

**HERNANDO COUNTY
HOUSING AUTHORITY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION,
AND REPORTS
September 30, 2010**

TABLE OF CONTENTS

<u>Page</u>	
1-2	INDEPENDENT AUDITOR'S REPORT
3-10	MANAGEMENT'S DISCUSSION AND ANALYSIS
BASIC FINANCIAL STATEMENTS	
11	Statement of Net Assets
12	Statement of Revenues, Expenses and Changes in Net Assets
13-14	Statement of Cash Flows
15-21	Notes to Financial Statements
SUPPLEMENTAL INFORMATION	
22	Supplemental Financial Data Schedule – Schedule of Net Assets
23	Supplemental Financial Data Schedule – Schedule of Revenues, Expenses and Changes in Net Assets
24	Schedule of Expenditures of Federal Awards and State Financial Assistance
25	Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
SUPPLEMENTAL REPORTS	
26-27	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>
28-29	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
30-32	Summary Schedule of Prior Audit Findings
33-35	Schedule of Findings and Questioned Costs

In accordance with *Government Auditing Standards*, we have also issued a report dated April 4, 2011 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hernando County Housing Authority as of September 30, 2010 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.

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.

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, 2010, 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.

Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

INDEPENDENT AUDITOR'S REPORT

811 E. MAIN STREET
P.O. BOX 1076
LAKELAND, FL 33802-1076
P: 863.683.6783 • F: 863.687.2220

435 SOUTH COMMERCE AVENUE
SEBRING, FL 33870-3702
P: 863.385.1577 • F: 863.385.0647

147 AVENUE C S.W. SUITE 101
P.O. BOX 2239
WINTER HAVEN, FL 33883-2239
P: 863.294.4131 • F: 863.294.3927

THE NCT GROUP CPAs, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

NCT

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hernando County Housing Authority's financial statements as a whole. The accompanying supplementary financial data schedule - net assets and supplementary financial data schedule - schedule of revenues, expenses and changes in net assets are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and state financial statements 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 also not a required part of the financial statements. The supplementary financial data schedule - net assets, supplementary financial data schedule - schedule of revenues, expenses and changes in net assets and schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in relation to the financial statements as a whole.

The MT Group SpA, L.P.

April 4, 2011

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

The Hernando County Board of County Commissioners created the Hernando County Housing Authority (the Authority) 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, the Authority receives almost all its funding through the U.S. Department of Housing and Urban Development (HUD). Therefore, the Authority 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 standard performing housing authority.

HCHA is dedicated to enhancing the quality of life in Hernando County, Florida by providing and effectively managing affordable housing programs. To further its goal, HCHA has adopted the formal mission statement "The Authority 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 families 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, 2010. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Since the last audit period, fiscal year ended September 30, 2009, 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, 2010 by \$1,152,035 (net assets).
- The Authority's cash balance as of September 30, 2010 was \$1,075,352 representing a decrease of \$9,304 from September 30, 2009.
- The Authority had total revenues of \$2,224,331 and total operating expenses of \$2,177,807 for the year ended September 30, 2010.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

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 Revenues, 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 Authority 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, investing 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
Year Ended September 30, 2010**

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

ASSETS		2010	2009
Current assets	\$	859,134	933,782
Restricted assets		241,402	181,154
Net capital assets		109,090	113,412
Other Assets		451,007	-
Total assets	\$	1,660,633	\$ 1,228,348

LIABILITIES AND NET ASSETS		2010	2009
Liabilities			
Current liabilities	\$	443,248	63,554
Non-current liabilities		65,350	61,866
Total liabilities		508,598	125,420
Net assets			
Invested in capital assets, net of related debt		104,158	113,412
Restricted net assets		187,046	130,963
Unrestricted net assets		860,831	858,553
Total net assets		1,152,035	1,102,928
Total liabilities and net assets	\$	1,660,633	\$ 1,228,348

Total Assets for fiscal year end 2010 was \$1,660,633 and at fiscal year end 2009 the amount was \$1,228,348. This represents a net increase of \$432,285.

Current assets decreased by \$74,648. Unrestricted cash decreased by \$69,552 primarily due to funds being expended for the joint venture discussed below. Other current assets decreased by a net \$5,096.

Restricted assets increased by \$60,248 primarily due to unexpended funds received from HUD for under the Section 8 Housing Choice Voucher Program for making housing assistance payments to landlords.

Net capital assets decreased by \$4,322 due to current year depreciation expense.

During 2010 the Authority began expending funds to develop a 60 unit elderly complex in Brooksville, Florida. The funds expended were capitalized as an investment in joint venture. A partnership was formed with another entity to develop the property which is owned by the Authority. The total invested in 2010 amounted to \$451,007.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

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

Current liabilities increased by \$379,694. The primary reason for the increase is due to the Authority borrowing \$319,616 during the year from Florida Housing Finance Corporation under its Predevelopment Loan Program to help finance the costs of the development of the elderly complex described above. The Authority had no loans outstanding at the beginning of the year and the outstanding balance of the loan at September 30, 2010 is \$319,616. Accounts payable increased by \$47,566 due to expenditures made related to the elderly complex at the end of the fiscal year and the timing of the payment of invoices for recurring expenses. Changes in other current liabilities accounted for a net increase of \$12,512.

Non-current liabilities increase by \$3,484 due to minor increases in FSS escrow balances and accrued compensated absences.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

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

The following provides the programs administered by the Authority and the revenues generated from these programs during fiscal year end 2009 and 2010:

Year Ended September 30,	2010	2009
OPERATING REVENUE		
HUD Grants	\$ 2,077,952	\$ 1,860,657
Other government grants	43,389	106,073
Fraud recovery	1,954	847
Other revenue	101,036	75,811
Total operating revenue	2,224,331	2,043,388
OPERATING EXPENSES		
Administrative	329,205	437,902
Utilities	-	2,826
Insurance	7,605	8,676
General expense	14,698	30,187
Housing assistance payments	1,821,977	1,902,372
Depreciation expense	4,322	6,951
Total operating expenses	2,177,807	2,388,914
Operating income (loss)	46,524	(345,526)
NON-OPERATING REVENUE		
Investment income - unrestricted	2,583	14,636
Investment income - restricted	-	12,938
Total non-operating revenue	2,583	27,574
Change in net assets	49,107	(317,952)
Net assets, beginning of year	1,102,928	1,420,880
Net assets, end of year	\$ 1,152,035	\$ 1,102,928

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

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

Overall operating revenue increased \$180,943 from the prior year. This is primarily attributed to HUD grants increasing by \$217,295 from the prior year as a result of revisions by HUD in the funding level for the current year. Other government grants decreased by \$62,684 due to decreased activity in the Authority's SHIP program. This Program is scheduled to end in 2011. Fraud recovery and other income increased for a total increase of \$26,332.

Overall operating expenses decreased by \$211,107.

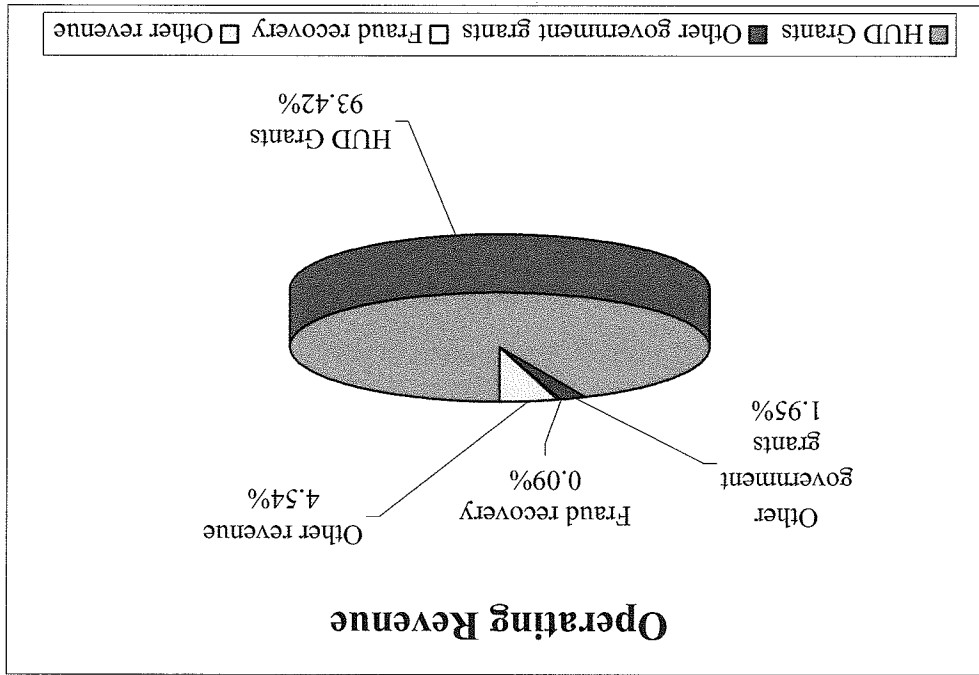
Administrative expenses decreased by \$108,697 primarily due to a \$98,811 decrease in expenses related to the Authority's other business activities.

Utilities decrease because the Authority moved its administrative office and is no longer responsible for paying for utility costs.

General expenses decreased by \$15,489 due to a reduction in Section 8 collection losses of \$14,463.

Housing Assistance payments decreased due to local economic conditions and the fact that the income of the tenants had higher income levels this year.

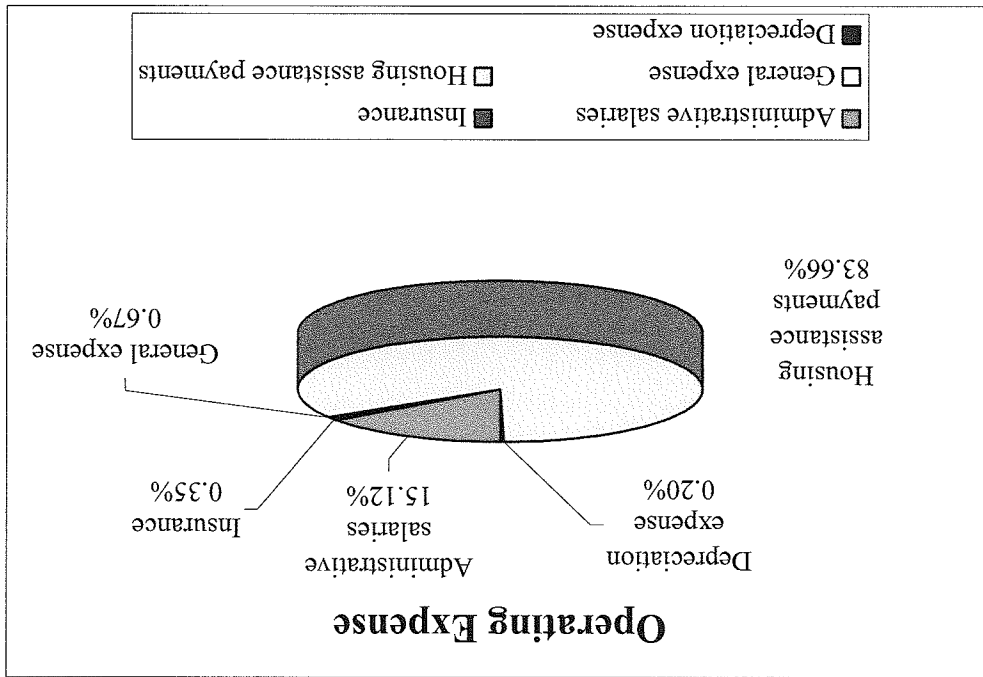
The diagram below illustrates the percentage of revenues generated from these programs by the Authority during fiscal year end 2010.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

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

The diagram below illustrates the percentage of expenses during FYE 2010



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 Florida Development, 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2010**

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of housing assistance payments.
- Inflationary pressure on utility rates, supplies and other costs

Financial Contact

The individual to be contacted regarding this report is Donald C. Singer, Executive Director of the Hernando County Housing Authority. Specific requests may be submitted to the Hernando County Housing Authority at 1661 Blaise Drive; Brooksville, Florida 34601; telephone 352-754-4160.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF NET ASSETS
September 30, 2010

ASSETS	
Current assets	
Cash - unrestricted	833,950
Accounts receivable, net of allowance for doubtful accounts of \$10,188	20,314
Prepaid expenses and other assets	4,870
Total current assets	859,134
Restricted assets	
Cash - other restricted	241,402
Capital assets	
Land	104,158
Furniture and equipment - administration	41,415
Accumulated depreciation	(36,483)
Total capital assets	109,090
Other assets	
Investment in joint venture	451,007
Total assets	\$ 1,660,633
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable - ≤ 90 days	90,250
Accrued payroll	8,725
Accrued compensated absences - current portion	10,992
Accounts payable - PHA projects	13,665
Current portion of long-term debt	319,616
Total current liabilities	443,248
Non-current liabilities	
Non-current liabilities - other	54,356
Accrued compensated absences - non current	10,994
Total non-current liabilities	65,350
Total liabilities	508,598
Net assets	
Invested in capital assets - net of related debt	104,158
Restricted net assets	187,046
Unrestricted net assets	860,831
Total net assets	1,152,035
Total liabilities and net assets	\$ 1,660,633

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended September 30, 2010

	Operating revenue
	HUD PHA operating grants
	Other government grants
	Fraud recovery
	Other revenue
	Total operating revenue
	Operating expenses
	Administrative
	Insurance
	General
	Housing assistance payments
	Depreciation expense
	Total operating expenses
	Operating income
	Non-operating revenue
	Investment income - unrestricted
	Total non-operating revenue
	Change in net assets
	NET ASSETS, beginning of the year
	NET ASSETS, end of the year

	\$ 2,077,952
	43,389
	1,954
	101,036
	<u>2,224,331</u>
	329,205
	7,605
	14,698
	1,821,977
	4,322
	<u>2,177,807</u>
	46,524
	2,583
	<u>2,583</u>
	49,107
	<u>1,102,928</u>
	<u>\$ 1,152,035</u>

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended September 30, 2010

CASH FLOW FROM OPERATING ACTIVITIES	
Receipts	
Operating subsidy and grant receipts	\$ 2,077,952
Other governmental subsidy and grant receipts	43,389
Other income receipts	101,464
Total receipts	<u>2,222,805</u>
Disbursements	
Payments to and benefits for employees	241,051
Payments to suppliers	47,435
Payments to landlords	1,814,815
Total disbursements	<u>2,103,301</u>
Net cash from operating activities	<u>119,504</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from the issuance of debt	319,616
Investment in joint venture	(451,007)
Net cash from capital and related financing activities	<u>(131,391)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income - unrestricted	2,583
Net cash from investing activities	<u>2,583</u>
Net change in cash	<u>(9,304)</u>
CASH, beginning of year	<u>1,084,656</u>
CASH, end of year	<u>\$ 1,075,352</u>
REPORTED AS	
Cash - unrestricted	\$ 833,950
Cash - restricted	241,402
Total cash, end of year	<u>\$ 1,075,352</u>

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS (continued)
Year Ended September 30, 2010

RECONCILIATION OF OPERATING INCOME TO	
NET CASH FROM OPERATING ACTIVITIES	
Operating income	46,524
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,322
(Increase) decrease in	
Accounts receivable - PHA projects	(7,915)
Accounts receivable - other governments	16,971
Accounts receivable - fraud recovery	(1,526)
Prepaid expenses and other assets	(2,434)
Increase (decrease) in	
Accounts payable ≤ 90 days	47,588
Accrued payroll	2,260
Accounts payable - PHA projects	10,912
Accrued compensated absences	(1,363)
Non-current liabilities - other	4,165
Net cash from operating activities	<u><u>\$ 119,504</u></u>

See accompanying notes to financial statements.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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 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 has one blended component.

HCHA-Magnolia, LLC

The Authority is the sole member of HCHA-Magnolia, LLC, a Florida Limited Liability Company. HCHA-Magnolia, LLC is a general partner in Magnolia Gardens I, LTD, a Florida Limited Liability Company that was formed to develop a 60-unit elderly low-income housing complex. HCHA-Magnolia, LLC has a minority interest in the Magnolia Gardens I, LTD.

**HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

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 and reported in the financial statements. 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.

These programs/activities are as follows:

Section 8 Housing Choice Vouchers (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.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program/Activity Accounting (continued)

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 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 pay amounts held in escrow for tenants participating the Section 8 Self-sufficiency program. Also included are funds restricted for housing assistance payments under the Section 8 Housing Choice Vouchers program.

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 administrative equipment is 5 years.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
 September 30, 2010

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

Employees 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 hours for each hour worked. Accumulated unused sick leave is not carried forward and is not paid to the employee upon separation from the Authority.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first. Restricted net assets are restricted for housing assistance payments under the Section 8 Housing Choice Vouchers program.

Operating and Non-operating Revenues and Expenses

The Authority recognizes operating revenues and expenses as a result of providing low-rent housing and other services. The principal operating revenues of the Authority consist of operating subsidies and grants and other revenue received from 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 Section 8 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.

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.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
 September 30, 2010

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 218.415 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, 2010 were \$ 1,080,705 and the total carrying value was \$ 1,075,352 at September 30, 2010.

NOTE C - CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2010 were as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Not being depreciated				
Land	\$ 104,158	\$ -	\$ -	\$ 104,158
Being depreciated				
Furniture and equipment - administration	41,415	-	-	41,415
Less accumulated depreciation				
Furniture and equipment - administration	32,161	4,322	-	36,483
Total capital assets being depreciated, net	9,254	(4,322)	-	4,932
Capital assets, net	\$ 113,412	\$ (4,322)	\$ -	\$ 109,090

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE C – CAPITAL ASSETS (continued)

On June 16, 2010, the Authority entered into a fifty-two year ground lease with Magnolia Gardens I, LTD to lease a parcel of land in Brooksville, Florida.

NOTE D – LOAN

On January 22, 2010 the Authority signed a loan agreement to borrow money from the Florida Housing Finance Corporation. The loan was made under the Predevelopment Loan Program (PLP). The total amount that can be borrowed against the loan is \$500,000. As of September 30, 2010, the outstanding balance was \$319,616. The PLP loan bears interest at 1.00%. The Authority did not have any loans outstanding at the beginning of the year and borrowed the \$319,616 balance that is outstanding at the end of the year during the current fiscal year. The loan is due to repaid in full upon obtaining permanent financing. The loan was paid in full in December 2010 therefore the entire balance is classified as current.

NOTE E – NON-CURRENT LIABILITIES

Non-current liabilities are comprised of Section 8 self-sufficiency accounts and the non-current portion of accrued compensated absences.

The total non-current liabilities at the beginning of the year were \$61,866. The total additions during the year were \$3,484. The total at the end of the year was \$65,350.

NOTE F – RETIREMENT PLAN

Certain full-time employees are participants in the Florida Retirement System (the 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 (the Pension Plan) or the Florida Retirement System Investment Plan (the 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
 September 30, 2010

NOTE F – RETIREMENT PLAN (continued)

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

Participating employer contributions are based upon state-wide rates established by the State of Florida. These rates, which include the health insurance subsidy contributions of 1.11% and an administrative and educational plan fee of .03%, are applied to employee salaries as follows: regular employees – 10.77%; senior management – 14.57%. Hernando County Housing Authority's contributions made during the year ending September 30, 2010 was \$14,978, 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 G – CONTINGENCIES AND ECONOMIC DEPENDENCE

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.

NOTE H – SUBSEQUENT EVENTS

On December 8, 2010 the Authority's blended component unit, HCHA-Magnolia, LLC entered into an agreement with other members of Magnolia Gardens, LTD to begin construction on a new 60-unit, low-income elderly housing complex. The project is to be funded by the following sources:

First mortgage – construction loan	\$	5,160,000
Second mortgage – SHIP loan	\$	75,000
Third mortgage – Tax Credit Exchange Program loan	\$	2,634,026

All of these loans were executed on above date. Concurrent with execution of the above loans, the existing PLP loan in the amount of \$319,616 was repaid.

A land use restriction agreement was also signed which restricts the use of land for low-income housing that the Magnolia Gardens I, LTD is leasing from the Authority.

Magnolia Gardens I, LTD also signed a construction contract to construct the Magnolia Gardens I, LTD housing project in the amount of \$6,300,000.

SUPPLEMENTAL INFORMATION

**HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF NET ASSETS
September 30, 2010**

LINE ITEM NO.	ACCOUNT DESCRIPTION	CPDA NO.	STATE/LOCAL PROGRAM	BUSINESS ACTIVITIES	SUBTOTAL	ELIMINATIONS	TOTAL PROGRAMS
ASSETS							
Current assets							
111	Cash		\$ 517,578	\$ 183,943	\$ 132,429	\$ 833,950	\$ 833,950
113	Cash - unrestricted		241,402	-	241,402	-	241,402
100	Total cash		758,980	183,943	132,429	1,075,352	1,075,352
121	Accounts and notes receivable		17,270	-	17,270	-	17,270
128	Accounts receivable - PHA projects		13,232	-	13,232	-	13,232
128.1	Accounts receivable - fraud recovery		(10,188)	-	(10,188)	-	(10,188)
120	Total receivables, net		20,314	-	20,314	-	20,314
Other current assets							
142	Prepaid expenses and other assets		3,731	1,139	4,870	-	4,870
144	Interprogram - due from other funds		169,114	-	169,114	(169,114)	-
144	Interprogram - due from other funds		172,845	1,139	173,984	(169,114)	4,870
150	Total current assets		952,139	185,082	132,429	1,269,650	1,100,536
Non-current assets							
161	Land		41,415	-	41,415	-	41,415
164	Furniture and equipment - administration		41,415	-	41,415	-	41,415
166	Accumulated depreciation		(36,483)	-	(36,483)	-	(36,483)
160	Total capital assets, net		49,322	-	109,090	-	109,090
176	Investment in joint venture		-	451,007	451,007	-	451,007
180	Total non-current assets		4,932	555,165	560,097	-	560,097
190	Total assets		\$ 957,071	\$ 185,082	\$ 687,594	\$ 1,829,747	\$ 1,660,633
LIABILITIES AND NET ASSETS							
Current liabilities							
312	Accounts payable - < 90 days		\$ 8,792	\$ 361	\$ 81,097	\$ 90,250	\$ 90,250
321	Accrued payroll		6,577	1,816	332	8,725	8,725
322	Accrued compensated absences - current portion		8,339	1,751	902	10,992	10,992
322	Accounts payable - PHA projects		13,665	-	-	13,665	13,665
347	Interprogram - due to other funds		-	154,923	14,191	169,114	(169,114)
348	Loan liability - current		-	319,616	319,616	-	319,616
310	Total current liabilities		37,373	158,851	416,138	612,362	443,248
Non-current liabilities							
353	Non-current liabilities - other		54,356	-	-	54,356	54,356
354	Accrued compensated absences - non current		8,339	1,752	903	10,994	10,994
350	Total non-current liabilities		62,695	1,752	903	65,350	65,350
300	Total liabilities		100,068	160,603	417,041	677,712	(169,114)
508.1	Invested in capital assets - net of related debt		-	-	104,158	104,158	104,158
511.1	Restricted net assets		187,046	24,479	166,395	187,046	187,046
512.1	Unrestricted net assets		669,957	24,479	166,395	860,831	860,831
513	Total net assets		857,003	24,479	270,553	1,152,035	1,152,035
600	Total liabilities and net assets		\$ 957,071	\$ 185,082	\$ 687,594	\$ 1,829,747	\$ 1,660,633

**HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTAL FINANCIAL DATA SCHEDULE
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
Year Ended September 30, 2010

LINE ITEM NO.	ACCOUNT DESCRIPTION	CPDA NO. 14.871 SECTION 8 HOUSING CHOICE VOUCHERS	STATE/ LOCAL PROGRAM	BUSINESS ACTIVITIES	TOTAL PROGRAMS
	REVENUE				
70600	HUD PHA operating grants	\$ 2,077,952	\$ -	\$ -	\$ 2,077,952
70800	Other government grants	-	43,389	-	43,389
71100	Investment income - unrestricted	1,357	545	681	2,583
71400	Fraud recovery	1,954	-	-	1,954
71500	Other revenue	87,996	7,045	5,995	101,036
70000	Total Revenue	2,169,259	50,979	6,676	2,226,914
	EXPENSES				
91100	Administrative salaries	128,556	32,668	7,017	168,241
91200	Auditing fees	23,050	-	-	23,050
91310	Bookkeeping fee	10,658	-	-	10,658
91500	Employee benefit contributions - administrative	58,425	6,744	1,867	67,036
91600	Office expenses	37,216	16,666	-	53,882
91800	Travel	1,717	67	-	1,784
91900	Other	4,554	-	-	4,554
91000	Total operating - administrative	264,176	56,145	8,884	329,205
96130	Insurance premiums	4,298	2,099	-	6,397
96140	Workers' compensation	906	302	-	1,208
96100	All other insurance	5,204	2,401	-	7,605
96200	General expenses	5,995	-	2,032	8,027
96210	Other general expense	4,866	-	1,805	6,671
96000	Total general expenses	10,861	-	3,837	14,698
96900	Total operating expenses	280,241	58,546	12,721	351,508
97000	Excess (deficiency) of operating revenue over (under) operating expenses	1,889,018	(7,567)	(6,045)	1,875,406
	Other expenses	1,821,977	-	-	1,821,977
97300	Housing assistance payments	4,322	-	-	4,322
97400	Depreciation expense	2,106,540	58,546	12,721	2,177,807
10000	Excess (deficiency) of revenue over (under) expenses	62,719	(7,567)	(6,045)	49,107
11030	NET ASSETS, beginning of the year	794,284	136,204	172,440	1,102,928
11040	Residual equity transfer	-	(104,158)	104,158	-
	NET ASSETS, end of the year	\$ 857,003	\$ 24,479	\$ 270,553	\$ 1,152,035

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2010

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance presents the activity of all federal awards program of the Authority. The Authority reporting entity is defined in Note A to the Authority's basic financial statements for the year ended September 30, 2010. All federal awards received directly from federal agencies as well as federal financial awards passed through other government agencies are included in the schedule.

NOTE B - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the accrual basis of accounting for awards recorded in the Authority's proprietary fund type which is described in Note A to the Authority's basic financial statements for the year ended September 30, 2010.

HUD considers the Annual Budget Authority for the Section 8 Housing Voucher Program - CFDA 14.871, to be an expenditure for the purposes of this schedule. Therefore, the amount in this schedule is the total amount received directly from HUD and not the total expenditures paid by the Authority.

NOTE C - CONTINGENCIES

Grant monies received and disbursed by the Authority are for specific purposes and are subject to review by the grant or agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Authority does not believe that such disallowances, if any, would have a material effect on the financial position of the Authority.

SUPPLEMENTAL REPORTS

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

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

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 the 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.

We have audited the financial statements of the business-type activities of Hernando County Housing Authority (the Authority) as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 4, 2011. 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.

Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

**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**



811 E. MAIN STREET
PO, BOX 1076
LAKELAND, FL 33802-1076
P: 863.683.6783 • F: 863.687.2220

435 SOUTH COMMERCE AVENUE
SEBRING, FL 33870-3702
P: 863.385.1577 • F: 863.385.0647

147 AVENUE C S.W. SUITE 101
PO, BOX 2239
WINTER HAVEN, FL 33883-2239
P: 863.294.4131 • F: 863.294.3927

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 questioned costs as item 2010-01.

We noted certain matters that we reported to management of the Authority in a separate letter dated April 4, 2011.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the 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, federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties.

The NT Group Co., L.P.

April 4, 2011

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-01.

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

We have audited Hernando County Housing Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

Compliance

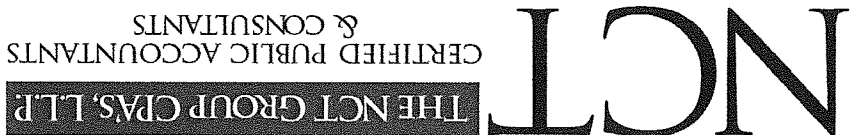
Board of Commissioners
Hernando County Housing Authority
Brooksville, Florida

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

811 E. MAIN STREET
P.O. BOX 1076
LAKELAND, FL 33802-1076
P: 863.683.6783 • F: 863.687.2220

435 SOUTH COMMERCE AVENUE
SEBRING, FL 33870-3702
P: 863.385.1577 • F: 863.385.0647

147 AVENUE C SW, SUITE 101
P.O. BOX 2239
WINTER HAVEN, FL 33883-2239
P: 863.294.4131 • F: 863.294.3927



April 4, 2011

The NT Group, Inc., L.P.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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 Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-01. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Internal Control Over Compliance

**HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR FINDINGS
September 30, 2010**

FINANCIAL STATEMENT AUDIT FINDINGS

Significant Control Deficiencies

2009-01 – 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 being posted or prepared throughout the year. We noted that all of the journal entries for the year were done on September 30, 2010.

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

Journal entries should be posted throughout the year in order to prepare accurate monthly financial statements.

Current year status

The housing authority agrees with the auditor's recommendation and now prepares and records journal entries throughout the year as necessary to maintain accurate financial records.

2009-02 – Segregation of Duties

Criteria

The Authority is 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

During our auditing procedures it was noted that the bookkeeper opens the mail (including bank statements), prepares deposits, posts entries to accounts receivable, reconciles the bank statements, and posts entries to the general ledger.

Effect

The Authority has not properly segregated job duties causing internal controls to be ineffective.

Recommendation

We recommend that the Authority segregate some of the bookkeeper's job duties, as reasonably possible with other employees.

**HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR FINDINGS
September 30, 2010**

FINANCIAL STATEMENT AUDIT FINDINGS (continued)

Significant Control Deficiencies (continued)

2009-02 – Segregation of Duties (continued)

Current Year Status
The housing authority has contracted with a fee accountant to accomplish further separation of duties to successfully implement effective internal controls of accounting functions.

FEDERAL AWARDS FINDINGS

Significant Control Deficiencies

**Department of Housing and Urban Development
CFDA 14.871 – Section 8 Housing Choice Vouchers**

2009-01 – Family Self Sufficiency Program – Journal Entries

Criteria

According to HUD regulations, the Authority is required to prorate investment income on the FSS accounts based on the family's FSS balance at the end of the period for which the investment income is credited.

Condition

During our testing of the FSS accounts, we noted that the investment income and credits were not credited to the FSS accounts on a periodic basis, but rather in one journal entry at year end.

Effect

Investment income that was required to be credited during the period in which it was earned was not done.

Recommendation

We recommend that journal entries be done quarterly in order to record investment income according to HUD regulations.

Current Year Status

The housing authority agrees with the auditor recommendation and has begun to record investment income quarterly for the FSS accounts.

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR FINDINGS
September 30, 2010

FEDERAL AWARDS FINDINGS (continued)

Significant Control Deficiencies

**Department of Housing and Urban Development
CFDA 14.871 – Section 8 Housing Choice Vouchers**

2006-01 – 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.

Current Year Status

The housing authority has hired additional staff to perform unit inspections. The Authority's executive director currently performs re-inspections.

**HERNANDO COUNTY HOUSING AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2010**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Unqualified	Type of auditor's report issued	No
	Internal control over financial reporting:	
	Material weaknesses identified	
	Significant deficiencies identified not considered to be a material weakness	No
	Noncompliance material to financial statements noted	No
	<i>Federal Awards Program</i>	
	Internal control over major programs:	
	Material weaknesses identified	No
	Significant deficiencies identified not considered to be a material weakness	Yes
Unqualified Opinion	Type of auditor's report on compliance for major programs	
	Audit findings disclosed that are required to be in accordance with Circular A-133, Section .510(a)	Yes
	Identification of major programs:	
	Section 8 Housing Choice Vouchers CFDA # 14.871	
	Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
	Auditee qualified as low-risk	No

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2010

SECTION II – FINANCIAL STATEMENT AUDIT

There were no findings or questioned costs which were required to be reported in accordance with OMB Circular A-133.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Significant Control Deficiency

Department of Housing and Urban Development
CFDA 14.871 – Section 8 Housing Choice Vouchers

2010-01 – Inaccurate reporting within the Voucher Management System (VMS)

Criteria

According to HUD regulations, form 52681-B is required to be submitted electronically to HUD on a monthly basis. This form reports information concerning the number of vouchers by type, housing assistance payment (HAP) expense for all vouchers administered by the Authority, HAP billed to other housing authorities and HAP paid to other housing authorities and administrative expenses. This is the basis on which HUD keeps track of voucher activity.

Condition

During our audit, we selected 3 monthly reports for which we obtained the supporting documentation for what had been reported. Our audit procedures disclosed the following:

- Errors in the number of voucher reported by classification were noted in 2 of the months selected for testing.
- There was no support for the Housing Assistance Payments made for port-ins for 1 month tested. Administrative expenses did not agree to the excel spreadsheet used to track expenses vs. budget in 1 month tested.
- Errors in Administrative expenses were noted in 1 month tested that was adjusted in the next month (unemployment expense).
- For all months tested there was no support for interest.
- The support for the Housing Assistance Payments billed to other Housing Authority's did not have support in the file for all 3 months tested.
- Our audit procedures also disclosed that the Authority revised their expense allocations between programs in May of 2010 and retroactively applied the new allocations in the general ledger and on the spreadsheet used to support the Voucher Management System reporting but did not report those changes to HUD by amending or revising the 52681-B forms.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2010

Effect

Information reported on form 52681-B was improperly reported to HUD.

Recommendation

We recommend that management utilize the general ledger and other tenant billing software reports available from the Authority's software to support the information reported in the Voucher Management System. We also recommend that all supporting documentation be included in a binder to support the VMS submissions.

The Authority should review all of the current year's reporting in the Voucher Management System and amend the reports as considered necessary.

Management Response

The Authority agrees with the reported finding in the VMS system. The Authority will review all current year's reporting in the VMS system and make adjustments where needed. Internal reports, general ledger, and other internal documents will be utilized to report and support the information submitted in the Voucher Management System (VMS).