

**KNOX METROPOLITAN HOUSING AUTHORITY**

Financial Condition

As of

September 30, 2011

Together with Auditors' Report





# Dave Yost • Auditor of State

Board of Trustees  
Knox Metropolitan Housing Authority  
201A 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, 2010 through September 30, 2011. 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

May 23, 2012

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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, 2011 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, 2011, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended September 30, 2011 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 February 24, 2012 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.

February 24, 2012

# **Knox Metropolitan Housing Authority**

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

**September 30, 2011**

### **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 2011, the Authority's net assets increased by \$72,888 (or 11.5%). Since the Authority engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$488,069 and \$560,957 for FY 2010 and FY 2011 respectively.
- The revenue increased by \$282,616 (or 10.9%) during FY 2010, and was \$3,333,601 and \$3,616,217 for FY 2010 and FY 2011 respectively.
- The total expenses of the Authority increased by \$335,721 (or 11.5%). Total expenses were \$3,207,608 and \$3,543,392 for FY 2010 and FY 2011 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 2011</u>	<u>FY 2010</u>
Current and Other Assets	\$ 608,723	\$ 518,872
Capital Assets	<u>33,065</u>	<u>40,203</u>
Total Assets	<u>641,788</u>	<u>559,075</u>
Other Liabilities	62,612	57,663
Non-Current Liabilities	<u>18,219</u>	<u>13,343</u>
Total Liabilities	<u>80,831</u>	<u>71,006</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	33,065	40,203
Restricted	235,872	169,976
Unrestricted	<u>292,020</u>	<u>277,890</u>
Total Net Assets	<u>\$ 560,957</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 decreased by \$89,851 or 17% factors for these changes include reduction in accounts receivable, and an increase to cash on hand. Liabilities were increased by \$9,825 or 14%, primarily due to an increase in accounts payable and accrued compensated absences.

The Capital Assets had a net decrease of \$7,138. This is the net amount of current year's depreciation of \$13,966 and the current year's purchases of \$6,828.

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

Unrestricted Net Assets 9/30/2010		\$ 277,890
Results from Operations	17,935	
Adjustments:		
Depreciation (1)	(13,966)	
Adjusted Results from Operations		3,969
Capital Expenditures		
Reduction in Note Receivable		3,333
Addition of Assets		6,828
		<hr/>
Unrestricted Net Assets 09/30/2011		<u><u>\$ 292,020</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 9/30/2010		\$ 169,976
Results of Operations		
Adjustments:		
NRA Audit Adjustment	7,037	
HUD URI	2,116	
FSS Forfeitures	2,086	
Unspent Current Year HAP funding	54,657	
Adjusted Results from Operations		65,896
		<hr/>
Restricted Net Assets 09/30/2011		<u><u>\$ 235,872</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 2011</u>	<u>FY 2010</u>
Revenues		
HUD PHA Operating Grants	\$ 3,322,601	\$ 3,209,758
Investment Income	270	312
Other Revenues – Other	289,114	118,227
Other Revenues – Fraud Recovery	<u>4,232</u>	<u>5,304</u>
Total Revenue	<u>3,616,217</u>	<u>3,333,601</u>
Expenses		
Administrative	387,604	357,345
Maintenance	25,138	28,121
General	72,986	59,957
Housing Assistance Payments	3,043,635	2,732,712
Disposal of Assets	0	12,551
Depreciation	<u>13,966</u>	<u>16,922</u>
Total Expenses	<u>3,543,329</u>	<u>3,207,608</u>
Net Increase/(Decrease)	<u>\$ 72,888</u>	<u>\$ 125,993</u>

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

HUD PHA Grants increased \$112,843 or 4%. HUD provided a slight increase to Housing Assistance Funding in Calendar Year 2011. This is partially due to adding two additional shelter plus care grants. The Authority was able to maintain a high leasing rate to utilize most of the funding.

The \$72,888 net increase is actually a \$65,896 increase to Restricted Net Assets. Undesignated Net Assets funds for FY 2011 increased by \$14,130 to the Authority's reserves. Net assets invested in Capital decreased by \$7,138. The remaining increase is for non Housing Choice Voucher activity.

Administrative expenses increase was due primarily to adding contract PHA management services. Additional part-time staff position to the agency in 2011, in addition to realizing an increase in employee health insurance by 18%.

**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

As of 09/30/11, the Authority had \$33,065 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 2011	FY 2010
Leasehold Improvements	\$ 0	\$ 0
Equipment – Administrative	85,149	78,321
Accumulated Depreciation	(52,084)	(38,118)
Total	<u>\$ 33,065</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,10/1/2010	\$ 40,203
Additions	6,828
Depreciation	<u>(13,966)</u>
Ending Balance,9/30/2011	<u>\$ 33,065</u>

This year's major additions are:

New Office Equipment totaling \$6,828.

**Debt Outstanding**

As of 9/30/11, 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, 2011

ASSETS

**Current Assets**

Cash and Cash Equivalents (Note 1)	\$127,891
Investments – Unrestricted	194,472
Investments – Restricted	262,956
Accounts Receivable – Fraud	7,414
Allowance for Doubtful Accounts – Fraud	(7,414)
Accounts Receivable – HUD	7,694
Accounts Receivable – Other	2,253
Notes Receivable	6,667
Prepaid Expenses	6,790
Total Current Assets	<u>608,723</u>

**Non-Current Assets**

Property and Equipment – Net (Note 1)	<u>33,065</u>
Total Non-Current Assets	<u>33,065</u>
<b>TOTAL ASSETS</b>	<u><u>\$641,788</u></u>

LIABILITIES AND NET ASSETS

**Current Liabilities**

Accounts Payable – Vendor	\$6,856
Accrued Liabilities	21,307
Other Current Liabilities	34,449
Total Current Liabilities	<u>62,612</u>

**Non-Current Liabilities**

Accrued Compensated Absences	<u>18,219</u>
Total Non-Current Liabilities	<u>18,219</u>
Total Liabilities	<u><u>\$80,831</u></u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	\$33,065
Restricted	235,872
Unrestricted	292,020
Total Net Assets	<u><u>\$560,957</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, 2011

**Operating Revenue:**

HUD Grants	\$3,491,359
Other Revenue	<u>124,588</u>
Total Operating Revenue	3,615,947

**Operating Expenses:**

Housing Assistance Payments	3,043,635
Administrative Salaries	299,279
Compensated Absences	4,875
Employee Benefits	88,325
Other Administrative Expenses	62,708
Material and Labor – Maintenance	25,138
Depreciation Expense	13,966
General Expenses	<u>5,403</u>

Total Operating Expenses 3,543,329

Operating Income (Loss) 72,618

Non-Operating Revenues (Expenses)

Investment Income - Unrestricted 270

Change in Net Assets 72,888

Net Assets- Beginning of Year 488,069

Net Assets- End of Year \$560,957

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, 2011

Cash Flows From Operating Activities:	
Cash payments to suppliers for goods and services	(\$60,961)
Cash payments for salaries and benefits	(392,479)
Housing assistance payments	(3,043,635)
HUD operating subsidies and grants	3,491,359
Other receipts	124,588
Other payments	<u>(5,403)</u>
Net Cash Provided (Used) by Operating Activities	113,469
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>(6,828)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,828)
Cash Flows From Investing Activities:	
Change in Investments	(211,009)
Investment Income	<u>270</u>
Net Cash Provided (Used) by Investing Activities	<u>(210,739)</u>
Increase (Decrease) in Cash and Cash Equivalents	(104,098)
Cash and Cash Equivalents - Beginning of Year	<u>231,989</u>
Cash and Cash Equivalents - End of Year	<u><u>\$127,891</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, 2011

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Income (Loss)	\$72,618
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	13,966
(Increase) decrease in:	
Accounts Receivable	14,039
Notes Receivable	3,333
Prepaid Expenses	(312)
Increase (decrease) in:	
Accounts Payable – Vendor	(5,430)
Accrued Compensated Absences	4,876
Accrued Expenses	10,379
	<hr/>
Net cash used in operating activities	<u><u>\$113,469</u></u>

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

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**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, 2011**

**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, 2011**

**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 2011 fiscal year was \$13,966.

**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 9/30/10	Additions	Deletions	Balance at 9/30/11	Due Within One Year
Compensated Absences	\$13,343	\$ 14,239	\$( 9,363)	\$18,219	\$ -

**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, 2011**

**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 \$235,872.

**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 \$585,319 (including \$341,037 of unrestricted funds, \$244,182 of restricted funds and \$100 of petty cash) and the bank balance was \$586,056.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**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 \$336,056 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, 2011**

**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 &lt; 1)</u>
Carrying Amount of Deposits	\$ 585,219	\$ 585,219
Petty Cash	<u>100</u>	<u>100</u>
Totals	<u>\$ 585,319</u>	<u>\$ 585,319</u>

**NOTE 3 – Restricted Cash:**

Restricted cash balance as of September 30, 2011 of \$262,956 represents the following:

Unspent funding provided by HUD to make Housing Assistance Payments in the Housing Choice Voucher Program	\$ 235,872
Family Self-Sufficiency Escrows	<u>27,084</u>
Total	<u>\$ 262,956</u>

**NOTE 4 – Property and Equipment:**

A summary of capital assets at September 30, 2011 by class is as follows:

	10/1/2010	Additions	Deductions	9/30/2011
Capital Assets Being Depreciated				
Equipment	\$ 78,321	\$ 6,828	\$ -	\$ 85,149
Subtotal Capital Assets Being Depreciated	78,321	6,828	-	85,149
Accumulated Depreciation:	<u>(38,118)</u>	<u>(13,966)</u>	<u>-</u>	<u>(52,084)</u>
Depreciable Assets, Net	<u>40,203</u>	<u>( 7,138)</u>	<u>-</u>	<u>33,065</u>
Total Capital Assets, Net	<u>\$ 40,203</u>	<u>\$ ( 7,138)</u>	<u>\$ -</u>	<u>\$ 33,065</u>

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**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 2011 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, 2011, 2010 and 2009 were \$40,473, \$36,152 and \$33,268 respectively; 100 percent has been contributed for 2011, 2010, and 2009.

**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, 2011**

**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 2011 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 2011 and 2010, the employer contribution allocated to the health care plan was 5% 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, 2011, which were used to fund post-employment benefits were \$14,455.

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

**NOTES TO FINANCIAL STATEMENTS  
September 30, 2011**

**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, 2011.

**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, 2011**

**NOTE 10 - Reclassification:**

As required by the Department of Housing and Urban Development, HAP grant surplus must be classified as restricted HAP funds, as a result, the following reclassification was made from the unrestricted to restricted:

Restricted Net Assets at September 30, 2010	\$169,976
Adjustment to Reclassify HAP Grant Surplus Received	<u>7,037</u>
Unrestricted Net Assets at September 30, 2010, as restated	<u>\$177,013</u>

**NOTE 11- 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 February 24, 2012, the date on which the financial statements were available to be issued.

Knox Metropolitan Housing Authority  
Statement of Net Assets  
September 30, 2011

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

Line item	Account Description	Housing Choice Voucher	State & Local	TOTALS
111	Cash - Unrestricted	\$ 20,331	\$ 107,560	\$ 127,891
113	Cash - Other Restricted	262,956		262,956
100	Total Cash	<u>283,287</u>	<u>107,560</u>	<u>390,847</u>
122	Acct Rec-HUD	7,694		7,694
125	Acct Rec-Misc.	2,252		2,252
127	Notes Receivable	-	6,667	6,667
128	Fraud Recovery	7,414		7,414
128.1	Allow Doubtful Accts.	(7,414)		(7,414)
120	Net Total Receivables	9,946	6,667	16,613
131	Investments-Unrestricted	74,585	119,887	194,472
142	Prepaid Expenses	6,791		6,791
<b>150</b>	<b>Total Current Assets</b>	<u>374,609</u>	<u>234,114</u>	<u>608,723</u>
164	F/E/M Admin	85,149		85,149
166	Accumulated Depreciation	(52,084)		(52,084)
160	Net Fixed Assets	<u>33,065</u>	<u>-</u>	<u>33,065</u>
<b>190</b>	<b>TOTAL ASSETS</b>	<u><b>\$ 407,674</b></u>	<u><b>\$ 234,114</b></u>	<u><b>\$ 641,788</b></u>
312	A/P <= 90 days	\$ 6,856		\$ 6,856
321	Accrued Wage/Taxes Payable	21,307		21,307
322	Accrued Comp. Abs. - Current	18,219		18,219
331	A/P - HUD PHA	34,449		34,449
310	Total Current Liabilities	<u>80,831</u>	<u>-</u>	<u>80,831</u>
	TOTAL Liabilities	80,831	-	80,831
508.1	Invested in Capital Assets Net	33,065		33,065
511.1	Restricted Net Assets	235,872	-	235,872
512.1	Unrestricted Net Assets	57,906	234,114	292,020
513	TOTAL Equity/Net Assets	<u>326,843</u>	<u>234,114</u>	<u>560,957</u>
<b>600</b>	<b>TOTAL LIAB. &amp; EQUITY</b>	<u><b>\$ 407,674</b></u>	<u><b>\$ 234,114</b></u>	<u><b>\$ 641,788</b></u>

Knox Metropolitan Housing Authority  
Statement of Revenues and Expenses  
For the Year Ended September 30, 2011

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

<u>Line item</u>	<u>Account Description</u>	<u>Housing Choice Voucher</u>	<u>State &amp; Local</u>	<u>TOTALS</u>
706	HUD PHA Operating Grants	\$ 3,310,003	\$ 181,356	\$ 3,491,359
711	Investment Income - PHA	-	270	270
714	Fraud Recovery - PHA	4,232	-	4,232
715	Other Revenue	2,086	118,270	120,356
700	TOTAL REVENUE	3,316,321	299,896	3,616,217
911	Admin Salaries	233,854	65,425	299,279
912	Audit	4,273	-	4,273
915	Employee Benefits	69,256	19,069	88,325
916	Office Expenses	47,462	8,981	56,443
917	Legal Expense		108	108
918	Travel	1,511	373	1,884
	Total Operating - Admin.	356,356	93,956	450,312
942	Ordinary Maint.	23,355	1,783	25,138
	Total Maint.	23,355	1,783	25,138
961.2	Insurance - Liab. Insurance	1,954		1,954
961.3	Insurance - Workmens Comp.	1,764		1,764
961.4	All Other Insurance	1,134	551	1,685
	Total Insurance	4,852	551	5,403
962.1	Comp. Abs.	4,875		4,875
	TOTAL OPERATING EXPENSES	389,438	96,290	485,728
970	Excess Oper. Rev. over Exp.	2,949,133	203,606	203,606
973	HAP	2,862,279	181,356	3,043,635
974	Depreication Exp	13,966		13,966
900	TOTAL EXPENSES	3,265,683	277,646	3,543,329
1000	NET	\$ 50,638	\$ 22,250	\$ 72,888

Knox Metropolitan Housing Authority  
Additional Information Required by HUD  
For the Year Ended September 30, 2011

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

<b><u>Line item</u></b>	<b><u>Account Description</u></b>	<b><u>Housing Choice Voucher</u></b>	
11170	Administrative Fee Equity	\$	104,855
11180	Housing Assistance Payment Equity	\$	221,988
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, 2011

<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	\$ 3,310,003	\$ 2,862,279
Home Investment Partnership Program:				
Shelter Plus Care Program	14.238	OH16C50-7011	\$ 181,356	181,356
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 3,043,635</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, 2011, and have issued my report thereon dated February 24, 2012. 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 the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

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. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, I tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of my tests disclosed no instances of noncompliance or other matters we must report under Government Auditing Standards.

I noted certain matters that I reported to management of the Authority's in a separate letter dated February 24, 2012.

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.

February 24, 2012



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 (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that could directly and materially affect the Knox Metropolitan Housing Authority's major federal program for the year ended September 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Authority's major federal program. The Authority's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. My responsibility is to opine on the Government's compliance based on my audit.

My compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' Government Auditing Standards; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These standards and OMB Circular A-133 require that I plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Government's compliance with these requirements and performing other procedures I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Government's compliance with these requirements.

In my opinion, the Knox Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended September 30, 2011.

## Internal Control Over Compliance

The Authority's management 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 the Authority's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine my auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, I have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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 the management, the Board of Trustees, others within the entity 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 24, 2012

**Knox Metropolitan Housing Authority**  
 Schedule of Findings and Questioned Costs  
 September 30, 2011

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

No matters were reported.

**Knox Metropolitan Housing Authority**  
Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2011

There were no audit findings, during the 2010 fiscal year.



# 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  
JUNE 7, 2012**