

HERNANDO COUNTY HOUSING AUTHORITY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2011

HERNANDO COUNTY HOUSING AUTHORITY
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YEAR ENDED SEPTEMBER 30, 2011

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2012 on our consideration of Hernando County Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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, 2011, and the changes in financial position and 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 basic financial statements of Hernando County Housing Authority as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the 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 AUDITORS' REPORT

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary financial data schedules 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 of the Authority. The accompanying schedule of expenditures 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 financial statements of the Authority. The supplementary financial data schedules and the schedule 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Clifton Larson Allen LLP
CliftonLarsonAllen LLP

Lakeland, Florida
April 16, 2012

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2011**

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.

The Authority 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, 2011. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Since the last audit period, year ended September 30, 2010, 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, 2011 by \$1,248,330 (net assets).
- The Authority's cash balance as of September 30, 2011 was \$1,218,913 representing a increase of \$143,561 from September 30, 2010.
- The Authority had operating revenues of \$3,190,363 and operating expenses of \$3,037,320 for the year ended September 30, 2011.

HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2011

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:

- **Balance Sheet** – 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 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, 2011**

Analysis of Net Assets (Balance Sheet)

September 30,	2011	2010
ASSETS		
Current Assets - Unrestricted	\$ 953,005	\$ 1,310,141
Current Assets - Restricted	359,860	241,402
Net Capital Assets	104,768	109,090
Total Assets	\$ 1,417,633	\$ 1,660,633
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities	13,598	443,248
Non-Current Liabilities	155,705	65,350
Total Liabilities	169,303	508,598
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	104,768	104,158
Restricted Net Assets	359,860	187,046
Unrestricted Net Assets	783,702	860,831
Total Net Assets	1,248,330	1,152,035
Total Liabilities and Net Assets	\$ 1,417,633	\$ 1,660,633

Total assets for fiscal year-end 2011 was \$1,417,633 and at fiscal year-end 2010 the amount was \$1,660,633. This represents a net decrease of \$243,000.

Current assets decreased by \$238,678. Unrestricted cash decreased by \$357,136 primarily due to the paying off of the \$344,606 PLP loan at the closing of Magnolia Gardens.

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

Current liabilities decreased by \$429,636. The primary reason for the decrease is due to the closing of Magnolia Gardens I, LTD which resulted in the repayment of the Florida Housing Finance Corporation under its Predevelopment Loan Program in the amount of \$346,063. The Authority had no loans outstanding at the end of the year. Accounts payable decreased by \$88,251 due to expenditures made related to Magnolia Gardens I, LTD at the end of the prior year.

Noncurrent liabilities increased by \$90,355. The FSS escrow balances decreased by \$54,356 due to five FSS participants leaving the program. The Authority did receive a \$150,000 ground lease payment. The ground lease term is 52 years. As of September 30, 2011, there was \$146,274 that was recorded as deferred revenue.

**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2011**

Analysis of 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 years ended 2011 and 2010:

Year Ended September 30,	2011	2010
OPERATING REVENUE		
HUD Grants	\$ 2,110,437	\$ 2,077,952
Other Government Grants	27,222	43,389
Fraud Recovery	-	1,954
Other Revenue	1,052,704	971,764
Total Operating Revenue	<u>3,190,363</u>	<u>3,095,059</u>
OPERATING EXPENSES		
Administrative	344,258	329,205
Insurance	8,731	7,605
General Expense	35,296	14,698
Housing Assistance Payments	2,644,713	2,692,705
Depreciation Expense	4,322	4,322
Total Operating Expenses	<u>3,037,320</u>	<u>3,048,535</u>
OPERATING INCOME	153,043	46,524
NON-OPERATING REVENUE		
Investment Income - Unrestricted	1,699	2,583
Investment Income - Restricted	317	-
Total Non-Operating Revenue	<u>2,016</u>	<u>2,583</u>
CHANGE IN NET ASSETS	155,059	49,107
Net Assets - Beginning of Year	1,152,035	1,102,928
Prior Period Adjustment	(58,764)	-
NET ASSETS - END OF YEAR	<u>\$ 1,248,330</u>	<u>\$ 1,152,035</u>

HERNANDO COUNTY HOUSING AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED SEPTEMBER 30, 2011

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

Overall operating revenue increased \$95,304 from the prior year. This is attributed to HUD grants increasing by \$32,485 from the prior year as a result of revisions by HUD in the funding level for the current year. Other government grants decreased by \$16,167 due to decreased activity in the Authority's SHIP program. This Program was scheduled to end in 2011, but additional funding was available. Total revenue from the SHIP program was \$27,222. The Authority did not incur any fraud revenue during the current year. Other income increased by \$80,940 primarily due to more portability-in-Section 8 participants during the current year.

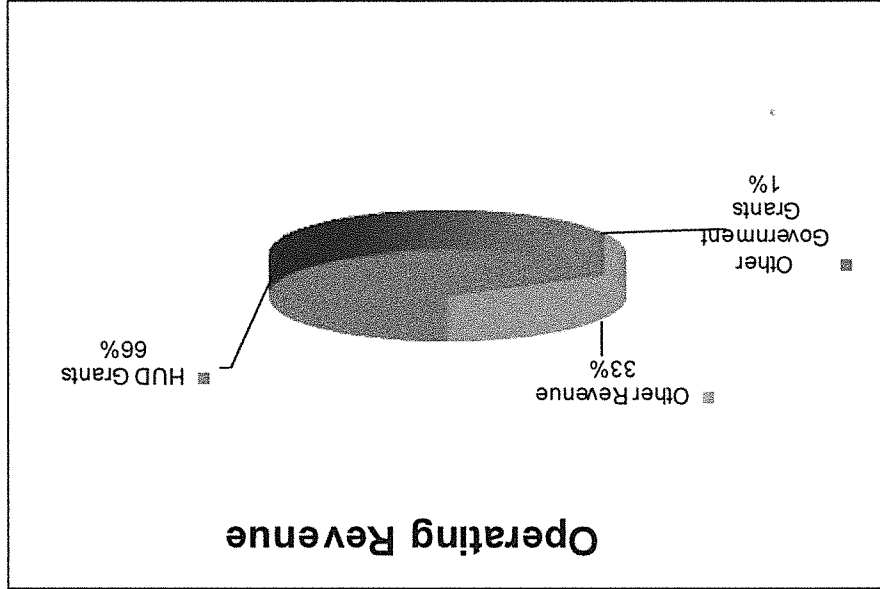
Overall operating expenses decreased by \$11,215.

Administrative expenses increased by \$15,053 primarily due to increases in benefit costs and employee raises.

General expenses increased by \$20,598 due expenses incurred by the Authority related to the Magnolia Gardens I, LTD development.

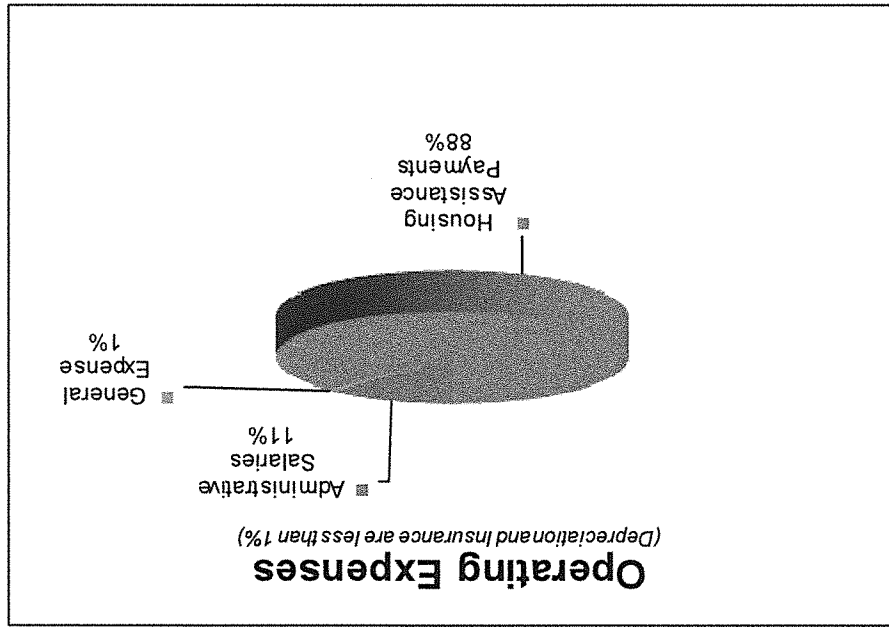
Housing Assistance payments decreased due to local economic conditions and the fact that the income of the tenants had higher income levels this year.

The diagram below illustrates the percentage of revenues generated from these programs by the Authority during fiscal year-end 2011.



**HERNANDO COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2011**

Analysis of Expenses (Statement of Revenues, Expenses and Changes in Net Assets)
The diagram below illustrates the percentage of expenses during FYE 2011:



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, 2011**

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
BALANCE SHEET
SEPTEMBER 30, 2011**

ASSETS	
	CURRENT ASSETS
	Cash - Unrestricted
	Cash - Restricted
	Accounts Receivable - Miscellaneous
	Prepaid Expenses and Other Assets
	Total Current Assets
	CAPITAL ASSETS
	Land
	Furniture and Equipment - Administration
	Less: Accumulated Depreciation
	Total Capital Assets
	Total Assets
\$ 859,053	
359,860	
86,474	
7,478	
<u>1,312,865</u>	
	LIABILITIES AND NET ASSETS
	CURRENT LIABILITIES
	Accounts Payable - ≤ 90 Days
	Accrued Payroll
	Accrued Compensated Absences - Current Portion
	Total Current Liabilities
	NONCURRENT LIABILITIES
	Deferred Revenue
	Accrued Compensated Absences - Noncurrent
	Total Noncurrent Liabilities
	Total Liabilities
	NET ASSETS
	Invested in Capital Assets
	Restricted Net Assets
	Unrestricted Net Assets
	Total Net Assets
	Total Liabilities and Net Assets
\$ 1,417,633	
<u>104,768</u>	
<u>(40,805)</u>	
104,158	
41,415	
<u>1,417,633</u>	

See accompanying Notes to Financial Statements.

**HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011**

	OPERATING REVENUE
	HUD PHA Operating Grants
	Other Government Grants
	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
	Investment Income - Restricted
	Total Non-Operating Revenue
	CHANGE IN NET ASSETS
	Net Assets - Beginning of Year
	Prior Period Adjustment
	NET ASSETS - END OF YEAR

	\$ 2,110,437
	27,222
	1,052,704
	<u>3,190,363</u>
	344,258
	8,731
	35,296
	2,644,713
	4,322
	<u>3,037,320</u>
	153,043
	1,699
	317
	<u>2,016</u>
	155,059
	1,152,035
	<u>(58,764)</u>
	<u>\$ 1,248,330</u>

See accompanying Notes to Financial Statements.

**HERNANDO COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011**

	CASH FLOW FROM OPERATING ACTIVITIES
	Receipts:
	Operating Subsidy and Grant Receipts
	Other Governmental Subsidy and Grant Receipts
	Other Income Receipts
	Total Receipts
2,110,437	
27,222	
1,126,099	
<u>3,263,758</u>	
	Disbursements:
	Payments to and Benefits for Employees
	Payments to Suppliers
	Payments to Landlords
	Total Disbursements
326,282	
164,000	
2,658,378	
<u>3,148,660</u>	
115,098	Net Cash Provided by Operating Activities
	CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
	Proceeds from the Issuance of Debt
26,447	Net Cash Provided by Capital and Related Financing Activities
<u>26,447</u>	
	CASH FLOWS FROM INVESTING ACTIVITIES
	Investment Income - Unrestricted
1,699	
	Investment Income - Restricted
317	Net Cash Provided by Investing Activities
<u>2,016</u>	
143,561	NET CHANGE IN CASH
	Cash - Beginning of Year
1,075,352	
<u>\$ 1,218,913</u>	
	REPORTED AS
	Cash - Unrestricted
859,053	
	Cash - Restricted
359,860	Total Cash, End of Year
<u>\$ 1,218,913</u>	
	NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:
	Loan Repayment and Settlement of Miscellaneous Receivable at
	Closing of Magnolia Gardens I, Ltd.
\$ 346,063	

See accompanying Notes to Financial Statements.

HERNANDO COUNTY HOUSING AUTHORITY
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED SEPTEMBER 30, 2011

RECONCILIATION OF OPERATING INCOME TO	
NET CASH FROM OPERATING ACTIVITIES	
Operating Income	153,043
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	4,322
(Increase) Decrease in:	
Accounts Receivable - PHA Projects	(21,567)
Accounts Receivable - Fraud Recovery	3,044
Accounts Receivable - Miscellaneous	(1,457)
Prepaid Expenses and Other Assets	(2,608)
Increase (Decrease) in:	
Accounts Payable ≤ 90 Days	(88,265)
Accrued Payroll	(6,544)
Accounts Payable - PHA Projects	(13,665)
Deferred Revenue	146,274
Accrued Compensated Absences	(3,123)
Noncurrent Liabilities - Other	(54,356)
Net Cash Provided by Operating Activities	<u>115,098</u>

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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 (GASB) 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 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 GASB. 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 two blended component units.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

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 (0.01%) in the Magnolia Gardens I, LTD. Other than owning a minority interest in Magnolia Gardens I, LTD, the entity does conduct any other business.

Hernando Housing Development Corporation, Inc. (HHDC)

HHDC is an instrumentality of the Authority for the purpose of assisting in providing low and moderate income housing within the State of Florida, Hernando County and the City of Brooksville, Florida. HHDC was created July 23, 1985 and shall exist for a period of 50 years. Since the inception of HHDC, the corporation has not had any activity.

Basis of Presentation and Accounting

Proprietary Fund

Based on compelling reasons offered by HUD, 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.

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.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program/Activity Accounting (Continued)

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.

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.

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.

Other Business Activity

These activities account for the operations of various housing programs to assist low-income families. Other business activities may be funded with private and public grants or from other non-restricted sources of revenue.

Budgets

Budgets are prepared on an annual basis for each 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.

Restricted Assets

Certain assets are classified as restricted assets in the accompanying balance sheet 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 funds restricted for housing assistance payments under the Section 8 Housing Choice Vouchers program.

**HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are recorded at cost if their cost exceeds \$500. Donated assets are recorded at fair market value at the date of donation. Routine repairs and maintenance are charged against operations.

Depreciation is calculated using the straight-line method over the useful life of the related asset. The useful life established for administrative equipment is five years. When assets are disposed of the related cost and accumulated depreciation are relieved and any gain or loss is included in change in net assets.

Compensated Absences

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

	Date of Hire to End of 5th Year	Start of 6th Year to End of 10th Year	Start of 11th Year and Over
Maximum	240	360	480
Carryover	<u>240</u>		
in Hours			

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.

Deferred Revenue

The Authority received a \$150,000 ground lease payment during the year ended September 30, 2011. The ground lease term is 52 years. Lease income is recognized over the term of the ground lease.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of related accumulated depreciation.

The Authority applies restricted resources first when an expense or expenditure is incurred for the purpose for which both restricted and unrestricted net assets are available.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Income Taxes

The Authority is a public body corporate and politic exempt from federal and state income taxes.

Adoption of New Accounting Principle

The Authority has elected to early implement GASB 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The effective date of the implementation is October 1, 2010. No adjustments or restatements are required as result of the adoption of this new accounting standard.

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 2 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, 2011 were \$1,227,581 and the total carrying value was \$1,218,913 at September 30, 2011.

**HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 3 CAPITAL ASSETS

The changes in capital assets for the year ended September 30, 2011 were as follows:

Balance	Beginning of Year	Additions	Deletions	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	36,483	4,322	-	40,805
Total Capital Assets being Depreciated, Net	4,932	(4,322)	-	610
Capital Assets, Net	\$ 109,090	\$ (4,322)	\$ -	\$ 104,768

On June 16, 2010, the Authority entered into a 52-year ground lease with Magnolia Gardens I, LTD to lease a parcel of land in Brooksville, Florida. The land is recorded at a cost of \$104,158.

NOTE 4 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 Redevelopment Loan Program (PLP). The total amount that can be borrowed against the loan is \$500,000. As of September 30, 2011, the loan was fully repaid. The loan was repaid at the closing of Magnolia Gardens I, LTD.

Balance	Beginning of Year	Additions	Deletions	End of Year
Redevelopment Loan Total	\$ 319,616	\$ 24,990	\$ (344,606)	\$ -

HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 5 RETIREMENT PLAN

All full-time employees are participants in the Florida Retirement System (FRS), a multiple employer, cost-sharing public retirement system. The FRS, which is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement, covers approximately 650,000 full-time employees of various governmental units within the State of Florida.

For employees enrolled in the System on or after July 1, 2011, vesting of benefits begins after eight years of creditable service. Normal retirement benefits are available to these employees who retire at or after age 65 with eight or more 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 eight highest years of earnings.

Effective with the State fiscal year 2002, the State created a new retirement plan within the System; the Public Employee Optional Retirement Program (the FRS Investment Plan). Any regular member, not in the Deferred Retirement Option Program (DROP) is eligible to participate in the FRS Investment Plan. Employer contributions are made to the FRS Investment Plan, which holds the contributions in individual investment accounts for each participating employee. The employee directs the investments in their account amount the investments funds available through the Plan. These investment accounts vest to the employee after 1 year of service and may be withdrawn by the employee 90 days after termination or retirement from a participating employer in the System. Alternatively, the funds may remain in the investment account until the employee reaches normal retirement age or some earlier date, at the employee's choosing. Employees are not required to contribute to the FRS Investment Plan.

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

Participating employer contributions are based upon state-wide rates established by the State of Florida. From October 1, 2010 through June 30, 2011, these rates, which include the health insurance subsidy contributions of 1.11%, and the 0.03% administrative/education fee, are applied to employee salaries at a rate of 10.77%. Effective July 1, 2011, the State of Florida required all employees to contribute 3% of their salaries to the FRS Pension Plan. The employer contribution rates, effective July 1, 2011, which include the health insurance subsidy of contributions of 1.11%, and the 0.03% administrative/education fee, are applied to employee salaries at a rate of 4.91%. The Authority's contributions made during the years ended September 30, 2011, 2010 and 2009 were \$17,524, \$14,978 and \$16,753, respectively, equal to the actuarially determined required contribution requirements for each year.

**HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 6 CHANGES IN NONCURRENT LIABILITIES

The changes in noncurrent liabilities for the year ended March 31, 2011 were as follows:

	Balance Due	End of Year	Deletions	Additions	Balance Beginning of Year	Accrued Compensated Absences
	\$ 9,432	\$ 18,863	\$ (3,123)	-	\$ 21,986	Total
	\$ 9,432	\$ 18,863	\$ (3,123)	-	\$ 21,986	Accrued Compensated Absences

NOTE 7 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 8 PRIOR PERIOD ADJUSTMENT

During fiscal year 2011, the Authority noted an error in the 2010 financial statements:

The Authority discovered costs that were capitalized in the prior year that should have been expensed. The amount of costs that should have been expensed in the prior year was \$58,764. As a result of the prior period adjustment, beginning net assets were decreased by \$58,764.

**HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTARY FINANCIAL DATA SCHEDULE
BALANCE SHEET
SEPTEMBER 30, 2011**

CFDA No.	Housing Choice Vouchers	State/Local Program	Business Activities	Total Programs
111	Cash - Unrestricted	\$ 617,777	\$ 210,372	\$ 859,053
113	Cash - Other Restricted	359,860	-	359,860
100	Total Cash	977,637	210,372	1,218,913
ACCOUNTS AND NOTES RECEIVABLE				
121	Accounts Receivable - PHA Projects	38,837	-	38,837
125	Accounts Receivable - Miscellaneous	-	47,637	47,637
120	Total Receivables, Net	38,837	47,637	86,474
OTHER CURRENT ASSETS				
142	Prepaid Expenses and Other Assets	7,478	-	7,478
	Total Other Current Assets	7,478	-	7,478
150	Total Current Assets	1,023,952	258,009	1,312,865
NONCURRENT ASSETS				
Capital Assets:				
161	Land	-	104,158	104,158
164	Furniture and Equipment - Administration	41,415	-	41,415
166	Less: Accumulated Depreciation	(40,805)	-	(40,805)
160	Total Capital Assets, Net	610	104,158	104,768
180	Total Noncurrent Assets	610	104,158	104,768
190	Total Assets	\$ 1,024,562	\$ 362,167	\$ 1,417,633
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
312	Accounts Payable - ≤ 90 Days	\$ 1,977	\$ -	\$ 1,985
321	Accrued Payroll	2,098	83	2,181
322	Accrued Compensated Absences - Current Portion	8,645	787	9,432
342	Deferred Revenues	-	146,274	146,274
310	Total Current Liabilities	12,720	147,144	159,872
NONCURRENT LIABILITIES				
354	Accrued Compensated Absences - Noncurrent	8,645	786	9,431
350	Total Noncurrent Liabilities	8,645	786	9,431
300	Total Liabilities	21,365	147,930	169,303
NET ASSETS				
508.1	Invested in Capital Assets - Net of Related Debt	610	104,158	104,768
511.1	Restricted Net Assets	359,860	-	359,860
512.1	Unrestricted Net Assets	642,727	110,079	783,702
513	Total Net Assets	1,003,197	214,237	1,248,330
600	Total Liabilities and Net Assets	\$ 1,024,562	\$ 362,167	\$ 1,417,633

**HERNANDO COUNTY HOUSING AUTHORITY
SUPPLEMENTARY FINANCIAL DATA SCHEDULE
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011**

Line Item	Account Description	CFDA No.	State/Local Program	Business Activities	Total Programs
70600	HUD PHA Operating Grants		\$ -	\$ -	\$ 2,110,437
70800	Other Government Grants		27,222	-	27,222
71100	Investment Income - Unrestricted		1,124	371	1,699
71500	Other Revenue		996,628	56,076	1,052,704
72000	Investment Income - Restricted		317	-	317
70000	Total Revenue		3,108,506	56,447	3,192,379
EXPENSES					
91100	Administrative Salaries		162,017	5,269	175,452
91200	Auditing Fees		19,500	-	19,500
91500	Employee Benefit Contributions - Administrative		71,438	1,588	78,060
91600	Office Expenses		42,707	325	47,911
91900	Other		8,139	14,027	23,455
91000	Total Operating - Administrative		303,801	21,209	344,258
96120	Insurance Premiums:		1,667	-	3,361
96130	Liability Insurance		1,694	-	3,361
96140	Workers Compensation		4,052	220	4,339
96140	All Other Insurance		1,031	-	1,031
96100	Total Insurance Premiums		6,750	220	8,731
General Expenses:					
96200	Other General Expense		2,226	32,570	35,296
96000	Total General Expenses		2,226	32,570	35,296
96900	Total Operating Expenses		313,277	53,999	388,285
97000	EXCESS (DEFICIENCY) OF OPERATING REVENUE		2,795,229	2,448	2,804,094
OTHER EXPENSES					
97300	Housing Assistance Payments		1,743,224	-	1,743,224
97350	HAP Portability-In		901,489	-	901,489
97400	Depreciation Expense		4,322	-	4,322
90000	Total Other Expenses		2,962,312	53,999	3,037,320
10000	EXCESS (DEFICIENCY) OF REVENUE		146,194	2,448	155,059
11030	Net Assets - Beginning of Year		857,003	24,479	1,152,035
11040	Prior Period Adjustment		-	(58,764)	(58,764)
	NET ASSETS - END OF YEAR		\$ 1,003,197	\$ 214,237	\$ 1,248,330

**HERNANDO COUNTY HOUSING AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 YEAR ENDED SEPTEMBER 30, 2011**

CFDA / CSFA Number	Identifying Number	Beginning (Receivable) Payable	Cash Received	Expended	Ending (Receivable) Payable
DIRECT FEDERAL ASSISTANCE					
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Section 8 Housing Choice Vouchers					
14.871	ACC A-3608	\$ -	\$ 2,110,437	2,110,437	\$ -
STATE ASSISTANCE					
STATE OF FLORIDA					
FLORIDA HOUSING FINANCE CORPORATION					
Passed Through Hernando County, Florida: State Housing Initiatives Partnership Program					
52.901	None	\$ -	\$ 27,222	27,222	\$ -

**HERNANDO COUNTY HOUSING AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 2011**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance presents the activity of all federal and state awards program of the Authority. The Authority reporting entity is defined in Note 1 to the Authority's basic financial statements for the year ended September 30, 2011. 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 2 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 1 to the Authority's basic financial statements for the year ended September 30, 2011.

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 3 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2011-1.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

In planning and performing our audit, we considered the 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 the Authority's internal control over financial reporting.

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, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 16, 2012. 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**

CliftonLarsonAllen



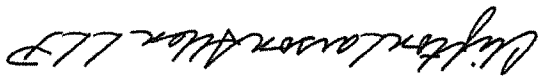
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www.cliftonlarsonallen.com

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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Authority, 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.



Clifford Larson Allen LLP

Lakeland, Florida
April 16, 2012

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, 2011.

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, 2011. 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

INDEPENDENT AUDITORS' 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

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www.cliftonlarsonallen.com

Internal Control Over Compliance

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 requirements that could have a direct and material effect on a major federal program to determine 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.

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.

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.

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 used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Lakeland, Florida
April 16, 2012

HERNANDO COUNTY HOUSING AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

<p>Unqualified</p> <p>Type of auditor's report issued</p> <p>Internal control over financial reporting:</p> <p>Material weaknesses identified</p> <p>Significant deficiencies identified not considered to be a</p> <p>material weakness</p> <p>Noncompliance material to financial statements noted</p>	<p><i>Financial Statements</i></p>
<p>Yes</p> <p>None reported</p> <p>No</p>	<p>\$300,000</p> <p>Dollar threshold used to distinguish between Type A and Type B programs:</p> <p>Auditee qualified as low-risk</p> <p>Internal control over major programs:</p> <p>Material weaknesses identified</p> <p>Significant deficiencies identified not considered to be a</p> <p>material weakness</p> <p>None reported</p>
<p>Unqualified Opinion</p> <p>Type of auditor's report on compliance for major programs</p> <p>Audit findings disclosed that are required to be in</p> <p>accordance with Circular A-133, Section .510(a)</p> <p>No</p>	<p><i>Federal Awards Program</i></p>
<p>Section 8 Housing Choice Voucher Program CFDA #14.871</p> <p>Identification of major programs:</p>	

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
SEPTEMBER 30, 2011

SECTION II – FINANCIAL STATEMENT AUDIT

Material Weakness

2011-1 – Prior Period Adjustment

Condition

During our audit we noted costs (non-HUD funds) that were capitalized in the prior year that should have been expensed. The costs related to the Magnolia Gardens I, LTD development.

Criteria

Costs incurred by the Authority, but not recognized by Magnolia Gardens I, LTD should be expensed.

Context

There were \$58,764 of costs incurred in the prior year that should have been expensed.

Cause

The recording of costs related to the development are non-routine and complex transactions.

Effect

A prior period adjustment in the amount of \$58,764 was recorded.

Recommendation

We recommend that review all transactions related to non-routine or complex transactions to ensure they have been properly recorded in accordance with U.S. generally accepted accounting principles.

Management Response

The prior period adjustment was related to the development of Magnolia Gardens which will be completed in the near future. We do not anticipate any problems in the future, as this development will be completed in the coming year.

HERNANDO COUNTY HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
SEPTEMBER 30, 2011

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There are no current year findings.

HERNANDO COUNTY HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR FINDINGS
SEPTEMBER 30, 2011

FINANCIAL STATEMENT AUDIT FINDINGS

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 three 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 two of the months selected for testing.
- There was no support for the Housing Assistance Payments made for ports for one month tested.
- Administrative expenses did not agree to the excel spreadsheet used to track expenses vs. budget in one month tested.
- Errors in Administrative expenses were noted in one 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 three 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.

FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

Significant Control Deficiency (Continued)

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

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

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 agreed with the reported finding on the reporting in the VMS system. The Authority reviewed all reporting in the VMS system and made adjustments where needed. Internal reports, general ledger, and other internal documents were utilized to report and support the information submitted in the Voucher Management System (VMS).

Current Year Status

This finding was corrected by management.