

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO

REPORT ON EXAMINATION OF FINANCIAL
STATEMENTS AND SUPPLEMENTAL DATA FOR THE
YEAR ENDED SEPTEMBER 30, 1999

J. E. Slaybaugh & Associates, Inc.
Certified Public Accountant
12 East Main Street
Lexington, Ohio 44504

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MOUNT VERNON, OHIO

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MOUNT VERNON, OHIO

SEPTEMBER 30, 1999

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215

Telephone 614-466-4514


800-282-0370

Facsimile 614-728-7398

Board of Commissioners
Knox Metropolitan Housing Authority
Mount Vernon, Ohio

We have reviewed the Independent Auditor's Report of the Knox Metropolitan Housing Authority, Knox County, prepared by J. E. Slaybaugh & Associates, Inc., for the audit period October 1, 1998 through September 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Knox County Metropolitan Housing Authority is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

June 8, 2000

J. E. Slaybaugh & Associates, Inc.

12 East Main Street
Lexington, Ohio 44904

Member AICPA
Member OSCPA

John E. Slaybaugh III
Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Knox Metropolitan Housing Authority
Mount Vernon, Ohio

We have audited the accompanying financial statements of the Knox Metropolitan Housing Authority, Mount Vernon, Ohio, as of and for the year ended September 30, 1999, and the related statements of revenue, expense and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knox Metropolitan Housing Authority as of September 30, 1999, and the results of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2000, on our consideration of Knox Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

J. E. Slaybaugh & Associates, Inc.

J.E. Slaybaugh & Associates, Inc.
Lexington, Ohio
March 27, 2000

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
BALANCE SHEET
SEPTEMBER 30, 1999

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,168
Investments - Unrestricted	51,971
Tenant Receivables - Net of \$10,700 Allowance for Doubtful Accounts	4,376
HUD Receivable	1,385
Prepaid Expenses	<u>10,334</u>

Total Current Assets 70,234

Noncurrent Assets

Fixed Assets	
Property and Equipment - Net of \$13,263 Accumulated Depreciation	<u>4,733</u>

Total Assets \$ 74,967

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	\$ 12,376
Accrued Compensated Absences	<u>7,181</u>

Total Liabilities 19,557

Equity

Contributed Capital	32,507
Retained Earnings	<u>22,903</u>

Total Equity 55,410

Total Liabilities and Equity \$ 74,967

See Independent Auditors' Report

The accompanying notes are an integral part of these financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
STATEMENT OF REVENUE, EXPENSE AND EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 1999

<u>Revenue</u>	
HUD Grants	\$ 1,642,059
Investment Income - Unrestricted	4,076
Other Income	<u>924</u>
Total Revenue	1,647,059
<u>Expenses (before depreciation)</u>	
Housing Assistance Payments	1,416,066
Administrative Salaries	112,434
Other Administrative	62,749
Maintenance Expense	8,744
General Expenses	4,002
Employee Benefits	<u>44,471</u>
Total Expenses (before depreciation)	1,648,466
Income (Loss) before Depreciation	(1,407)
Depreciation	<u>3,715</u>
Net Income (Loss)	(5,122)
Retained Earnings - Beginning of Year	
As Previously Reported	52,266
Prior Period Adjustment	<u>(24,241)</u>
As Restated	<u>28,025</u>
Retained Earnings - End of Year	22,903
Contributed Capital - Beginning of Year	
As Previously Reported	42,515
Prior Period Adjustment	<u>(10,008)</u>
As Restated	<u>32,507</u>
Contributed Capital - End of Year	<u>32,507</u>
Total Equity - End of Year	<u>\$ 55,410</u>

See Independent Auditors' Report

The accompanying notes are an integral part of these financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1999

Cash Flows from Operating Activities

Net Income (Loss)	\$ (5,122)
Adjustments to reconcile Net Income(Loss) to Net Cash Provided By Operating Activities:	
Depreciation	3,715
Prior Year Adjustment	(142)
Changes in Operating Assets and Liabilities that Increase (Decrease) Cash Flows:	
Receivables	(11,149)
Prepaid Expenses	(7,041)
Accounts Payable	4,754
Accrued Wages and Related Liabilities	7,181
Deferred Rent and Other Current Liabilities	<u>(190,766)</u>
Total Adjustments	<u>(193,448)</u>
Net Cash Provided (Used) By Operating Activities	(198,570)

Cash Flows from Investing Activities

Purchase of Property and Equipment	(1,265)
Proceeds from Disposal of Investments	<u>12,243</u>
Net Cash Provided (Used) By Investing Activities	<u>10,978</u>
Increase (Decrease) In Cash and Cash Equivalents	(187,592)
Cash and Cash Equivalents - Beginning of Year	<u>189,760</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,168</u>

See Independent Auditors' Report

The accompanying notes are an integral part of these financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Knox Metropolitan Housing Authority (KMHA or Authority) was created under the Ohio Revised Code Section 3735.27 to engage in the acquisition, development, leasing and administration of a low-rent housing program. An Annual Contributions Contract (ACC) was signed by the Knox Metropolitan Housing Authority and the U.S. ACC and all applicable provisions of the United States Housing Act of 1937 (42 U.S.C. 1437) Section 1.1. The Authority was also created in accordance with state law to morals, or welfare by purchasing, acquiring, constructing, maintaining, operating, improving, extending, and repairing housing facilities.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that it is fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. These criteria were considered in determining the reporting entity.

Basis of Accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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 financial statements, and the reported amounts of revenues expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Tenant Receivables - Recognition of Bad Debts

Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding tenant receivable balances at the end of the year.

Property and Equipment

Property and Equipment is recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred.

Depreciation is recorded on the straight-line method.

Investments

Investments are stated at fair value. Cost-based measures of fair value were applied to nonnegotiable certificates of deposit and money market investments.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 2 - CASH INVESTMENTS

Cash

State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name. Category 3 includes uninsured and uncollateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

The following show the Authority's deposits (bank balances) in each category:

Category 1. \$ 2,168 was covered by federal depository insurance.
Categories 2. & 3. None.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 2 - CASH AND INVESTMENTS. continued

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of conformation of transfer from the custodian.

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's Trust department or agent in the Authority's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the Authority's name.

The Authority's investments are all Category A and consist of the following:

<u>INVESTMENT</u>	<u>CATEGORY A</u>	<u>CARRYING AMOUNT</u>
Cash	51,971	<u>51,971</u>
Total Investments (including restricted)		<u>\$ 51,971</u>

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 1999, by class is as follows:

Furniture, Equipment and Machinery	\$ 17,996
Total	17,996
Less Accumulated Depreciation	<u>(13,263)</u>
Net Property and Equipment	<u>\$ 4,733</u>

NOTE 4 - ADMINISTRATIVE FEE

The Authority receives and "administrative fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the Section 8 Housing Assistance Payments (HAP) Programs. The fee is a percentage of a HUD determined base rate for each unit per month under HAP contracts. The rates are as follows:

A. Certificates and Vouchers:

Units per month x \$41.56/unit

NOTE 5 - ALLOCATION OF COSTS

The Authority allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program or estimated actual usage. Management considers this to be an equitable method of allocation.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 6 - RETIREMENT AND OTHER BENEFIT PLANS

The employees of the Authority are covered by the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer deferred benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, death benefits to plan members and beneficiaries. The authority to establish and amend benefits provided by the state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. Interested parties may obtain a copy by making a written request to 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The total 1999 employer contribution rate was 13.55% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Authority's contributions to P.E.R.S. for the years ending September 30, 1999, 1998, and 1997 were \$15,384, \$14,361 and \$14,057, respectively. All required contributions were made prior to each of those fiscal year ends.

NOTE 7 - COMPENSATED ABSENCES

Vacation and sick leave policies are established by the Board of Commissioners in conjunction with local policies and state law.

Employees are entitled to 10 days of annual leave after completing twelve months of consecutive employment, 15 days after six years of service, 20 days after 13 years of service, and 25 days after 23 years of service. Sick pay is accumulated at the rate of 5 hours for each completed 75 hours of pay. To a maximum of 900 hours.

At September 30, 1999, \$7,181 was accrued by the Authority for unused vacation and sick time.

NOTE 8 - CHANGE IN BASIS OF ACCOUNTING

Effective with the year ended September 30, 1999, the Authority adopted the accrual basis of accounting, in conformity with generally accepted accounting principles (GAAP). HUD requires GAAP basis financial statements for fiscal years beginning October 1, 1998 and thereafter. Equity as of October 1, 1998 has been reduced by \$34,249 to retroactively reflect this change in accounting. This adjustment is made up of a reduction of \$24,241 to beginning retained earnings and \$10,008 to beginning contributed capital.

The prior period adjustments of \$34,249 is made up of the following amounts:

Compensated Absences	\$ 6,784
Accumulated Depreciation	9,548
Prepaid Expenses	3,012
Other	14,905
	<u>\$ 34,249</u>

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1999

NOTE 9 - INSURANCE

The Housing Authority maintains comprehensive insurance coverage with private carriers for health business personal property and public officials liability.

NOTE 10 - CONTINGENCIES

In the normal course of operations, the Authority may be subject to litigation and claims. At September 30, 1999 the Authority was involved in no such matters.

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 1999

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Amount Received</u>	<u>Expenditures For The Year Ended</u>
<u>U.S. Department of Housing and Urban Development</u>				
Section 8 Cluster:				
Housing Assistance Program:				
Certificates	14.857	C-5029	\$ 1,078,645	\$ 1,078,645
Vouchers	14.855	C-5029	<u>563,414</u>	<u>563,414</u>
Total Federal Assistance			<u>\$ 1,642,059</u>	<u>\$ 1,642,059</u>

NOTE: This schedule has been prepared on the accrual basis of accounting.

See Independent Auditors' Report

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
SCHEDULE OF REVENUE AND EXPENSE BY PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 1999

	Rental Certificates Program	Rental Voucher Program	Total
REVENUE			
HUD Grants	\$ 1,078,645	\$ 563,414	\$ 1,642,059
Investment Income - Unrestricted	3,157	919	4,076
Other Income	<u>555</u>	<u>369</u>	<u>924</u>
Total Revenue	1,082,357	564,702	1,647,059
EXPENSES			
HAP	928,707	487,359	1,416,066
Administrative Salaries	74,667	37,767	112,434
Other Administrative	41,672	21,077	62,749
Maintenance Expense	5,807	2,937	8,744
General Expenses	2,658	1,344	4,002
Employee Benefits	<u>29,533</u>	<u>14,938</u>	<u>44,471</u>
Total Expenses	<u>1,083,044</u>	<u>565,422</u>	<u>1,648,466</u>
Income (Loss) before Depreciation	(687)	(720)	(1,407)
Depreciation	<u>2,452</u>	<u>1,263</u>	<u>3,715</u>
Net Income (Loss)	<u>\$ (3,139)</u>	<u>\$ (1,983)</u>	<u>\$ (5,122)</u>

See Independent Auditors' Report

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO
SCHEDULE OF ACTIVITY
SEPTEMBER 30, 1999

The PHA had 525 units under management.

<u>Management</u>	<u>Units</u>
Section 8 Certificates	108
Section 8 Vouchers	<u>417</u>
TOTAL	<u>525</u>

THERE WERE NO PRIOR AUDIT FINDINGS.

See Independent Auditors' Report

J. E. Slaybaugh & Associates, Inc.

12 East Main Street
Lexington, Ohio 44904

Member AICPA
Member OSCPA

John E. Slaybaugh III
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Knox Metropolitan Housing Authority
Mount Vernon, Ohio

We have audited the financial statements of Knox Metropolitan Housing Authority, Mount Vernon, Ohio, as of and for the year ended September 30, 1999, and have issued our report thereon dated March 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Knox Metropolitan Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knox Metropolitan Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

J.E. Slaybaugh & Associates, Inc.

J.E. Slaybaugh & Associates, Inc.
Lexington, Ohio
March 27, 2000

J. E. Slaybaugh & Associates, Inc.

*12 East Main Street
Lexington, Ohio 44904*

*Member AICPA
Member OSCPA*

*John E. Slaybaugh III
Certified Public Accountant*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Knox Metropolitan Housing Authority
Mount Vernon, Ohio

Compliance

We have audited the compliance of Knox Metropolitan Housing Authority with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1999. Knox Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. 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 Knox Metropolitan Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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* and the provisions of the *Public and Indian Housing Compliance Supplement*, PIH Notice 97-30. 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 Knox Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knox Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Knox Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1999.

Internal Control Over Compliance

The management of Knox Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

J.E. Slaybaugh & Associates, Inc.

J.E. Slaybaugh & Associates, Inc.

Lexington, Ohio

March 27, 2000

KNOX METROPOLITAN HOUSING AUTHORITY
MOUNT VERNON, OHIO

SCHEDULE OF FINDINGS

SEPTEMBER 30, 1999

PART I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor has issued an unqualified opinion on the financial statements of Knox Metropolitan Housing Authority.
2. There were no reportable conditions in internal control disclosed by the audit of the financial statements.
3. There was no noncompliance material to the financial statements disclosed by the audit.
4. There were no reportable conditions in the internal control over major programs disclosed by the audit.
5. The auditor has issued an unqualified opinion on compliance for major programs for Knox Metropolitan Housing Authority.
6. The audit disclosed no audit findings.
7. The major programs are:
 Section 8 Programs
8. The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
9. The auditor determined that Knox Metropolitan Housing Authority qualified as a low-risk auditee.

PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED
TO BE REPORTED IN ACCORDANCE WITH *GAGAS*

1. None

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS

1. None



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

KNOX METROPOLITAN HOUSING AUTHORITY

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By: Susan Babbitt

Date: JUNE 27, 2000