

KNOX METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

September 30, 2010

Together with Auditors' Report



Dave Yost • Auditor of State

Board of Trustees
Knox Metropolitan Housing Authority
201 A West High Street
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, 2009 through September 30, 2010. 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.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

April 14, 2011

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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, 2010 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, 2010, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 10, 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 March 8, 2011 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 25 to 27 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.

March 8, 2011

Knox Metropolitan Housing Authority

Management's Discussion and Analysis

September 30, 2010

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 2010, the Authority's net assets increased by \$125,993 (or 13.5%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$362,076 and \$488,069 for FY 2009 and FY 2010 respectively.
- The revenue increased by \$173,318 (or 10.5%) during FY 2010, and was \$3,160,283 and \$3,333,601 for FY 2009 and FY 2010 respectively.
- The total expenses of the Authority increased by \$13,165 (or 0.0%). Total expenses were \$3,194,443 and \$3,207,608 for FY 2009 and FY 2010 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 2009</u>	<u>FY 2010</u>
Current and Other Assets	\$ 380,156	\$ 518,872
Capital Assets	<u>43,416</u>	<u>40,203</u>
Total Assets	<u>423,572</u>	<u>559,075</u>
Other Liabilities	48,867	57,663
Non-Current Liabilities	<u>12,629</u>	<u>13,343</u>
Total Liabilities	<u>61,496</u>	<u>71,006</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	43,416	40,203
Restricted	118,184	169,976
Unrestricted	<u>200,476</u>	<u>277,890</u>
Total Net Assets	<u>\$ 362,076</u>	<u>\$ 488,069</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 \$138,716 or 13.6% and liabilities were increased by \$9,510 or 15.5%. Factors for these changes include reclassifying allowance for doubtful accounts for the Fraud Recovery accounts. Also reducing current assets was the slight decrease to the Undesignated HAP fund and the loss for the year.

The Capital Assets had a net decrease of \$3,213. This is the net amount of current year's depreciation of \$16,922 and the current year's purchases of \$13,709.

TABLE 2**CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 9/30/2009		\$ 200,476
Results of Operations	93,178	
Adjustments:		
Depreciation (1)	(16,922)	
Adjusted Results from Operations		76,256
Capital Expenditures		
Additions		13,709
Disposal of Assets		<u>(12,551)</u>
Unrestricted Net Assets 09/30/2010		<u><u>\$ 277,890</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**CHANGE OF RESTRICTED NET ASSETS**

Restricted Net Assets 9/30/2009		\$ 118,184
Results of Operations		
Adjustments:		
HUD URI	2,652	
FSS Forfeitures	2,066	
Results from Operations	47,074	
Adjusted Results from Operations		51,792
Restricted Net Assets 09/30/2010		<u><u>\$ 169,976</u></u>

TABLE 4**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 2009</u>	<u>FY 2010</u>
Revenues		
HUD PHA Operating Grants	\$ 3,072,317	\$ 3,209,758
Investment Income	1,685	312
Other Revenues – Other	82,543	118,227
Other Revenues – Fraud Recovery	<u>3,738</u>	<u>5,304</u>
Total Revenue	<u>3,160,283</u>	<u>3,333,601</u>
Expenses		
Administrative	331,867	357,345
Maintenance	9,874	28,121
General	79,056	59,957
Housing Assistance Payments	2,762,232	2,732,712
Disposal of Assets	0	12,551
Depreciation	<u>11,414</u>	<u>16,922</u>
Total Expenses	<u>3,194,443</u>	<u>3,207,608</u>
Net Increase/(Decrease)	<u>\$ (34,160)</u>	<u>\$ 125,993</u>

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

HUD PHA Grants increased \$137,441 or 5.7%. HUD provided a slight increase to Housing Assistance Funding in Calendar Year 2010. The Authority was able to maintain a high leasing rate to utilize most of the funding.

The \$125,993 net increase is actually a \$51,792 increase to Undesignated HAP funds for FY 2010 and a \$ 74,201 increase to the Authority's reserves.

Administrative expenses increase was due primarily to adding an additional part-time staff position to the agency in 2010, in addition to realizing an increase in employee health insurance.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

As of 09/30/10, the Authority had \$40,203 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

TABLE 5

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

	Business-type Activities	
	FY 2009	FY 2010
Leasehold Improvements	\$ 0	\$ 0
Equipment – Administrative	77,163	78,321
Accumulated Depreciation	(33,747)	(38,118)
Total	<u>\$ 43,416</u>	<u>\$ 40,203</u>

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

TABLE 6

CHANGE IN CAPITAL ASSETS

Beginning Balance,10/1/2009	\$ 43,416
Additions	13,709
Depreciation	<u>(16,922)</u>
Ending Balance,9/30/2010	<u><u>\$ 40,203</u></u>

This year's major additions are:

New Office Equipment totaling \$13,709.

Debt Outstanding

As of 9/30/10, 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 Jason E. Booth, Executive Director for the Knox Metropolitan Housing Authority, at (740) 397-8787. Specific requests may be submitted to the Authority at 201A West High Street, Suite 201, Mt. Vernon, OH 43050.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

ASSETS

Current Assets

Cash and Cash Equivalents (Note 1)	\$231,989
Investments - Unrestricted	52,946
Investments – Restricted (Note 3)	193,473
Accounts Receivable – Fraud	22,480
Allowance for Doubtful Accounts - Fraud	(22,480)
Accounts Receivable – HUD	934
Accounts Receivable – Other	23,052
Notes Receivable	10,000
Prepaid Expenses	6,478
Total Current Assets	<u>518,872</u>

Non-Current Assets

Property and Equipment - Net (Note 1)	<u>40,203</u>
Total Non-Current Assets	<u>40,203</u>
TOTAL ASSETS	<u><u>\$559,075</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable – Vendor	\$12,286
Accrued Liabilities	21,880
Accrued Compensated Absences - Current Portion	8,161
Other Current Liabilities	23,497
Total Current Liabilities	<u>65,824</u>

Non-Current Liabilities

Accrued Compensated Absences	<u>5,182</u>
Total Non-Current Liabilities	<u>5,182</u>
Total Liabilities	<u><u>\$71,006</u></u>

Net Assets

Invested in Capital Assets, Net of Related Debt	\$40,203
Restricted	169,976
Unrestricted	277,890
Total Net Assets	<u><u>\$488,069</u></u>

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, 2010

Operating Revenue:

HUD Grants	\$3,193,646
Other Revenue	<u>139,643</u>
Total Operating Revenue	3,333,289

Operating Expenses:

Housing Assistance Payments	2,732,712
Administrative Salaries	268,706
Compensated Absences	714
Employee Benefits	88,639
Other Administrative Expenses	65,462
Material and Labor - Maintenance	28,121
Depreciation Expense	16,922
General Expenses	<u>6,332</u>

Total Operating Expenses 3,207,608

Operating Income (Loss) 125,681

Non-Operating Revenues (Expenses)

Investment Income - Unrestricted 312

Change in Net Assets 125,993

Net Assets- Beginning of Year 362,076

Net Assets- End of Year \$488,069

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, 2010

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	(\$94,844)
Cash payments for salaries and benefits	(358,059)
Housing assistance payments	(2,732,712)
HUD operating subsidies and grants	3,193,646
Other receipts	139,643
Other payments	<u>(6,332)</u>
Net Cash Provided (Used) by Operating Activities	141,342
Cash Flows From Non-Capital Financing:	
Net Cash Provided (Used) by Non-Capital Financing	0
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Fixed Assets	<u>(13,709)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,709)
Cash Flows From Investing Activities:	
Change in Investments	(169,392)
Investment Income	<u>312</u>
Net Cash Provided (Used) by Investing Activities	<u>(169,080)</u>
Increase (Decrease) in Cash and Cash Equivalents	(41,447)
Cash and Cash Equivalents - Beginning of Year	<u>273,436</u>
Cash and Cash Equivalents – End of Year	<u><u>\$231,989</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, 2010

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$125,681
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	16,922
(Increase) decrease in:	
Accounts Receivable	148
Notes Receivable	(10,000)
Prepaid Expenses	(919)
Increase (decrease) in:	
Accounts Payable – Vendor	1,930
Accrued Compensated Absences	714
Accrued Expenses	6,866
	6,866
Net cash used in operating activities	\$141,342

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

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 1 - Summary of Significant Accounting Policies:

Organization and Reporting Entity

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.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The Authority has no component units that are presented in the financial statements.

Basis of Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 to apply the provisions of Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989 that do not conflict with GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Authority uses a single enterprise fund to maintain its financial records on an accrual basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

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

Basis of Presentation

Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus and Basis of Accounting

The enterprise fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to tenants for rent and operating subsidies from HUD. Operating expenses for the enterprise fund include the costs of facility maintenance, housing assistance payments, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Effective July 1, 2003, the Authority made a change in the presentation of its cash flow statement. The Authority is now presenting cash and cash equivalents (including certificates of deposit) in the cash flow statement.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

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

Capital Assets

The Authority capitalizes all assets with a cost of \$500 and above. Capital assets are recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred. Depreciation is computed on the straight line method based on the following estimated useful lives:

Property	15 – 40 Years
Equipment	3 - 7 Years

Total depreciation expense for the 2010 fiscal year was \$16,922.

Investments

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

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 4.33 hours for each completed 75 hours of pay to a maximum of 900 hours.

	Balance at 9/30/09	Additions	Deletions	Balance at 9/30/10	Due Within One Year
Compensated Absences	\$12,629	\$ 714	\$ 0	\$13,343	\$8,161

Prepaid Items

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid items via the consumption method.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reported as restricted net assets at fiscal year end represents the amounts restricted by HUD for future Housing Assistance Payments and amounts from Administration Fee which may be recaptured by HUD. When an expense is incurred for purposes which both restricted and unrestricted net assets are available, the Authority first applies restricted net assets. Net assets restricted by HUD was \$169,976.

NOTE 2 – Deposits and Investments:

The provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the 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.

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 \$478,408 (including \$284,835 of unrestricted funds, \$193,473 of restricted funds and \$100 of petty cash) and the bank balance was \$479,134.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 2 – Deposits and Investments:

A. Deposits

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 \$250,000 were covered by Federal Depository Insurance and deposits totaling \$229,134 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 2 – Deposits and Investments: (continued)

B. Investments

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.

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years < 1)</u>
Carrying Amount of Deposits	\$ 478,308	\$ 478,308
Petty Cash	<u>100</u>	<u>100</u>
Totals	<u>\$ 478,408</u>	<u>\$ 478,408</u>

NOTE 3 – Restricted Cash:

Restricted cash balance as of September 30, 2010 of \$193,473 represents the following:

Unspent funding provided by HUD to make Housing Assistance Payments in the Housing Choice Voucher Program	\$ 169,976
Family Self-Sufficiency Escrows	<u>23,497</u>
Total	<u>\$ 193,473</u>

NOTE 4 – Property and Equipment:

A summary of capital assets at September 30, 2010 by class is as follows:

	10/1/2009	Additions	Deductions	9/30/2010
Capital Assets Being Depreciated				
Equipment	\$ 77,163	\$ 13,709	\$ 12,551	\$ 78,321
Subtotal Capital Assets Being Depreciated	77,163	13,709	12,551	78,321
Accumulated Depreciation:	<u>(33,747)</u>	<u>(16,922)</u>	12,551	<u>(38,118)</u>
Depreciable Assets, Net	<u>43,416</u>	<u>(3,213)</u>	<u> </u>	<u>40,203</u>
Total Capital Assets, Net	<u>\$ 43,416</u>	<u>\$ (3,213)</u>	<u>\$ -</u>	<u>\$ 40,203</u>

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 5: Defined Benefit Pension Plan:

Ohio Public Employees Retirement System

The Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employee 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 the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Effective January 1, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Authority's contribution rate for 2010 and 2009 was 14.0 percent of covered payroll.

The Authority's required contributions for pension obligations to the traditional and combined plans for the years ended September 30, 2010, 2009 and 2008 were \$36,152, \$33,268 and \$29,392 respectively; 100 percent has been contributed for 2010, 2009, and 2008.

NOTE 6 - Post Employment Benefits:

A. Plan Description

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 6 - Post Employment Benefits:

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, the Authority contributed at a rate of 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2010 and 2009, the employer contribution allocated to the health care plan was 5.50% (from October 2009 to February 2010) and 5% (from March 2010 to September 2010) of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Actual Authority contributions for the year ended September 30, 2010, which were used to fund post-employment benefits were \$13,419.

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 6 - Defined Benefit Pension Plan: (continued)

B. Funding Policy (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 7 – 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 8 - Notes Receivable:

The Authority holds a promissory note from Knox Housing Services, Inc. for property management startup, in the amount of \$10,000.00 at a rate per annum of 2.5% compounding annually. Knox Housing Services, Inc. shall repaid the promissory note in three annual payments of \$3,333.33, commencing on December 14, 2010.

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.

NOTE 10 - Contingent Liabilities:

A. Grants

The Authority has received several federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, management believes such disallowances, if any, will be immaterial.

B. Litigation

The Authority is unaware of any outstanding lawsuits or other contingencies

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

**NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 11 - Changes in Accounting Principles:

For fiscal year 2010, the Authority implemented GASB Statements No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles for state and local governments into the GASB's authoritative literature.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards.

The implementation of GASB Statements No. 52, 55, and 56 did not affect the presentation of the financial statements of the Authority.

NOTE 12 - Subsequent Events:

Generally accepted accounting principles define subsequent events as events or transactions that occur after the statement of financial position date, but before the financial statements as issued or are available to be issued. Management has evaluated subsequent events through March 8, 2011, the date on which the financial statements were available to be issued, noting the following:

1. On December 28, 2010, the Authority signed a concurrence provision, pertaining to the U.S. Department of Housing and Urban Development performance of a reconciliation of the 2009 Net Restricted Asset account, which resulted in a prior period revenue adjustment, which will result into an equity transfer of \$7,037.

Knox Metropolitan Housing Authority
Statement of Net Assets
September 30, 2010

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

Line item	Account Description	Housing Choice Voucher	State & Local	TOTALS
111	Cash - Unrestricted	\$ 127,842	\$ 104,146	\$ 231,988
100	Total Cash	127,842	104,146	231,988
122	Acct Rec-HUD	934		934
125	Acct Rec-Misc.	23,053		23,053
127	Notes Receivable	-	10,000	10,000
128	Fraud Recovery	22,480		22,480
128.1	Allow Doubtful Accts.	(22,480)		(22,480)
120	Net Total Receivables	23,987	10,000	33,987
131	Investments-Unrestricted	52,946		52,946
132	Investments-Restricted	193,473		193,473
142	Prepaid Expenses	6,478		6,478
150	Total Current Assets	404,726	114,146	518,872
164	F/E/M Admin	78,321		78,321
166	Accumulated Depreciation	(38,118)		(38,118)
160	Net Fixed Assets	40,203	-	40,203
190	TOTAL ASSETS	\$ 444,929	\$ 114,146	\$ 559,075
312	A/P <= 90 days	\$ 12,286		\$ 12,286
321	Accrued Wage/Taxes Payable	21,880		21,880
322	Accrued Comp. Abs. - Current	8,161		8,161
348	Loan Liability - Current	23,497		23,497
310	Total Current Liabilities	65,824	-	65,824
354	Accrued Comp. Abs. - Noncurrent	5,182		5,182
	TOTAL Liabilities	71,006	-	71,006
508.1	Invested in Capital Assets Net	40,203		40,203
511.1	Restricted Net Assets	169,976	-	169,976
512.1	Unrestricted Net Assets	163,744	114,146	277,890
513	TOTAL Equity/Net Assets	373,923	114,146	488,069
600	TOTAL LIAB. & EQUITY	\$ 444,929	\$ 114,146	\$ 559,075

Knox Metropolitan Housing Authority
Statement of Revenues and Expenses
For the Year Ended September 30, 2010

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

Line item	Account Description	Housing Choice Voucher	State & Local	TOTALS
706	HUD PHA Operating Grants	\$ 3,087,862	\$ 105,784	\$ 3,193,646
711	Investment Income - PHA	-	312	312
714	Fraud Recovery - PHA	5,304	-	5,304
715	Other Revenue	2,066	132,273	134,339
720	Investment Income - Restricted	-	-	-
700	TOTAL REVENUE	3,095,232	238,369	3,333,601
911	Admin Salaries	211,878	56,828	268,706
912	Audit	4,293	-	4,293
915	Employee Benefits	73,263	15,376	88,639
916	Office Expenses	-	7,465	7,465
918	Travel	269		269
919	Other	53,066	369	53,435
	Total Operating - Admin.	342,769	80,038	422,807
942	Ordinary Maint.	24,085	4,036	28,121
	Total Maint.	24,085	4,036	28,121
961.2	Insurance - Liab. Insurance	1,954		1,954
961.3	Insurance – Workmen’s Comp.	1,136		1,136
961.4	All Other Insurance	3,175	67	3,242
	Total Insurance	6,265	67	6,332
962.1	Comp. Abs.	714		714
	TOTAL OPERATING EXPENSES	373,833	84,141	457,974
970	Excess Oper. Rev. over Exp.	2,719,333	154,228	154,228
973	HAP	2,626,928	105,784	2,732,712
974	Depreciation Exp	16,922		16,922
900	TOTAL EXPENSES	3,017,683	189,925	3,207,608
1000	NET	\$ 77,549	\$ 48,444	\$ 125,993

Knox Metropolitan Housing Authority
Additional Information Required by HUD
For the Year Ended September 30, 2010

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

Line item	<u>Account Description</u>		<u>Housing Choice Voucher</u>
11170	Administrative Fee Equity	\$	98,923
11180	Housing Assistance Payment Equity	\$	177,477
11190	Unit Months Available		7,824
11210	Number of Unit Months Leased		7,824

KNOX METROPOLITAN HOUSING AUTHORITY
 Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2010

<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	\$ 3,087,862	\$ 2,626,928
Home Investment Partnership Program:				
Shelter Plus Care Program	14.238	OH16C50-7011	\$ 105,784	114,024
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 2,740,952</u>

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



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, 2010, and have issued my report thereon dated March 8, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Knox Metropolitan Housing Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Knox Metropolitan Housing Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Knox Metropolitan Housing Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Knox Metropolitan Housing Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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.

I noted certain matters that I reported to management of the Authority's in a separate letter dated March 8, 2011.

This report is intended solely for the information and use of management, those charged with governance 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.

March 8, 2011



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, 2010. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America and OMB Circular A-1 33, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-1 33 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 our opinion. My audit does not provide a legal determination of 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 as of September 30, 2010 and for the year ended.

Internal Control Over Compliance

The management of Knox Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Knox Metropolitan Housing Authority's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Knox Metropolitan Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, those charged with governance 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.

March 8, 2011

Knox Metropolitan Housing Authority
 Schedule of Findings and Questioned Costs
 September 30, 2010

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
Significant deficiency(ies) 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
Significant deficiency(ies) identified not considered to be material weaknesses?	No
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, 2010

There were no audit findings, during the 2009 fiscal year.

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Dave Yost • 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 5, 2011**