

**KNOX METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

September 30, 2006

Together with Auditors' Report





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Knox Metropolitan Housing Authority  
236 South Main Street, Suite 201  
Mt. Vernon, Ohio 43050

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, 2005 through September 30, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 25, 2007

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

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## **Independent Auditor's Report**

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

I have audited the accompanying financial statements of the Knox Metropolitan Housing Authority, as of September 30, 2006 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Knox Metropolitan Housing Authority'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 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 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 in my opinion.

In my 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, 2006, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 9, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 20, 2007 on my consideration of the Knox Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Knox Metropolitan Housing Authority taken as a whole. 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. In addition, the financial data schedule, pages 23 to 25 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.

February 20, 2007



# **Knox Metropolitan Housing Authority**

## **Management's Discussion and Analysis**

**September 30, 2006**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Knox Metropolitan Housing Authority's (the Authority's) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent fiscal year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 10).

#### **FINANCIAL HIGHLIGHTS**

- During FY 2006, the Authority's net assets increased by \$196,284 (or 111.7%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$371,387 and \$175,711 for FY 2006 and FY 2005 respectively.
- The revenue increased by \$223,055 (or 9.13%) during FY 2006, and was \$2,549,483 and \$2,772,538 for FY 2005 and FY 2006 respectively.
- The total expenses of the Authority increased by \$156,472 (or 6%). Total expenses were \$2,563,818 and \$2,720,290 for FY 2005 and FY 2006 respectively.

## Authority-Wide Financial Statements

The Authority-wide financial statements (see pgs 10-13) are designed to be corporate-like in that all business type activities are consolidated into columns, which add to a total for the entire Authority.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equals “Net Assets”, formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as “Current” (convertible into cash within one year), and “Non-current”.

The focus of the Statement of Net Assets (the “Unrestricted Net Assets”) is designed represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of “Net Assets Invested in Capital Assets, Net of Related Debt”, or “Restricted Net Assets”.

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the “Change in Net Assets”, which is similar to Net Income or Loss.

Finally, Statement of Cash Flows (see page 12) is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

## **Fund Financial Statements**

Traditional users of governmental financial statements will find the Authority-wide financial statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

### **The Authority's Funds**

#### Business Type Funds

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of adjusted household income.

## AUTHORITY – WIDE STATEMENT

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

**TABLE 1**

#### **STATEMENT OF NET ASSETS**

	<u>FY 2005</u>	<u>FY 2006</u>
Current and Other Assets	\$ 312,377	\$ 401,097
Capital Assets	<u>40,693</u>	<u>35,608</u>
Total Assets	<u>353,070</u>	<u>436,705</u>
Other Liabilities	160,786	53,392
Non-Current Liabilities	<u>16,573</u>	<u>11,318</u>
Total Liabilities	<u>177,359</u>	<u>64,710</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	40,692	35,608
Restricted	0	0
Unrestricted	<u>135,019</u>	<u>336,387</u>
Total Net Assets	<u>\$ 175,711</u>	<u>\$ 371,995</u>

For more detailed information see page 10 for the Statement of Net Assets.

#### **Major Factors Affecting the Statement of Net Assets**

Current assets were increased by \$88,720 or 28.4% while liabilities were reduced by \$112,649 or 63.5%. The largest factor for the increase in current assets and decrease in liabilities is the change in recording FYE 9/30/06 HAP funds remaining now in an Undesignated HAP fund, with a balance of \$226,873.

Capital Assets decreased with the net effect of additions that totaled \$3,536, and the current years' depreciation of \$8,440 and a prior year adjustment of depreciation \$180 were the reasons for the net decrease to Capital Assets of \$5,084. It should also be noted that fully depreciation equipment totaling \$15,239 was junked and removed from the books. For more detail see "Capital Assets and Debt Administration" below.

**TABLE 2****CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 9/30/2005		\$ 135,019
Results of Operations	52,248	
Adjustments:		
Depreciation	8,440	
Depreciation Correction	180	
Prior Period Designated HAP	144,036	
Adjusted Results from Operations		204,904
Capital Expenditures		<u>(3,536)</u>
Unrestricted Net Assets 9/30/06		<u><u>\$ 336,387</u></u>

- (1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets
- (2) Depreciation correction of \$180.
- (3) Designated HAP funds – FY05 reclassification of AP HUD to undesignated HAP funds total \$144,036.

While the result of operations is a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

**TABLE 3****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

	<u>FY 2005</u>	<u>FY 2006</u>
Revenues		
HUD PHA Operating Grants	\$ 2,494,474	\$ 2,730,765
Investment Income	3,437	6,235
Other Revenues – Other	48,437	29,389
Other Revenues – Fraud Recovery	<u>3,135</u>	<u>6,149</u>
Total Revenue	<u>2,549,483</u>	<u>2,772,538</u>
Expenses		
Administrative	337,913	366,114
Utilities	1,219	0
Maintenance	32,324	32,477
General	6,121	5,513
Housing Assistance Payments	2,178,181	2,304,565
Depreciation	<u>8,060</u>	<u>8,621</u>
Total Expenses	<u>2,563,818</u>	<u>2,720,290</u>
Net Increase/(Decrease)	<u>\$ (14,335)</u>	<u>\$ 52,248</u>

**MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

HUD PHA Grants increased \$241,531 or 9.68%. This increase was caused by the addition of \$44,000 for FSS Coordinator fees and the new reporting of HAP funds received total instead of HAP funds expended accounts for an additional \$74,403 as well as the increase in HAP costs and being slightly over leased.

The \$52,248 net increase is actually a \$82,836 increase to Undesignated HAP funds for FY06 and a (\$30,588) decrease is the Authority’s reserves.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of 9/30/06, the Authority had \$35,608 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

**TABLE 4**

**CAPITAL ASSETS AT YEAR-END  
(NET OF DEPRECIATION)**

	Business-type Activities	
	FY 2005	FY 2006
Leasehold Improvements	\$ 17,771	\$ 17,771
Equipment – Administrative	61,844	50,141
Accumulated Depreciation	(38,923)	(32,304)
Total	<u>\$ 40,693</u>	<u>\$ 35,608</u>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 19 of the notes.

**TABLE 5**

**CHANGE IN CAPITAL ASSETS**

Beginning Balance	\$ 40,693
Additions	3,536
Depreciation Correction	(180)
Depreciation	<u>(8,440)</u>
Ending Balance	<u><u>\$ 35,608</u></u>

This year's major additions are:

New office furniture totaling \$3,536.

**Debt Outstanding**

As of 9/30/06, the Authority had no outstanding debt (bonds, notes, etc.)

**ECONOMIC FACTORS**

Significant economic factors affecting the Authority are as follows:

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

**FINANCIAL CONTACT**

The individual to be contacted regarding this report is Teresa Bemiller, Executive Director for the Knox Metropolitan Housing Authority, at (740) 397-8787. Specific requests may be submitted to the Authority at 236 South Main Street, Suite 201, Mt. Vernon, OH 43050.

KNOX METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

ASSETS

**Current Assets**

Cash and Cash Equivalents (Note 1)	\$ 196,508
Investments – Unrestricted	161,776
Accounts Receivable – Fraud	28,896
Accounts Receivable – Other	4,200
Prepaid Expenses	9,717
Total Current Assets	401,097

**Non-Current Assets**

Property and Equipment - Net (Note 1)	35,608
Total Non-Current Assets	35,608
<b>TOTAL ASSETS</b>	<b>\$ 436,705</b>

LIABILITIES AND NET ASSETS

**Current Liabilities**

Accounts Payable – Vendor	\$ 13,127
Accrued Liabilities	5,055
Other Current Liabilities	35,210
Total Current Liabilities	53,392

**Non-Current Liabilities**

Accrued Compensated Absences	11,318
Total Non-Current Liabilities	11,318
Total Liabilities	<b>\$ 64,710</b>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	\$ 35,608
Unrestricted	336,387
Total Net Assets	<b>\$ 371,995</b>

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



KNOX METROPOLITAN HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**Operating Revenue:**

HUD Grants	\$ 2,730,765
Other Revenue	<u>35,538</u>
 Total Operating Revenue	 2,766,303

**Operating Expenses:**

Housing Assistance Payments	2,240,173
Administrative Salaries	206,777
Compensated Absences	988
Employee Benefits	91,127
Other Administrative Expenses	134,524
Material and Labor - Maintenance	32,480
General Expenses	<u>5,601</u>

Total Operating Expenses	2,711,670
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Operating Income (Loss)	54,633
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Non-Operating Revenues (Expenses)

Depreciation Expense	(8,620)
Investment Income	<u>6,235</u>

Change in Net Assets	52,248
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Net Assets- Beginning of Year As Previously Stated	<u>175,711</u>
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Prior Period Adjustment (Note 8)	144,036
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Net Assets- Beginning of Year As Restated	<u>319,747</u>
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Net Assets- End of Year	<u><u>\$ 371,995</u></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, 2005

Cash Flows From Operating Activities:

Cash payments to suppliers for goods and services	\$ (234,742)
Cash payments for salaries and benefits	(207,765)
Housing assistance payments	(2,240,173)
HUD operating subsidies and grants	2,736,005
Other receipts	36,533
Other payments	<u>(5,601)</u>
Net Cash Provided (Used) by Operating Activities	84,257

Cash Flows From Non-Capital Financing:

Net Cash Provided (Used) by Non-Capital Financing	-
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Cash Flows From Capital and Related Financing Activities:

Net Cash Provided (Used) by Capital and Related Financing Activities	-
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Cash Flows From Investing Activities:

Change in Investments	(62,173)
Investment Income	6,235
Acquisition of Machinery and Equipment	<u>(3,536)</u>
Net Cash Provided (Used) by Investing Activities	<u>(59,474)</u>
Increase (Decrease) in Cash and Cash Equivalents	24,783
Cash and Cash Equivalents - Beginning of Year	<u>171,725</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 196,508</u></u>

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, 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ 54,453
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	8,620
(Increase) decrease in:	
Accounts Receivable	(12,323)
Prepaid Expenses	1,831
Increase (decrease) in:	
Accounts Payable - Vendor	11,910
Accrued Compensated Absences	988
Accrued Expenses	18,598
	18,598
Net cash used in operating activities	\$ 84,257

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

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**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 Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective October 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Notes to the Financial Statements

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

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

**B. Basis of Accounting (continued)**

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. Land, Property and Equipment**

Land, property and equipment are recorded at cost. Property and equipment are depreciated over the estimated useful lives of the assets. Depreciation is calculated using the straight-line method over the useful life lives of the respective assets, which are as follows:

Property	15 – 40 Years
Equipment	3 - 7 Years

Total depreciation expense for the 2006 calendar year was \$8,440.

**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, 2003.

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2006, 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, 2006, \$11,318 was accrued by the Authority for unused vacation and sick time.

I. Revenue Recognition

Subsidies and grants received from HUD and other grantors are generally recognized during the periods to which the grants relate. Tenant rental revenues are recognized during the period of occupancy. Expenses are recognized as incurred.

**NOTE 2 – Deposits and Investments:**

In 2005, the Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and change in net assets in the prior or current year.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 2 – Deposits and Investments:**

**A. Deposits**

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.

At year-end, the carrying amount of the Authority's deposits was \$358,284 (including \$253,917 of unrestricted funds, \$104,226 of Star Ohio, and \$140 of petty cash) and the bank balance was \$268,723.

**Custodial Credit Risk**

Custodial Credit Risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$100,000 were covered by Federal Depository Insurance and deposits totaling \$168,723 were uninsured and collateralized with securities held by the financial institution's trust department or agent, but not in the Authority's name.

**B. Investments**

HUD, State Statute, and Board resolutions authorize the Authority to invest in obligations of the U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository funds, 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.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 2 – Deposits and Investments:**

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.

The Authority has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Authority follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value.

**Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the Authority's investment policy requires those funds which are not operating reserve funds to be invested in investments with a maximum term of one year or the Authority's operating cycle. For investments of the Authority's operating reserve funds, the maximum term can be up to three years. The intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

Generally, the Authority places no limit on the amount it may invest in any one insurer. However, the investment policy limits the investment of HUD - approved mutual funds to no more than 20 percent of the Authority's available investment funds. The Authority's deposits in financial institutions represents 100 percent of its deposits.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of year-end, the Authority had no exposure to foreign currency rate risk, as regulated by HUD.

Reconciliation of cash and cash equivalents and investments is as follows:

	Cash and Cash	
	<u>Equivalents *</u>	<u>Investments</u>
Per Statement of Net Assets	\$ 254,057	\$104,227
Star Ohio	104,227	( 104,227)
Per GASB Statement No. 3	<u>\$ 358,284</u>	<u>\$ 0</u>

\* Includes Petty Cash.



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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 3 – Property and Equipment:**

A summary of capital assets at September 30, 2006 by class is as follows:

	<u>10/1/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>9/30/2006</u>
Capital Assets Being Depreciated				
Leasehold Improvements	\$ 17,771			\$ 17,771
Equipment	<u>61,844</u>	<u>3,536</u>	<u>(15,239)</u>	<u>50,141</u>
Subtotal Capital Assets Being Depreciated	79,615			67,912
Accumulated Depreciation:	<u>(38,923)</u>	<u>(8,620)</u>	<u>15,239</u>	<u>(32,304)</u>
Depreciable Assets, Net	<u>40,692</u>	<u>(8,620)</u>	<u>-</u>	<u>35,608</u>
Total Capital Assets, Net	<u>\$ 40,692</u>	<u>\$ (8,620)</u>	<u>\$ -</u>	<u>\$ 35,608</u>

**NOTE 4 - PENSION PLAN**

**Ohio Public Employees Retirement System**

All Authority full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 4 - PENSION PLAN (continued)**

**Ohio Public Employees Retirement System**

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 13.55 percent of covered payroll. The Authority's required contributions to OPERS for the years ended September 30, 2006, 2005, and 2004 were \$28,155, \$27,028 and \$24,786 respectively.

**NOTE 5 - POST-EMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. 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 OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2006 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2006.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 5 - POST-EMPLOYMENT BENEFITS (continued)**

**Ohio Public Employees Retirement System**

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**NOTE 6 – Insurance Coverage and Risk Retention:**

The 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 Authority maintains comprehensive insurance coverage with private carriers for health, real property, and building contents. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

**Note 7 - Change in Accounting Principles**

For the year ended September 30, 2006, the Authority has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Authority.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2006**

**NOTE 8 – Prior Period Adjustment:**

Beginning net assets balance has been restated in the amount of \$144,036 as a result of HUD Notice PIH 2006-03, pertaining to excess budget authority disbursed to Undesignated Hap Fund.

**NOTE 9 – Schedule of Expenditures of Federal Awards:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Konx 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, 2006  
Financial Data Schedule Submitted to U.S. Department of HUD

FDS  
Line  
Item  
No.

		Public		
Account Description		Local	Housing	Total
<b>ASSETS</b>				
111	Cash and Cash Equivalents	\$ 90	\$ 196,418	\$ 196,508
100	<b>TOTAL CASH</b>	90	196,418	196,508
125	Accounts Receivable - Other	-	4,200	4,200
128	Accounts Receivable - Fraud Recovery	-	28,896	28,896
120	<b>TOTAL ACCOUNTS RECEIVABLE</b>	-	33,096	33,096
131	Investments - Unrestricted	105,835	55,941	161,776
142	Prepaid Expenses	-	9,717	9,717
150	<b>TOTAL CURRENT ASSETS</b>	105,925	295,172	401,097
164	Furniture, Equipment & Machinery - Administration	-	67,912	67,912
166	Accumulated Depreciation	-	(32,304)	(32,304)
160	<b>TOTAL FIXED ASSETS, NET</b>	-	35,608	35,608
190	<b>TOTAL ASSETS</b>	<u>\$105,925</u>	<u>\$ 330,780</u>	<u>\$ 436,705</u>
<b>LIABILITIES</b>				
312	Accounts Payable	\$ -	\$ 13,127	\$ 13,127
321	Accrued Wage/Payroll Taxes Payable	-	5,055	5,055
322	Accrued Compensated Absences	-	11,318	11,318
342		-	6,314	6,314
310	<b>TOTAL CURRENT LIABILITIES</b>	-	35,814	35,814
353	Undistributed Credits - Fraud Recovery	-	28,896	28,896
	<b>TOTAL NON-CURRENT LIABILITIES</b>	-	28,896	28,896
	<b>TOTAL LIABILITIES</b>	-	64,710	64,710
512	Retained Earnings	105,925	266,070	371,995
	<b>TOTAL NET ASSETS</b>	<u>105,925</u>	<u>266,070</u>	<u>371,995</u>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$105,925</u>	<u>\$ 330,780</u>	<u>\$ 436,705</u>

KNOX METROPOLITAN HOUSING AUTHORITY  
Statement of Revenue, Expenses and Changes in Net Assets  
For the Year Ended September 30, 2006

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

FDS Line Item No.	Account Description	Public		
		Local	Housing	Total
<b>Revenue:</b>				
706	HUD PHA Operating Grant	\$ -	\$ 2,730,765	\$ 2,730,765
711	Investment Income – Unrestricted	3,078	3,157	6,235
715	Other Revenues	24,048	11,490	35,538
700	Total Revenue	<u>27,126</u>	<u>2,745,412</u>	<u>2,772,538</u>
<b>Expenses:</b>				
911	Administrative Salaries	11,169	195,608	206,777
912	Audit Fees	-	4,065	4,065
914	Compensated Absences	-	988	988
915	Employee Benefit Contributions – Administrative	4,355	86,773	91,128
916	Other Operating – Administrative	4,559	58,711	63,270
942	Ordinary Maintenance and Operations - Materials and Other	3,855	26,079	29,934
943	Ordinary Maintenance and Operations - Contract Costs	-	5,342	5,342
961	Insurance Premiums	197	5,404	5,601
969	Total Operating Expenses	<u>24,135</u>	<u>382,970</u>	<u>407,105</u>
970	Excess Operating Revenue over Expenses	2,991	2,362,442	2,365,433
<b>Other Expenses</b>				
973	Housing Assistance Payments	-	2,304,565	2,304,565
974	Depreciation Expense	-	8,620	8,620
900	<b>Total Expenses</b>	<u>24,135</u>	<u>2,696,155</u>	<u>2,720,290</u>
1010	<b>Total Other Funding Sources(Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
1000	<b>Excess of Operating Revenue Over Expenses</b>	2,991	49,257	52,248
1103	<b>Beginning Net Assets</b>	102,935	72,776	175,711
1104	<b>Prior Period Adjustments</b>	-	144,036	144,036
	<b>Ending Net Assets</b>	<u>\$105,926</u>	<u>\$ 266,069</u>	<u>\$ 371,995</u>

KNOX METROPOLITAN HOUSING AUTHORITY  
Additional Information Required by HUD  
Year Ended September 30, 2006

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

FDS Line Item No.	Account Description	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ 2,765,287
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 3,590
1116	Total Annual Contributions Available	\$ 2,768,877
1120	Unit Months Available	7,824
1121	Number of Unit Months Leased	7,824
1117	Administrative Fee Equity	\$ 98,101
1118	Housing Assistance Payments Equity	\$ 345,953

KNOX METROPOLITAN HOUSING AUTHORITY  
 Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2006

<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	\$ 2,730,765	\$ 2,304,565
Ohio Department of Development				
Home Investment Partnership Program:				
Community Housing Improvement Program	14.239	A-C-05-149-2	\$ 24,048	24,048
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 2,328,613</u>

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





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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  
Norwalk, Ohio

I have audited the financial statements of Knox Metropolitan Housing Authority as of and for the year ended September 30, 2006, and have issued my report thereon dated February 20, 2007. 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.

### 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 caused by error or fraud 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.

### Compliance and Other Matters

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 or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Knox Metropolitan Housing Authority in a separate letter dated February 20, 2007.

This report is intended solely for the information and use of the audit committee, 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.

Kevin L. Penn, Inc.

February 20, 2007



Kevin L.  
**Penn, Inc.**

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**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  
Norwalk, 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, 2006. 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, 2006.

### 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 caused by error or fraud 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 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.

Kevin L. Penn, Inc.

February 20, 2007

**Knox Metropolitan Housing Authority**  
 Schedule of Findings and Questioned Costs  
 September 30, 2006

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, 2006

There were no audit findings, during the 2005 fiscal year.



**Mary Taylor, CPA**  
Auditor of State

**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.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**