

KNOX METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

September 30, 2003

Together with Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Knox Metropolitan Housing Authority
Mount Vernon, Ohio

We have reviewed the Independent Auditor's Report of the Knox Metropolitan Housing Authority, Knox County, prepared by Kevin L. Penn, Inc., for the audit period October 1, 2002 through September 30, 2003. 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

May 3, 2004

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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, 2003 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, 2003, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, to the financial statements, effective October 1, 2002, the Knox Metropolitan Housing Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB 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 GASB No.38, Certain Financial Statements Note Disclosures.

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 25, 2004 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. 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 22 to 24 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 25, 2004

Knox Metropolitan Housing Authority

Management's Discussion and Analysis

September 30, 2003

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 2003, the Authority's net assets decreased by \$2,210 (or less than 1%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$187,569 and \$185,359 for FY 2002 and FY 2003 respectively.
- The revenue decreased by \$2,206 (or less than 1%) during FY 2003, and was \$2,605,144 and \$2,602,938 for FY 2002 and FY 2003 respectively.
- The total expenses of the Authority increased by \$27,927 (or 1%). Total expenses were \$2,573,877 and \$2,601,804 for FY 2002 and FY 2003 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 2003</u>	<u>FY 2002</u>
Current and Other Assets	\$ 327,081	\$ 199,469
Capital Assets	<u>125,334</u>	<u>133,439</u>
Total Assets	<u>452,415</u>	<u>332,908</u>
Other Liabilities	171,657	44,848
Non-Current Liabilities	<u>95,399</u>	<u>100,491</u>
Total Liabilities	<u>267,056</u>	<u>145,339</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	28,819	31,634
Restricted	0	0
Unrestricted	<u>156,540</u>	<u>155,933</u>
Total Net Assets	<u>\$ 185,359</u>	<u>\$ 187,569</u>

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

Major Factors Affecting the Statement of Net Assets

Current assets (primarily cash and investments) were increased by \$127,612 in fiscal year 2003 and other liabilities increased by \$ 126,809. The largest factor for both was the \$124,787 additional funds due HUD at the end of the fiscal year.

The purchase of new equipment totaling \$523 and current years' depreciation totaling \$8,628 gave a net decrease to Capital Assets. For more detail see "Capital Assets and Debt Administration" below.

TABLE 2**CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 9/30/2002		\$ 155,933
Results of Operations	1,134	
Adjustments:		
Depreciation (1)	8,628	
Prior Period Adjustment	(3,344)	
Debt retirement	(5,288)	
Adjusted Results from Operations		1,128
Capital Expenditures		<u>(523)</u>
Unrestricted Net Assets 9/30/03		<u><u>\$ 156,540</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

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 2003</u>	<u>FY 2002</u>
Revenues		
HUD PHA Operating Grants	\$ 2,592,752	\$ 2,574,576
Investment Income	2,045	1,442
Other Revenues – Other Grants	5,915	26,461
Other Revenues – Fraud Recovery	<u>2,226</u>	<u>2,665</u>
Total Revenue	<u>2,602,938</u>	<u>2,605,144</u>
Expenses		
Administrative	297,660	243,611
Utilities	3,317	2,786
Maintenance	27,617	36,611
General	8,510	25,998
Housing Assistance Payments	2,256,072	2,256,360
Depreciation	<u>8,628</u>	<u>8,511</u>
Total Expenses	<u>2,601,804</u>	<u>2,573,877</u>
Net Increase/(Decrease)	<u>\$ 1,134</u>	<u>\$ 31,267</u>

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

Hud PHA Grants increased \$18,176 from \$2,574,576 in 2002 to \$2,592,752 in 2003. This slight increase came from the increase in Administration Fees factor, Hard to House Fees earned and LBP Clearance Testing Fees earned.

Most other expenses increase moderately due to inflation. Depreciation increased because of the additions to capital assets during fiscal year 2003.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of 9/30/03, the Authority had \$125,334 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 2003	FY 2002
Land/Building	\$ 135,000	\$ 135,000
Equipment – Administrative	29,725	29,202
Accumulated Depreciation	(39,391)	(30,763)
Total	<u>\$ 125,334</u>	<u>\$ 133,439</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	\$ 133,439
Additions	523
Disposition	(0)
Depreciation	<u>(8,628)</u>
Ending Balance	<u><u>\$ 125,334</u></u>

This year's major additions are:

Date & Time Stamp \$ 523

Debt Outstanding

As of 9/30/03, the Authority had \$96,515 in debt (mortgage) outstanding as compared to \$101,805 last year, a \$5,290 decrease.

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 205 North Gay Street, Mt. Vernon, OH 43050.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$	170,918
Investments – Unrestricted		149,742
Accounts Receivable – Fraud		1,046
Prepaid Expenses		5,375
Total Current Assets		327,081

Non-Current Assets

Property and Equipment - Net (Note 1)		125,334
Total Non-Current Assets		125,334
TOTAL ASSETS	\$	452,415

LIABILITIES

Current Liabilities

Accounts Payable - Vendor	\$	16,225
Accounts Payable - HUD		148,854
Other Current Liabilities		1,046
Current Portion - Long Term Debt		5,532
Total Current Liabilities		171,657

Non-Current Liabilities

Mortgage Payable		90,983
Accrued Compensated Absences		4,416
Total Non-Current Liabilities		95,399
Total Liabilities	\$	267,056

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$	28,819
Unrestricted		156,540
Total Net Assets	\$	185,359

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, 2003

Operating Revenue:

HUD Operating Subsidies and Grants	<u>\$ 2,592,752</u>
Total Operating Revenue	<u>2,592,752</u>

Operating Expenses:

Housing Assistance Payments	2,256,072
Administrative Salaries	153,310
Employee Benefits	73,437
Other Administrative Expenses	72,595
Material and Labor - Maintenance	27,617
General Expenses	<u>5,402</u>
Total Operating Expenses	<u>2,588,433</u>

Operating Income (Loss)	4,319
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Non-Operating Revenues (Expenses):

Investment Income	2,045
Other Revenue	8,141
Depreciation Expense	(8,628)
Interest Expense	<u>(4,733)</u>
Total Non-Operating Revenues (Expenses)	<u>(3,175)</u>

Change in Net Assets	1,134
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Net Assets- Beginning of Year As Previously Stated	187,569
Prior Period Adjustment (Note 8)	<u>(3,344)</u>
Net Assets- Beginning of Year As Restated	<u>184,225</u>
Net Assets- End of Year	<u><u>\$ 185,359</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, 2003

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	\$ (93,224)
Cash payments for salaries and benefits	(226,757)
Housing assistance payments	(2,256,072)
HUD operating subsidies and grants	2,717,539
Other receipts	10,184
Other payments	(4,733)
	146,937
Cash Flows From Non-Capital Financing:	
Net Cash Provided (Used) by Non-Capital Financing	-
Cash Flows From Capital and Related Financing Activities:	
Repayment of long-term debt	(5,288)
	(5,288)
Cash Flows From Investing Activities:	
Change in Investments	(37,914)
Acquisition of Machinery and Equipment	(523)
	(38,437)
Increase (Decrease) in Cash and Cash Equivalents	103,212
Cash and Cash Equivalents - Beginning of Year	67,706
	\$ 170,918

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

(Continued)

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$ 1,134
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	8,628
(Increase) decrease in:	
Accounts Receivable	3312
Prepaid Expenses	6,859
Increase (decrease) in:	
Accounts Payable - Vendor	7,107
Accounts Payable - HUD	124,787
Accrued Expenses	(4,888)
	(4,888)
Net cash used in operating activities	\$ 146,939

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

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

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, 2003**

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

B. Basis of Accounting (continued)

No cumulative effect adjustments to net assets as of October 1, 2002 were required in connection with the implementation of the GASB statement described above.

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 2003 calendar year was \$8,628.

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, 2003**

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2003, 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, 2003, \$4,416 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:

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.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 2 – Deposits and Investments: (continued)

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;
6. No-loan money market mutual funds consisting exclusively or 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;

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 2 – Deposits and Investments: (continued)

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 \$205,808 and the bank balance was \$224,840. Of the bank balance, \$100,000 was covered by federal depository insurance and \$124,840 was insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

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.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 2 – Deposits and Investments: (continued)

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 \$114,612 at September 30, 2003, which approximates fair value.

RISK CATEGORY

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Star Ohio	\$ -	\$ -	\$ -	\$ 114,612	\$ 114,612
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,612</u>	<u>\$ 114,612</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.

NOTE 3 – Property and Equipment:

The Authority maintains detailed records that track fixed assets by category. The following schedule lists fixed asset balances for the individual program at September 30, 2003:

Program	Land	Property	Equipment	Accumulated Depreciation	Net
Section 8 Housing Choice Voucher	<u>\$15,600</u>	<u>\$119,400</u>	<u>\$ 29,725</u>	<u>\$ 39,391</u>	<u>\$125,334</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 \$96,515. 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

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 4 – Mortgage Payable and Long-Term Debt: (continued)

\$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.

Less: Current Portion	\$ <u>96,515</u>
	(<u>5,531</u>)
Total Long Term Debt	\$ <u>90,984</u>

The aggregate amounts of long-term debt maturities for the five years following 2003 are as follows:

Year	Principal	Interest	Total
2004	\$ 5,531	\$ 4,492	\$ 10,023
2005	\$ 5,814	\$ 4,209	\$ 10,023
2006	\$ 6,097	\$ 3,926	\$ 10,023
2007	\$ 6,394	\$ 3,629	\$ 10,023
2008	\$ 6,696	\$ 3,327	\$ 10,023
Thereafter	<u>\$ 65,983</u>	<u>\$14,201</u>	<u>\$ 80,184</u>
Total	<u>\$ 96,515</u>	<u>\$33,784</u>	<u>\$130,299</u>

NOTE 5 – Defined Benefit Pension Plans – Public Employees Retirement System:

All full-time employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement systems administered by the Public Employees Retirement Board. OPERS provide basic retirements, disability and survivor benefits, based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issue a publicly available financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 466-2085 or (800) 222-PERS.

Plan members are required to contributed 8.5 percent of their annual covered salary to fund pension obligations. The 2003 employer pension contribution rate for the authority was 13.55 percent. Contributions are authorized by state statue. The contribution rates are determined actuarially. The Authority required contributions to OPERS for the years ended September 30, 2003, 2002 and 2001 were \$20,607; \$20128 and \$12,711 respectively. One hundred percent has been contributed for 2003. All required contributions for the two previous years have been paid.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 6 – Post-Employment Benefits Public Employees Retirement System:

The Public Employees Retirement System of Ohio (OPERS) provides post-employment health care benefits to age and service retirants with ten or more years to qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No.12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund post-employment health care through their contributions to the OPERS. The portion of the 202 employer contribution rate (identified above) that was used to fund health care for the year ended September 30, 2003 was 5.0 percent of covered payroll, which amounted to \$7,427. The significant actuarial assumptions and calculations relating to post-employment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range for 0.51 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

NOTE 7 – 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

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2003**

NOTE 8 – 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 9 – Prior Period Adjustment:

Beginning retained earnings balance has been restated in the amount of \$(3,344) as a result of the following:

1. \$(1,980) an overstatement of prepaid expense.
2. \$(1,364) an overstatement of accounts receivable.

NOTE 10 – 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, 2003

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

FDS Line Item No.	Account Description	
	ASSETS	
111	Cash and Cash Equivalents	<u>\$ 170,918</u>
100	TOTAL CASH	170,918
128	Accounts Receivable - Fraud Recovery	<u>1,046</u>
120	TOTAL ACCOUNTS RECEIVABLE	1,046
131	Investments - Unrestricted	149,742
142	Prepaid Expenses	<u>5,375</u>
150	TOTAL CURRENT ASSETS	327,081
161	Land	15,600
162	Buildings	119,400
164	Furniture, Equipment & Machinery - Administration	29,725
166	Accumulated Depreciation	<u>(39,391)</u>
160	TOTAL FIXED ASSETS, NET	<u>125,334</u>
190	TOTAL ASSETS	<u><u>\$ 452,415</u></u>
	LIABILITIES	
312	Accounts Payable	\$ 16,225
322	Accrued Compensated Absences	4,416
331	Accounts Payable - HUD PHA Programs	148,854
344	Current Portion of Long-term Debt	<u>5,532</u>
310	TOTAL CURRENT LIABILITIES	175,027
352	Long-term Debt, Net of Current - Operating Borrowings	90,983
353	Undistributed Credits - Fraud Recovery	<u>1,046</u>
	TOTAL NON-CURRENT LIABILITIES	<u>92,029</u>
	TOTAL LIABILITIES	267,056
512	Retained Earnings	<u>185,359</u>
	TOTAL NET ASSETS	<u>185,359</u>
	TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 452,415</u></u>

KNOX METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended September 30, 2003

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

FDS Line Item No.	Account Description	
	Revenue:	
706	HUD PHA Operating Grant	\$2,592,752
711	Investment Income - Unrestricted	2,045
715	Other Revenues	<u>8,141</u>
700	Total Revenue	2,602,938
	Expenses:	
911	Administrative Salaries	152,877
912	Audit Fees	3,500
914	Compensated Absences	443
915	Employee Benefit Contributions – Administrative	73,437
916	Other Operating - Administrative	65,778
938	Other Utilities Expense	3,317
942	Ordinary Maintenance and Operations - Materials and Other	21,577
943	Ordinary Maintenance and Operations - Contract Costs	6,040
961	Insurance Premiums	5,402
967	Interest Expense	<u>4,733</u>
969	Total Operating Expenses	<u>337,104</u>
970	Excess Operating Revenue over Expenses	2,265,834
	Other Expenses	
973	Housing Assistance Payments	2,256,072
974	Depreciation Expense	<u>8,628</u>
900	Total Expenses	2,601,804
1010	Total Other Funding Sources(Uses)	<u>0</u>
1000	Excess of Operating Revenue Over Expenses	1,134
1103	Beginning Net Assets	187,569
1104	Prior Period Adjustments	<u>(3,344)</u>
	Ending Net Assets	<u><u>\$ 185,359</u></u>

KNOX METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended September 30, 2003

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

FDS Line Item No.	Account Description	
1113	Maximum Annual Contributions Commitment (Per ACC)	\$2,629,116
1114	Applicable to a Period of Less Than Twelve Months	\$ -
1115	Contingency Reserve, ACC Program Reserve	\$ 131,923
1116	Total Annual Contributions Available	\$2,761,039
1120	Unit Months Available	7,824
1121	Number of Unit Months Leased	7,654

KNOX METROPOLITAN HOUSING AUTHORITY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2003

<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	\$2,741,606	\$2,592,752

TOTAL FEDERAL FINANCIAL ASSISTANCE				\$2,592,752
				=====

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



Certified Public Accountant
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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, 2003, and have issued my report thereon dated February 25, 2004, which includes an explanatory paragraph, regarding the adoption of certain new accounting standards as described in Note 1, to the financial statements. 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.

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.

February 25, 2004



Kevin L.
Penn, Inc.

Certified Public Accountant
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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
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, 2003. 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 in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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, 2003.

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.

February 25, 2004

Knox Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 September 30, 2003

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, 2003

There were no audit findings, during the 2002 fiscal year.



**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
MAY 13, 2004**