	3,495	4,332
Other administrative Expense	-	7,644
Water/sewer	756	882
Electric	2,056	2,250
Insurance	14,445	12,276
General expense	-	44,588
Housing assistance payments	1,691,301	1,697,636
Depreciation expense	7,739	8,019
Total Operating Expenses	<u>2,045,610</u>	<u>2,122,412</u>
 Operating Income	 140,456	 127,581
 Non-operating Revenue		
Investment income-unrestricted	74,142	24,978
Investment income - restricted	-	14,865
Total Non-operating Revenue	<u>74,142</u>	<u>39,843</u>
 Net Income	 214,598	 167,424
 Net Assets, beginning of year	 <u>1,038,858</u>	 <u>1,253,456</u>
Net Assets, end of year	<u><u>\$1,253,456</u></u>	<u><u>\$1,420,880</u></u>

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

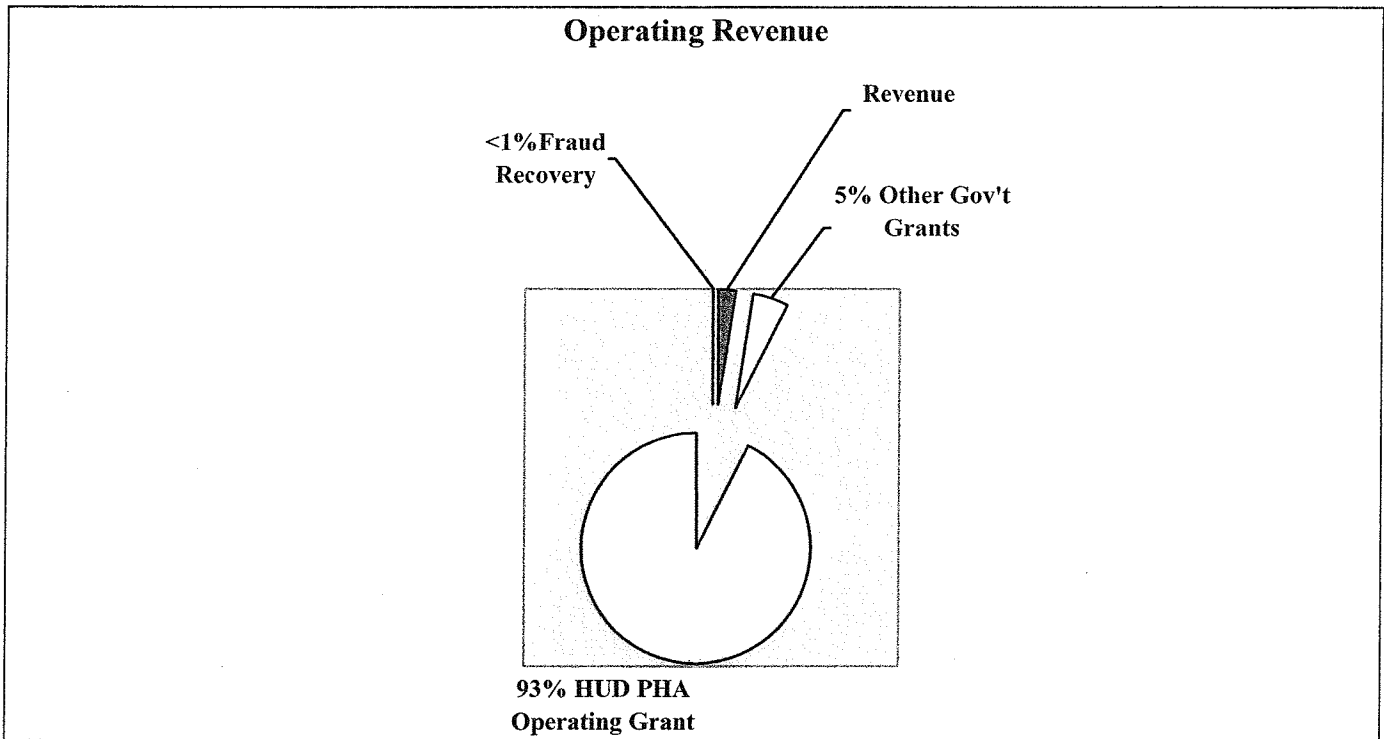
**Analysis of Entity Wide Revenue (Statement of Revenue, Expenses and Changes in Net Assets)
(continued)**

Overall operating revenue increased \$63,927 from the prior year. This is primarily attributed to HUD grants increasing by \$72,931 from the prior year due to increases in the funding level for the current year. Other government grants increased by \$3,315 over the prior year due to increased activity in the Authority's SHIP program. Fraud recovery and other income decreased for a total of \$12,319.

Overall operating expenses increased by \$76,802. The most significant increases were an increase in salaries and benefits of \$27,539, an increase in other general expenses of \$44,588 and an increase in housing assistance payments of \$6,335 due to increased utilization and changes in tenant rents.

Salaries and employee benefits increase by \$27,539 or 11 % over the prior year due to cost of living increases and increases in employee benefit payments. While other general expenses increased by \$44,588 due to an increase of \$13,733 in bad debt expense and an increase of \$17,214 in consulting expenses for the construction of affordable housing.

The diagram below illustrates the percentage of revenues generated from these programs by the Authority during FYE 2008.

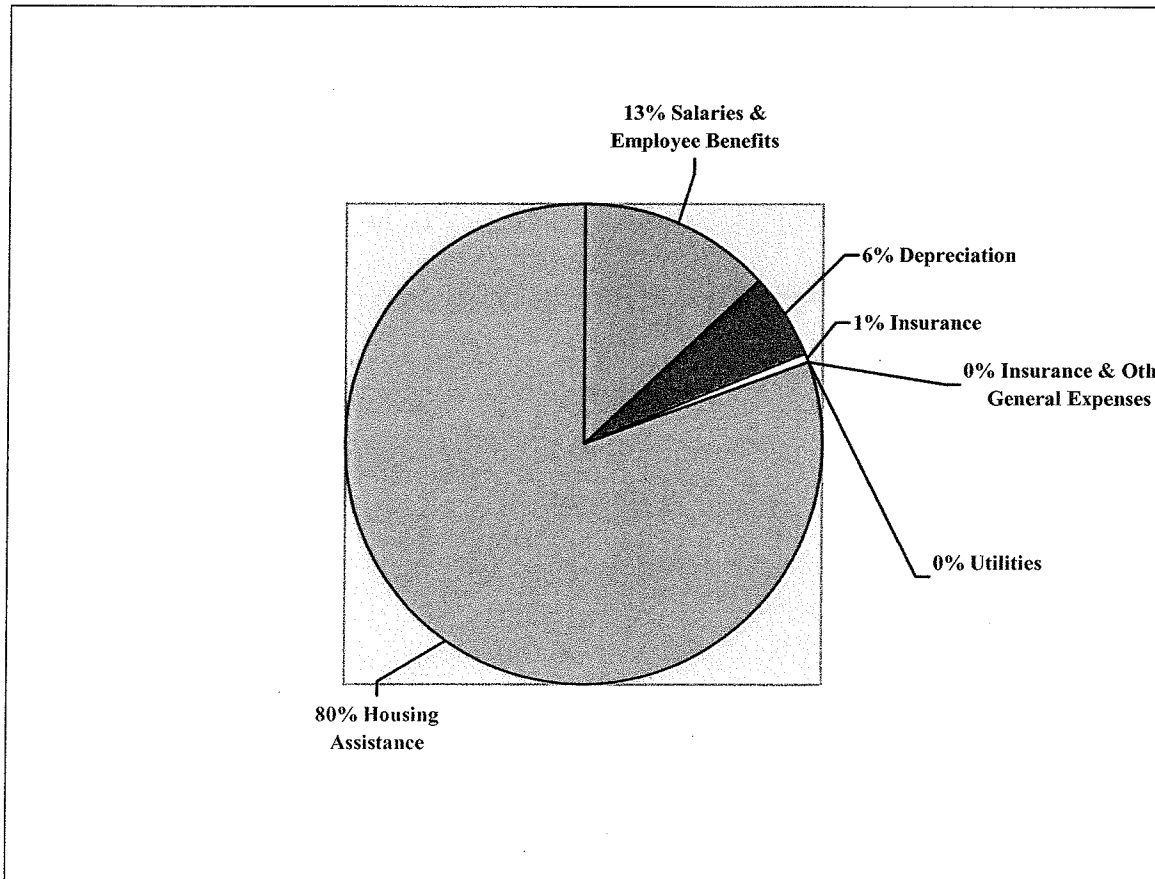


HERNANDO COUNTY HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

The diagram below illustrates the percentage of expenses during FYE 2008



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Future Plans

The Hernando County Housing Authority established the goals of:

- 1) Developing a 60-unit elderly apartment complex (Magnolia Gardens) through a partnership with The NRP Group, LLC, and the apartments will be located at 20180 Barnett Road in the south central side of Brooksville. The project will serve elderly households with incomes not to exceed 60% of Area Median Income. 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, 2008

ASSETS

Current Assets:

Cash - unrestricted	\$ 951,311
Accounts receivable, net	28,152
Prepaid expenses and other assets	<u>7,769</u>
Total Current Assets	<u>987,232</u>

Restricted Assets:

Cash - other restricted	<u>408,258</u>
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Capital Assets:

Land	104,158
Furniture and equipment - administration	41,415
Accumulated depreciation	<u>(25,210)</u>
Total Capital Assets	<u>120,363</u>

Total Assets \$ 1,515,853

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable - ≤ 90 days	\$ 19,165
Accrued payroll	11,234
Accrued compensated absences - current portion	12,466
Accounts payable - PHA projects	<u>3,281</u>
Total Current Liabilities	<u>46,146</u>

Non-current Liabilities:

Non-current liabilities - other	36,361
Accrued compensated absences - non current	<u>12,466</u>
Total Non-current Liabilities	<u>48,827</u>

Total Liabilities 94,973

Net Assets:

Invested in capital assets - net of related debt	120,363
Restricted net assets	371,897
Unrestricted net assets	<u>928,620</u>
Total Net Assets	<u>1,420,880</u>

Total Liabilities and Net Assets \$ 1,515,853

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, 2008

Operating Revenue

HUD grants	\$ 2,077,349
Other government grants	113,899
Fraud recovery	3,767
Other revenue	54,978
Total Operating Revenue	2,249,993

Operating Expenses

Administrative salaries	196,494
Auditing fees	16,593
Employee benefit contributions	79,582
Office expense	52,116
Travel	4,332
Other administrative expense	7,644
Water/Sewer	882
Electric	2,250
Insurance	12,276
General expense	44,588
Housing assistance payments	1,697,636
Depreciation expense	8,019
Total Operating Expenses	2,122,412

Operating Income 127,581

Non-operating Revenue

Investment income - unrestricted	24,978
Investment income - restricted	14,865
Total Non-operating Revenue	39,843

Net Income 167,424

Net Assets, beginning of year	1,253,456
Net Assets, end of year	\$ 1,420,880

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2008

Cash Flows From Operating Activities

Receipts:

Government operating subsidies and grants		\$ 2,187,048
Other income		58,853
	Total Receipts	2,245,901

Disbursements:

Payments to and benefits for employees		270,441
Payments to suppliers		98,055
Payments to landlords		1,697,636
	Total Disbursements	2,066,132

Net Cash Provided by Operating Activities 179,769

Cash Flows From Capital and Related Financing Activities

Purchase of capital assets		(999)
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Cash Flows From Investing Activities

Investment income		39,843
	Net Increase in Cash	218,613

		Cash, beginning of year	1,140,956
		Cash, end of year	\$ 1,359,569

Reported as:

Cash - unrestricted		\$ 951,311
Cash - restricted		408,258
	Total Cash	\$ 1,359,569

Reconciliation of Operating Income to Cash Flows Provided by Operating Activities

Operating income		\$ 127,581
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		8,019
Allowance for doubtful accounts		13,733
(Increase) decrease in:		
Accounts receivable - PHA projects		2,881
Accounts receivable - fraud recovery		108
Accounts receivable - other governments		(10,362)
Prepaid expenses and other assets		(3,260)
Increase (decrease) in:		
Accounts payable ≤ 90 days		17,179
Accrued payroll		5,660
Accounts payable - PHA projects		3,281
Accrued compensated absences		(25)
Non-current liabilities - other		14,974
	Net Cash Provided by Operating Activities	\$ 179,769

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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, 2008

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, 2008

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.

Restricted Assets

Certain assets are classified as restricted assets in the accompanying statement of net assets when constraints are placed on their use by external parties or law. The assets that are classified as restricted include the following:

Restricted Cash

Restricted cash consists of bank accounts that have been established in order to ensure the availability of funds to repay tenant security deposits. Also included are funds being held by certain entities on behalf of the Authority as a result of the issuance of certain debt instruments that are to be used to pay for certain costs.

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, 2008

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

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, 2008

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, 2008 were \$ 1,380,794 and the total carrying value was \$ 1,359,569 at September 30, 2008.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
September 30, 2008

NOTE C - CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2008 were as follows:

	Balance Balance Beginning of Year	Additions	Deletions	Balance End of Year
Not being depreciated:				
Land	\$ 104,158	\$ -	\$ -	\$ 104,158
Being depreciated:				
Administrative equipment	57,415	999	16,999	41,415
Less: accumulated depreciation:				
Administrative equipment	34,190	8,019	16,999	25,210
Total capital assets, being depreciated, net	23,225	(7,020)	-	16,205
Capital assets, net	\$ 127,383	\$ (7,020)	\$ -	\$ 120,363

NOTE D - NON-CURRENT LIABILITIES

The total non-current liabilities at the beginning of the year were \$46,344. The total additions during the year were \$14,949. The total at the end of the year was \$61,293, of which \$12,466 is due within one year.

NOTE E - 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.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (concluded)
September 30, 2008

NOTE E - RETIREMENT PLAN (concluded)

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 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, 2008 was \$ 18,260, 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 F - 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, 2008

LINE ITEM NO.	ACCOUNT DESCRIPTION	CFDA NO. 14.871 HOUSING CHOICE VOUCHERS PROGRAM	STATE/ LOCAL PROGRAM	BUSINESS ACTIVITIES	SUBTOTAL	ELIMINATIONS	TOTAL
ASSETS							
Current Assets:							
111	Cash - unrestricted	\$ 587,395	\$ 76,695	\$ 287,221	\$ 951,311	\$ -	\$ 951,311
113	Cash - other restricted	408,258	-	-	408,258	-	408,258
100	Total Cash	<u>995,653</u>	<u>76,695</u>	<u>287,221</u>	<u>1,359,569</u>	<u>-</u>	<u>1,359,569</u>
Other Current Assets:							
124	Accounts receivable - other governments	-	26,626	-	26,626	-	26,626
128	Accounts receivable - fraud recovery	15,259	-	-	15,259	-	15,259
128.1	Allowance for doubtful accounts - fraud	(13,733)	-	-	(13,733)	-	(13,733)
142	Prepaid expenses and other assets	5,478	2,291	-	7,769	-	7,769
144	Interprogram - due from other funds	190,978	103,568	-	294,546	(294,546)	-
	Total Other Current Assets	<u>197,982</u>	<u>132,485</u>	<u>-</u>	<u>330,467</u>	<u>(294,546)</u>	<u>35,921</u>
150	Total Current Assets	<u>1,193,635</u>	<u>209,180</u>	<u>287,221</u>	<u>1,690,036</u>	<u>(294,546)</u>	<u>1,395,490</u>
Non-current Assets:							
Capital Assets:							
161	Land	-	104,158	-	104,158	-	104,158
164	Furniture and equipment - administration	41,415	-	-	41,415	-	41,415
166	Accumulated depreciation	(25,210)	-	-	(25,210)	-	(25,210)
160	Capital Assets - Net	<u>16,205</u>	<u>104,158</u>	<u>-</u>	<u>120,363</u>	<u>-</u>	<u>120,363</u>
180	Total Non-current Assets	<u>16,205</u>	<u>104,158</u>	<u>-</u>	<u>120,363</u>	<u>-</u>	<u>120,363</u>
190	TOTAL ASSETS	<u>\$ 1,209,840</u>	<u>\$ 313,338</u>	<u>\$ 287,221</u>	<u>\$ 1,810,399</u>	<u>\$ (294,546)</u>	<u>\$ 1,515,853</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
312	Accounts payable - ≤ 90 days	\$ 1,504	\$ 447	\$ 17,214	\$ 19,165	\$ -	\$ 19,165
321	Accrued payroll	8,823	2,411	-	11,234	-	11,234
322	Accrued compensated absences - current portion	6,964	5,502	-	12,466	-	12,466
332	Accounts payable - PHA projects	3,281	-	-	3,281	-	3,281
347	Interprogram - due to other funds	103,568	190,978	-	294,546	(294,546)	-
310	Total Current Liabilities	<u>124,140</u>	<u>199,338</u>	<u>17,214</u>	<u>340,692</u>	<u>(294,546)</u>	<u>46,146</u>
Non-current Liabilities:							
353	Non-current liabilities - other	36,361	-	-	36,361	-	36,361
354	Accrued compensated absences - non current	6,964	5,502	-	12,466	-	12,466
350	Total Non-current Liabilities	<u>43,325</u>	<u>5,502</u>	<u>-</u>	<u>48,827</u>	<u>-</u>	<u>48,827</u>
300	Total Liabilities	<u>167,465</u>	<u>204,840</u>	<u>17,214</u>	<u>389,519</u>	<u>-</u>	<u>94,973</u>
Net Assets:							
508.1	Invested in capital assets - net of related debt	16,205	104,158	-	120,363	-	120,363
511.1	Restricted net assets	371,897	-	-	371,897	-	371,897
512.1	Unrestricted net assets	654,273	4,340	270,007	928,620	-	928,620
513	Total Net Assets	<u>1,042,375</u>	<u>108,498</u>	<u>270,007</u>	<u>1,420,880</u>	<u>-</u>	<u>1,420,880</u>
600	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,209,840</u>	<u>\$ 313,338</u>	<u>\$ 287,221</u>	<u>\$ 1,810,399</u>	<u>\$ -</u>	<u>\$ 1,515,853</u>

HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

LINE ITEM NO.	ACCOUNT DESCRIPTION	CFDA NO. 14.871 HOUSING CHOICE		BUSINESS ACTIVITIES	TOTAL	ELIMINATIONS	TOTAL
		VOUCHERS PROGRAM	STATE/ LOCAL PROGRAM				
REVENUE							
70600	HUD PHA operating grants	\$ 2,077,349	\$ -	\$ -	\$ 2,077,349	\$ -	\$2,077,349
70800	Other government grants	-	113,899	-	113,899	-	113,899
71100	Investment income - unrestricted	14,865	2,131	7,982	24,978	-	24,978
71400	Fraud recovery	3,767	-	-	3,767	-	3,767
71500	Other revenue	731,048	-	-	731,048	(676,070)	54,978
72000	Investment income - restricted	14,865	-	-	14,865	-	14,865
70000	Total Revenue	2,841,894	116,030	7,982	2,965,906	(676,070)	2,289,836
EXPENSES							
Administrative:							
91100	Administrative salaries	155,544	40,950	-	196,494	-	196,494
91200	Auditing fees	16,593	-	-	16,593	-	16,593
91500	Employee benefit contributions - administrative	58,116	21,466	-	79,582	-	79,582
91600	Office expenses	27,826	24,290	-	52,116	-	52,116
91800	Travel	3,961	371	-	4,332	-	4,332
91900	Other	6,337	1,307	-	7,644	-	7,644
Utility Expenses:							
93100	Water/Sewer	441	441	-	882	-	882
93200	Electric	1,125	1,125	-	2,250	-	2,250
General Expenses:							
96120	Liability insurance	(1,483)	28	-	(1,455)	-	(1,455)
96130	Workmen's compensation	7,765	4,690	-	12,455	-	12,455
96140	All other insurance	638	638	-	1,276	-	1,276
96200	Other general expense	13,641	-	17,214	30,855	-	30,855
96600	Bad debt expense - other	13,733	-	-	13,733	-	13,733
96900	Total Operating Expenses	304,237	95,306	17,214	416,757	-	416,757
97000	Excess of Operating Revenue Over (Under) Operating Expenses	2,537,657	20,724	(9,232)	2,549,149	(676,070)	1,873,079
97300	Housing assistance payments	1,697,636	-	-	1,697,636	-	1,697,636
97350	HAP portability-in	676,070	-	-	676,070	(676,070)	-
97400	Depreciation expense	8,019	-	-	8,019	-	8,019
90000	Total Expenses	2,685,962	95,306	17,214	2,798,482	(676,070)	2,122,412
OTHER FINANCING SOURCES (USES)							
10010	Transfers in	-	-	-	-	-	-
10020	Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)							
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	155,932	20,724	(9,232)	167,424	-	167,424
MEMO ACCOUNT INFORMATION							
11030	Net Assets Beginning of Year	886,443	87,774	279,239	1,253,456	-	1,253,456
	Net Assets End of Year	\$ 1,042,375	\$ 108,498	\$ 270,007	\$ 1,420,880	\$ -	\$1,420,880

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2008

	<u>CFDA CSFA Number</u>	<u>Identifying Number</u>	<u>Beginning (Receivable) Payable</u>	<u>Cash Received</u>	<u>Expended</u>	<u>Ending (Receivable) Payable</u>
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	\$ -	\$ 38,948	\$ 38,948	\$ -
	14.871	ACC A-3608	-	2,038,401	2,038,401	-
		Total	<u>\$ -</u>	<u>\$ 2,077,349</u>	<u>\$ 2,077,349</u>	<u>\$ -</u>
STATE ASSISTANCE						
STATE OF FLORIDA, FLORIDA HOUSING FINANCE CORPORATION						
Passed Through:						
Hernando County, Florida						
State Housing Initiatives						
	52.901	None	<u>\$ (16,264)</u>	<u>\$ 103,537</u>	<u>\$ 113,899</u>	<u>\$ (26,626)</u>

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, 2008, and have issued our report thereon dated September 10, 2009. 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, 2006-B-3 and 2008-B-1) 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, 2006-B-3, and 2008-B-1 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 September 10, 2009.

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 CPA's, L.L.P.

The NCT Group CPA's, L.L.P.
Lakeland, Florida
September 10, 2009



**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, 2008. 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, 2008. 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 item 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 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 and should not be used by anyone other than these specified parties.

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

The NCT Group CPA's, L.L.P.
Lakeland, Florida
September 10, 2009

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2008

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 being 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, 2008

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.

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

Last year the audit disclosed several instances of noncompliance with applicable laws, rules and regulations and the Authority's own policies and procedures within the tenant file testing.

Status:

This finding was properly addressed during the current year.

**HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> 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?	<u> X </u> Yes	<u> </u> No

Identification of major programs:

CFDA No.	Name of Federal program or cluster
14.971	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?	<u> </u> Yes	<u> X </u> No

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2008

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, 2008

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, 2008

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 has implemented the recommendations: Establishing separate bank accounts for each program. With the implantation of QuickBooks as of 10/1/08, the ledger accounts will be corrected, and the activity in the individual accounts will only reflect the activity of those accounts. All reconciliations are being reconciled separately as well, and balancing to the general ledger. All outstanding checks have been accounted for, and cleared out after 90 days.

Management will review and approve all adjustments that need to be made prior to the journal entry being done, as well as the necessary support documents will be attached to the journal entry and kept in a binder. In QuickBooks there will be inter-program due to/from accounts for all programs (FSS, SHIP and Business). Reimbursement has been on a quarterly basis, but we will begin billing for reimbursement on a monthly basis. The software program we have been using does not handle transaction in a manner that provides for proper recording. Our Board approved the purchase of QuickBooks in August of 2008, and we began using it as of 10/1/08.

We contacted Sun Trust Bank, and they assured us that the sweep account is accruing interest each day, and that all payments and deposits from the HAP account are zero's to the sweep account each day. The other bank accounts (SHIP & Business) also accrue interest daily.

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 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 are still in inception to date balances that included several years' worth of portable vouchers.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies – Material Weaknesses (continued)

2006-B-2 – Portable Vouchers (concluded)

Effect-

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.

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 are no longer being maintained in a separate general ledger; they are now part of the Section 8 program. Receivables and payables will be recorded as such on the Section 8 general ledger. The authority does 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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Significant Control Deficiencies – Material Weaknesses (continued)

2006-B-3 – Journal Entries (concluded)

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. A schedule will be set up for management to review all adjustments to the general ledger along with the proper explanations and/or documentation will support the adjustments. The journal vouchers will be numbered sequentially and maintained in a folder in order. Also, the Housing Authority Board approved the contracting for a Fee Accountant to assist with maintaining and reviewing our accounts and assisting in the year-end closeout.

2008-B-1 – Signature Stamps

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 signature stamps for the Board Chairman and Executive Director are kept by the Executive Director. We noted that the Executive Director uses both stamps when signing cash disbursements.

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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
For the Year Ended September 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT (concluded)

Significant Control Deficiencies – Material Weaknesses (concluded)

2008-B-1 – Signature Stamps (concluded)

Recommendation-

Cash disbursements should be signed by the Board Chairman and the Executive Director. The Board Chairman should have custody of her signature stamp. Cash disbursements should be reviewed and signed by both the Board Chairman and the Executive Director before mailing.

Management Response-

The recommendations will be implemented. The Chairman has agreed to our emailing her the HAP register and all other Direct Deposit payments for her review, she will ok them and return via email before they are issued.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Control Deficiencies

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

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.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (concluded)
For the Year Ended September 30, 2008

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

Control Deficiencies (concluded)

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

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

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. In addition, the Housing Authority's Board has approved the addition of a part time inspector, thereby allowing management to do the quality control inspections.