

KNOX METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

September 30, 2002

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Knox Metropolitan Housing Authority

We have reviewed the Independent Auditor's Report of the Knox Metropolitan Housing Authority, Knox County, prepared by Kevin L. Penn, Inc., for the audit period October 1, 2001 through September 30, 2002. 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 Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 15, 2003

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**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

Table of Content

Independent Auditor's Report	1
Balance Sheet	4
Statement of Revenues and Expenses and Changes in Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Financial Data Schedule – Balance Sheet	14
Financial Data Schedule – Statement of Revenue, Expenses Changes in Equity	15
Financial Data Schedule – Additional Information Required by HUD	16
Schedule of Expenditures of Federal Awards	17
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	18
Independent Auditors' Report on Compliance With Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133	20
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings	23

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Penn, Inc.

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Independent Auditor's Report

Board of Trustees
Knox Metropolitan Housing Authority
Mt. Vernon, Ohio

I have audited the accompanying balance sheet of Knox Metropolitan Housing Authority as of September 30, 2002, and the related statements of revenues, expenses, equity and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the above present fairly, in all material respects, the financial position of Knox Metropolitan Housing Authority as of September 30, 2002 and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated September 17, 2003 on my consideration of Knox Metropolitan Housing Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Knox Metropolitan. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This schedule is the responsibility of management of Knox Metropolitan Housing Authority, and is not a required part of the basic financial statements. In addition, the financial data schedule, pages 14 to 16 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Knox Metropolitan Housing Authority, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

September 17, 2003

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2002

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$ 67,706
Investments - Unrestricted	111,828
Accounts Receivable - Fraud	4,358
Accounts Receivable - Other	1,361
Prepaid Expenses	14,216
Total Current Assets	199,469

Other Assets

Property and Equipment - Net (Note 1)	133,439
Total Other Assets	133,439
TOTAL ASSETS	\$ 332,908

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable - Vendor	\$ 9,118
Accounts Payable - HUD	24,067
Accrued Liabilities	2,019
Other Current Liabilities	4,358
Current Portion - Long Term Debt	5,286
Total Current Liabilities	44,848

Long Term Liabilities

Mortgage Payable	96,519
Accrued Compensated Absences	3,972
Total Long Term Liabilities	100,491
Total Liabilities	145,339

Equity

Contributed Capital	89,860
Retained Earnings	97,709
Total Equity	187,569
TOTAL LIABILITIES AND NET ASSETS	\$ 332,908

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

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2002

Revenue:

HUD Grants	\$ 2,574,576
Other Revenue	29,126
Total Revenue	<u>2,603,702</u>

Expenses:

Housing Assistance Payments	2,256,360
Administrative Salaries	146,138
Employee Benefits	53,573
Other Administrative Expenses	75,083
Material and Labor - Maintenance	22,597
General Expenses	5,180
Total Expenses	<u>2,558,931</u>

Operating Income (Loss)	44,771
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Nonoperating Revenues (Expenses)

Investment Income	1,442
Depreciation Expense	<u>(8,511)</u>
Interest Expense	<u>(6,434)</u>
Net Income (Loss)	31,268

Retained Earnings - Beginning of Year as Previously Reported	66,568
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Prior Period Adjustments (Note 8)	<u>(127)</u>
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Retained Earnings - Beginning of Year as Restated	<u>66,441</u>
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Retained Earnings - End of Year	97,709
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Contributed Capital - Beginning of Year	89,860
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Contributed Capital - End of Year	89,860
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Total Equity	<u>\$ 187,569</u>
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The accompanying notes are an integral part of the financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

Cash Flows from Operating Activities:

(Decrease) in net assets	\$ 31,141
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	8,511
(Increase) decrease in:	
Accounts Receivable - HUD	66,772
Accounts Receivable - Other Governments	59,604
Accounts Receivable - Miscellaneous	6,657
Prepaid Expenses	(6,975)
Increase (decrease) in:	
Accounts Payable - Vendors	2,822
Accounts Payable - Governments	(59,604)
Accounts Payable - HUD	24,067
Accrued compensated Absences	(4,308)
Accrued expenses	(5,504)
Net Cash Provided (Used) by Operating Activities	123,183

Cash Flows From Investing Activities:

Change in investments	(65,775)
Net Cash Provided (Used) by Investing Activities	(65,775)

Cash Flows From Financing Activities:

Repayment of long term debt	(5,044)
Net Cash Provided (Used) by Financing Activities	(5,044)
Net Cash (Decrease) in Cash and Cash Equivalents	52,364
Cash and Cash Equivalents - Beginning of Year	15,342
Cash and Cash Equivalents - End of Year	\$ 67,706

Supplemental Schedule of Other Cash Activity:

Interest paid	\$ 6,434
Income taxes	\$ -

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

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

The Knox Metropolitan Housing Authority (KMHA) is a political subdivision of the State of Ohio, located in Mt. Vernon, Ohio, created under Section 3735.27 of the Ohio Revised Code, to engage in the acquisition, development, leasing and administration of low-rent housing program.

An Annual Contributions Contract was signed by the KMHA and the United States Department of Housing and Urban Development (HUD), to provide low and moderate income persons with safe and sanitary housing through rent subsidies, via the Section 8 and Voucher Program. Based on the criteria established by Governmental Accounting Standards Board (GASB) codification 2100, there are no component units to be included with the reporting entity.

B. Basis of Accounting

The financial statements of KMHA have been prepared in conformity with generally accepted accounting principles, as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue to apply all applicable pronouncements of the Governmental Accounting Standards Board.

C. Machinery Furnishings and Equipment

Machinery, furnishings and equipment is recorded at cost, over the useful life using the straight-line method. Total depreciation expense for the 2002 calendar year was \$5,064.

D. Accounting and Reporting for Nonexchange Transactions

The Authority adopted GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36 "Recipient for Certain Shared Nonexchange Revenues", effective for the year ended September 30, 2002.

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 1 - Summary of Significant Accounting Policies: (continued)

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows and for presentation of the Balance Sheet, cash and cash equivalents consist principally of checking and savings accounts.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2002, are recorded as prepaid item using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation are attributable to services already rendered and it is probable that employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will probably be paid as termination benefits.

Vacation and sick leave policies are established by the Board of Commissioners based on local and state laws. 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, 2002, \$3,972 was accrued by the Authority for unused vacation and sick time.

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 2 – Deposits :

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.

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.

Monies held by the Authority which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government Authority or instrumentality, including but no limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal Authority securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be market daily, and that the term of the agreement must not exceed thirty days.
4. Bond and other obligations of the State of Ohio or its political subdivisions , provided that such political subdivisions are located wholly or partly within the Authority;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 2 – DEPOSITS (continued)

6. No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Authority lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the Authority's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Authority's total average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purchase 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 confirmation of transfer from the custodian.

Cash on Hand. The Authority had \$240 in undeposited cash on hand which is included on the balance sheet of the Authority as part of "Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB No. 3 "Deposits With Financial Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits. At year-end, the carrying amount of the Authority's deposits was \$96,460 and the bank balance was \$109,327. Of the bank balance, \$100,000 was covered by federal depository insurance and \$9,327 was insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

**KNOX METROPOLITAN HOUSING AUTHORITY
MT VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 2 –Deposits and Investments: (continued)

Investments. The Authority’s investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1, 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 2, includes uninsured deposits unregistered investments for which the securities are held by the counterparty’s trust department or agent in the Authority’s name. Category 3, includes uninsured and unregistered investments for which the securities are held by the counterparty’s or by its trust department or agent, but not in the Authority’s name. Mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The Authority's investments consist principally of deposits with STAR Ohio and repurchase agreements.

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the Authority does not own identifiable securities of the pool. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. The cost of the Authority’s deposits with STAR Ohio was \$82,834 at September 30, 2002, which approximates fair value.

	<u>RISK CATEGORY</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Star Ohio	\$ -	\$ -	\$ -	\$ 82,834	\$ 82,834
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,834</u>	<u>\$ 82,834</u>

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No.9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”. Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the Authority’s cash management pool.

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 3 – Property and Equipment:

A summary of property and equipment at September 30, 2002, by class is as follows:

Building	\$ 119,400
Land	15,600
Furniture, Equipment – Administrative	<u>29,202</u>
Total	164,202
Less Accumulated Depreciation	<u>(30,763)</u>
Net Property and Equipment	<u>\$ 133,439</u>

NOTE 4 – Mortgage Payable and Long-Term Debt

Long-term debt consists of the following:

The Authority has a note payable to the First Knox National Bank amounting to \$101,805. The original principal of the loan was \$107,250 at a rate of prime 5 year rate plus margin rate, the current rate is 4.7% annually. Principal and interest payments of \$835.25 began in September 2001 with the final payment is due on August 2016. The loan is secured by a first mortgage on the property located at 205 North Gay St., Mt. Vernon, Ohio.

	<u>\$ 101,805</u>
Less: Current Portion	<u>(5,286)</u>
Total Long Term Debt	<u>\$ 96,519</u>

The aggregate amounts of long-term debt maturities for the five years following 2002 are as follows:

2003	\$ 5,286
2004	\$ 5,531
2005	\$ 5,814
2006	\$ 6,097
2007	\$ 6,394
Thereafter	<u>\$ 72,683</u>
Total	<u>\$101,805</u>

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 5 – 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 is provided by the state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report. The report may be obtained by writing PERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Covered employees are required by the System's Retirement Board to contribute 8.5% of their salary to the plan. The employer contribution rate was 13.55% for fiscal year 2002. The Authority's total payroll for covered employees was \$148,544. The Authority's 2002 total contribution was \$20,128.

The contribution requirement to fund the pension obligation for the year ended September 30, 2002, 2001 and 2000 were \$20,128; \$12,711 and \$13,373 from the Authority.

PERS of Ohio provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care OPEB is financed through employer contributions and investment earnings and is expected to be sufficient to sustain the program indefinitely.

The pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. PERS issues a stand-alone financial report.

**KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO**

**NOTES TO FINANCIAL STATEMENTS
September 30, 2002**

NOTE 6 – Administrative Fee:

The Authority receives and “administrative fee” as part of the annual contributions 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 based rate for each unit per month under HAP contracts. The rates are as follows:

Vouchers:

Units per month x \$40.60/units

NOTE 7 – Insurance:

The Housing Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and injuries to employees.

The Housing Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. There was no significant reduction in coverage and no settlements exceeded insurance coverage during the past three years.

NOTE 8 – Prior Period Adjustment:

Beginning retained earnings balance has been restated in the amount of \$127 as a result of an overstatement of interest income.

NOTE 9 – Schedule of Expenditures of Federal Awards:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Knox Metropolitan Housing Authority and is presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

KNOX METROPOLITAN HOUSING AUTHORITY

Balance Sheet

September 30, 2002

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description	
	ASSETS	
111	Cash and Cash Equivalents	\$ 67,706
100	TOTAL CASH	67,706
125	Accounts Receivable – Miscellaneous	1,361
128	Accounts Receivable - Fraud Recovery	<u>4,358</u>
120	TOTAL ACCOUNTS RECEIVABLE	5,719
131	Investments – Unrestricted	111,828
142	Prepaid Expenses	<u>14,216</u>
150	TOTAL CURRENT ASSETS	199,469
161	Land	15,600
162	Buildings	119,400
164	Furniture, Equipment & Machinery - Administration	29,202
166	Accumulated Depreciation	<u>(30,763)</u>
160	TOTAL FIXED ASSETS, NET	<u>133,439</u>
190	TOTAL ASSETS	<u><u>\$ 332,908</u></u>
	LIABILITIES	
312	Accounts Payable	\$ 9,118
321	Accrued Wage/Payroll Taxes Payable	2,019
322	Accrued Compensated Absences	3,972
331	Accounts Payable - HUD PHA Programs	24,067
344	Current Portion of Long-term Debt	<u>5,286</u>
310	TOTAL CURRENT LIABILITIES	44,462
352	Long-term Debt, Net of Current - Operating Borrowings	96,519
353	Undistributed Credits - Fraud Recovery	<u>4,358</u>
	TOTAL NON-CURRENT LIABILITIES	<u>100,877</u>
	TOTAL LIABILITIES	145,339
512	Retained Earnings	<u>187,569</u>
	TOTAL EQUITY	<u>187,569</u>
	TOTAL LIABILITIES AND EQUITY	<u><u>\$ 332,908</u></u>

KNOX METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Equity
For the Year Ended September 30, 2002

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description	
	Revenue:	
706	HUD PHA Operating Grant	\$2,574,576
711	Investment Income - Unrestricted	1,442
714	Fraud Recovery	6,229
715	Other Revenues	<u>22,897</u>
700	Total Revenue	2,605,144
	Expenses:	
911	Administrative Salaries	146,138
912	Audit Fees	3,500
914	Compensated Absences	0
915	Employee Benefit Contributions – Administrative	53,573
916	Other Operating - Administrative	78,017
942	Ordinary Maintenance and Operations - Materials and Other	22,597
961	Insurance Premiums	<u>5,180</u>
969	Total Operating Expenses	<u>309,005</u>
970	Excess Operating Revenue over Expenses	2,296,139
	Other Expenses	
973	Housing Assistance Payments	2,256,360
974	Depreciation Expense	<u>8,511</u>
900	Total Expenses	<u>2,573,876</u>
1000	Excess of Operating Revenue Over Expenses	31,268
1103	Beginning Equity	156,428
1104	Prior Period Adjustments	<u>(127)</u>
	Ending Equity	<u><u>\$ 187,569</u></u>

KNOX METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended September 30, 2002

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 2,462,627
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 227,803
1116	Total Annual Contributions Available	\$ 2,690,430
1120	Unit Months Available	7,824
1121	Number of Unit Months Leased	7,691

KNOX METROPOLITAN HOUSING AUTHORITY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2002

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Amount Received</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Vouchers	14.871	C-5101	\$2,280,427	\$2,256,360

TOTAL FEDERAL FINANCIAL ASSISTANCE				\$2,256,360
				=====

The notes to the financial statements are an integral part of this statement.



Kevin L.
Penn, Inc.

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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 Trustees
Knox Metropolitan Housing Authority
Mt. Vernon, Ohio

I have audited the financial statements of Knox Metropolitan Housing Authority as of and for the year ended September 30, 2002, and have issued my report thereon dated September 17, 2003. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my audit, I considered Knox Metropolitan Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

September 17, 2003



Kevin L.
Penn, Inc.

Certified Public Accountant
13212 Shaker Square, Suite 100
Cleveland, Ohio 44120
(216) 283-1535
Fax: (216) 283-5724

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 Trustees
Knox Metropolitan Housing Authority
Mt. Vernon, Ohio

Compliance

I 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, 2002. Knox Metropolitan Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Knox Metropolitan Housing Authority's management. My responsibility is to express an opinion on Knox Metropolitan Housing Authority's compliance based on my audit.

I conducted my 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*. Those standards and OMB Circular A-133 require that I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Knox Metropolitan Housing Authority's compliance with those requirements.

In my 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, 2002.

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 my audit, I considered Knox Metropolitan Housing 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

September 30, 2003

Knox Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 September 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? No
 Reportable condition(s) identified
 not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:
 Material weakness(es) identified? No
 Reportable condition(s) identified
 not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance
 for major program: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? No

Identification of major programs:
 14.871 Housing Choice Voucher Program

Dollar threshold used to distinguish
 between Type A and Type B programs: \$300,000 (Type A)

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Knox Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2002

There were no audit findings, during the 2001 fiscal year.

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**Auditor of State
Betty Montgomery**

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KNOX COUNTY 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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2003**