

**AUDITED BASIC FINANCIAL STATEMENTS**  
**OF THE**  
**KNOX METROPOLITAN HOUSING AUTHORITY**  
**OCTOBER 1, 2011 – SEPTEMBER 30, 2012**







# Dave Yost • Auditor of State

Board of Trustees  
Knox Metropolitan Housing Authority  
201A West High Street  
Mount Vernon, Ohio 43050

We have reviewed the *Independent Auditors' Report* of the Knox Metropolitan Housing Authority, Knox County, prepared by Wilson, Shannon & Snow, Inc., for the audit period October 1, 2011 through September 30, 2012. 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 15, 2013

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**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

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Board of Trustees  
Knox Metropolitan Housing Authority  
201A West High Street  
Mount Vernon, Ohio 43050

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Knox Metropolitan Housing Authority, Knox County, Ohio (the Authority) as of and for the fiscal year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Knox Metropolitan Housing Authority, Knox County, as of September 30, 2012, and the changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**

Ten West Locust Street

Newark, Ohio 43055

(740) 345-6611

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FAX (740) 345-5635

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not a part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or to provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The Schedule of Federal Awards Expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Supplemental Financial Data Schedules are required by the U.S. Department of Housing and Urban Development, are not a required part of the basic financial statements. The Schedule of Federal Awards Expenditures and Supplemental Financial Data Schedules are management's responsibility, and were derived from and relate directly to underlying accounting and other records used to prepare the basic financial statements. These schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
February 21, 2013

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Knox Metropolitan Housing Authority, Knox County, (the “Authority”) 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, and (d) identify individual fund issues or concerns.

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 11).

**FINANCIAL HIGHLIGHTS**

- During fiscal year 2012, the Authority’s net assets decreased by \$13,643 (or 2.4%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net assets for fiscal year 2011 were \$560,957 and net assets for fiscal year 2012 were \$547,314.
  
- Revenues decreased by \$275,585 (or 7.6%) during fiscal year 2012, and were \$3,616,217 and \$3,340,632 for fiscal year 2011 and fiscal year 2012, respectively.
  
- Expenses of the Authority decreased by \$189,054 (or 5.3%). Total expenses were \$3,543,329 and \$3,354,275 for fiscal year 2011 and fiscal year 2012, respectively.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**USING THIS ANNUAL REPORT**

The Report includes three major sections, the “Management’s Discussion and Analysis (MD&A)”, “Basic Financial Statements”, and “Other Required Supplementary Information”:

**MD&A**

~ Management’s Discussion  
And Analysis –pgs 3-10 ~

**Basic Financial Statements**

~ Basic Financial Statements – pgs 11-13 ~  
~ Notes to the Basic Financial Statements – pg 14~

**Other Required Supplementary Information**

~ Required Supplementary Information - none~

The primary focus of the Authority’s financial statements is on the Authority as a whole. The Authority operates as a single enterprise fund and this presentation allows the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority’s accountability.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**Government-Wide Financial Statements**

The Government-wide financial statements 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, equal “Net Assets”, formally know 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 to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formally equity) are reported in three broad categories:

Net Assets, Invested in Capital Assets: This component of Net Assets consists of all Capital Assets, net of accumulated depreciation, 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. The Authority does not have any outstanding debt.

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”, or “Restricted Net Assets”.

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

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

Finally, Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, investing activities, and from capital and related activities.

**The Authority’s Fund**

The Authority consists of exclusively an Enterprise Fund. The Enterprise fund utilizes the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized in the private sector.

The fund maintained by the Authority is required by the Department of Housing and Urban Development (HUD).

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**Business-Type Activities:**

**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 (HAP) 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.

**Shelter Plus Care Program** – The Shelter Plus Care program is designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities and their families if they are also homeless.

**Business Activities** – Represents resources developed from services provided to other metropolitan housing authorities and service contracts with local organizations.

**Statement of Net Assets**

The following table reflects the condensed Statement of Net Assets compared to prior year.

**STATEMENT OF NET ASSETS**

	<u>2012</u>	<u>2011</u>
Current and Other Noncurrent Assets	\$606,478	\$608,723
Capital Assets	<u>21,715</u>	<u>33,065</u>
Total Assets	<u>628,193</u>	<u>641,788</u>
Current Liabilities	33,234	62,612
Non-Current Liabilities	<u>47,645</u>	<u>18,219</u>
Total Liabilities	<u>80,879</u>	<u>80,831</u>
Net Assets		
Invested in Capital Assets	21,715	33,065
Restricted	216,693	235,872
Unrestricted	<u>308,906</u>	<u>292,020</u>
Total Net Assets	\$ <u>547,314</u>	\$ <u>560,957</u>

For more detailed information see page 11 for the Statement of Net Assets.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

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

Current and other noncurrent assets decreased by \$2,245 in fiscal year 2012. This difference mostly represents the change cash as a result of equity reserves being utilized to meet current fiscal year housing assistance payment needs. Liabilities remained consistent overall due to no major changes in accrued wages and benefits, compensated absences, and family self-sufficiency escrow liability. Changes in HUD’s funding allows the Authority to retain excess funding for possible usage in future years on Housing Assistance Payments only, therefore, \$216,693 is considered restricted net assets.

Capital assets decreased \$11,350 during fiscal year 2012. The decrease is attributed to the net of current year additions less current year depreciation. For more detail see “Capital Assets and Debt Administration” on page 9.

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

**CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets September 30, 2011		\$292,020
Results of Operations related to Administrative Fee	\$(29,200)	
Results of Operations related to Business Activities	34,736	
Adjustments:		
Depreciation (1)	<u>13,560</u>	
Adjusted Results from Operations		19,096
Capital Expenditures		<u>(2,210)</u>
Unrestricted Net Assets September 30, 2012		<u>\$308,906</u>

- (1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

**CHANGE OF RESTRICTED NET ASSETS**

Restricted Net Assets September 30, 2011		\$235,872
Results of Operations		
Decrease in HAP Reserves	\$ (23,761)	
Fraud Recovery Payments	1,770	
Other Revenues	2,812	
Adjusted Results from Operations		<u>(19,179)</u>
Restricted Net Assets September 30, 2012		<u>\$ 216,693</u>

**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>2012</u>	<u>2011</u>
Revenues		
HUD PHA Operating Grants	\$ 3,217,530	\$ 3,322,601
Interest	291	270
Other Revenues	<u>122,811</u>	<u>293,346</u>
Total Revenue	<u>3,340,632</u>	<u>3,616,217</u>
Expenses		
Administrative	468,848	387,604
Maintenance	10,942	25,138
General	9,803	72,986
Housing Assistance Payments	2,851,122	3,043,635
Depreciation	<u>13,560</u>	<u>13,966</u>
Total Expenses	<u>3,354,275</u>	<u>3,543,329</u>
Change in Net Assets	(13,643)	72,888
Net Assets at October 1	<u>560,957</u>	<u>488,069</u>
Net Assets at September 30	<u>\$ 547,314</u>	<u>\$ 560,957</u>

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

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

HUD PHA Operating Grants decreased due to changes in grant funding from HUD; in addition Housing Assistance Payments decreased due to changes in tenant recertifications and tenants in the program. Leasing rates remained fairly consistent at around 100%; grant revenues decreased, and housing assistance payments increased slightly which resulted in the use of HAP reserves to meet current fiscal year housing assistance payments not covered by current fiscal year HUD grant revenue.

Other revenues represent income from providing services to other housing authorities, revenues from tenant fraud recovery, and service income from contracts with local organizations. These revenues can fluctuate between fiscal years depending on contracts in place and timing of services provided.

Administrative expenses include salaries and related benefits, along with other administrative expense such as audit fees and office expenses. Changes in staffing including promotions and annual salary increases, contributed to the increase in the Administrative expenses category in fiscal year 2012.

Most other expenses fluctuated moderately due to reduction of expenses instituted by the Authority to minimize costs and budget concerns.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of September 30, 2012, the Authority had \$21,715 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

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

	<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>
Capital Assets, Cost	\$ 87,359	\$ 85,149
Accumulated Depreciation	(65,644)	(52,084)
Total	\$ <u>21,715</u>	\$ <u>33,065</u>

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 18 of the notes.

**CHANGE IN CAPITAL ASSETS**

	<u>Business Type Activities</u>
Beginning Balance	\$ 33,065
Additions	2,210
Depreciation	<u>(13,560)</u>
Ending Balance	\$ <u>21,715</u>

Additions for fiscal year 2012 consisted of a new exterior door. There were no disposals during the fiscal year.

**Debt Outstanding**

As of September 30, 2012, the Authority has no outstanding debt.

**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 demand for housing assistance.
- Inflationary pressure on utility rates, supplies and other costs.

**FINANCIAL CONTACT**

The individual to be contacted regarding this report is Jason Booth, Executive Director for the Knox Metropolitan Housing Authority, at (740) 397-8845. Specific requests may be submitted to the Authority at 201A West High Street, Mount Vernon, Ohio 43050.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

**Assets**

Current Assets:

Cash and Cash Equivalents	\$ 347,140
Accounts Receivable, net	3,844
Prepaid Items	<u>7,333</u>
Total Current Assets	<u>358,317</u>

Non-Current Assets:

Restricted Cash and Cash Equivalents	248,161
Capital Assets:	
Equipment	87,359
Accumulated Depreciation	<u>(65,644)</u>
Total Capital Assets	<u>21,715</u>
Total Non-Current Assets	<u>269,876</u>

<b>Total Assets</b>	<u><u>628,193</u></u>
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**Liabilities**

Current Liabilities:

Accounts Payable	6,307
Accrued Wages and Payroll Taxes	25,827
Accrued Compensated Absences	<u>1,100</u>
Total Current Liabilities	<u>33,234</u>

Non-Current Liabilities:

Family Self-Sufficiency Deposits Payable	31,468
Accrued Compensated Absences	<u>16,177</u>
Total Non-Current Liabilities	<u>47,645</u>

<b>Total Liabilities</b>	<u><u>80,879</u></u>
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**Net Assets**

Invested in Capital Assets	21,715
Restricted	216,693
Unrestricted	<u>308,906</u>

<b>Total Net Assets</b>	<u><u>\$ 547,314</u></u>
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The notes to the basic financial statements are an integral part of the statements.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<b>Operating Revenues</b>		
HUD PHA Operating Grants		\$ 3,217,530
Fraud Recovery		3,540
Other Revenues		<u>119,271</u>
Total Operating Revenues		<u>3,340,341</u>
 <b>Operating Expenses</b>		
Housing Assistance Payments	\$ 2,851,122	
Salaries	314,892	
Employee Benefits	65,789	
Other Administrative Expense	88,167	
Material and Operations	10,942	
Depreciation	13,560	
General	<u>9,803</u>	
Total Operating Expenses		<u>3,354,275</u>
Operating Loss		<u>(13,934)</u>
 <b>Nonoperating Revenues</b>		
Interest		<u>291</u>
Total Nonoperating Revenues		<u>291</u>
Change in Net Assets		(13,643)
Net Assets at October 1, 2011		<u>560,957</u>
Net Assets at September 30, 2012		\$ <u><u>547,314</u></u>

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

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**Cash flows from operating activities:**

Cash received from HUD	\$ 3,217,207
Cash received from other sources	122,811
Cash payments to employees for services	(388,424)
Cash payments for good or services - HUD	(2,649,208)
Cash payments for goods or services	<u>(290,485)</u>

Net cash provided by operating activities 11,901

**Cash flows from investing activities:**

Sale of investments	457,428
Interest	<u>291</u>

Net cash provided by investing activities 457,719

**Cash flows from capital and related activities:**

Purchase of capital assets	<u>(2,210)</u>
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Net cash used in capital and related activities (2,210)

Net change in cash and cash equivalents 467,410

Cash and cash equivalents at October 1, 2011 127,891

**Cash and cash equivalents at September 30, 2012** **\$ 595,301**

**Reconciliation of operating loss to net cash provided by operating activities:**

Operating loss	\$ (13,934)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	13,560
Changes in assets and liabilities:	
Accounts receivable, net	6,103
Notes receivable	6,667
Prepaid items	(543)
Accounts payable	(549)
Accrued wages and payroll taxes	3,578
Other liabilities	<u>(2,981)</u>

**Net cash provided by operating activities** **\$ 11,901**

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

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Summary of Significant Accounting Policies

The financial statements of the Knox Metropolitan Housing Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Authority was created under the Ohio Revised Code, Section 3735.27. The Authority contracts with the United States Department of Housing and Urban Development (HUD) to provide low and moderate income persons with safe and sanitary housing through subsidies provided by HUD. The Authority depends on the subsidies from HUD to operate. The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Organizations are Component Units*, in that the financial statements include all organizations, activities and functions for which the Authority is financially accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds over which the Authority is financially accountable.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Fund Accounting

The Authority uses a proprietary fund to report on its financial position and the results of its operations for the Section 8 Housing Choice Voucher and other programs. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

*Proprietary Fund Types:*

Proprietary funds are used to account for the Authority's ongoing activities that are similar to those found in the private sector. The following is the Authority's only proprietary fund type:

*Enterprise Fund* – The Authority is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the Authority finances and meets cash flow needs.

The Authority accounts for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Capital Assets

Capital assets are stated at cost and depreciation is computed using the straight line method over the estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized. The capitalization threshold used by the Authority is \$500. The following are the useful lives used for depreciation purposes:

<u>Description</u>	<u>Estimated Useful Lives - Years</u>
Equipment	3 - 7
Property	15 - 40

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Compensated Absences

The Authority accounts for compensated absences in accordance with GASB Statement No. 16. 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 not accrued as these benefits are earned and used within the fiscal year; unused balances are not carried over. All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absences accrual amount.

Vacation and sick leave policies are established by the Board of Trustees 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.

In the proprietary fund, the compensated absences are expensed when earned with the amount reported as a current liability.

Prepaid Items

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**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 legislature adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulation 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. When an expense is incurred for purposes which both restricted and unrestricted net assets are available, the Authority first applies restricted net assets. The Authority did not have net assets restricted by enabling legislature at September 30, 2012.

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The Authority had restricted assets for Family Self-Sufficiency Deposits of \$31,468 and Housing Assistance Payment equity balance of \$216,693. See Note 5 for additional information concerning Family Self-Sufficiency restricted assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are for Housing and Urban Development Grants and other revenues. Operating expenses are necessary costs to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenues.

Accounts Receivable

Management considers all accounts receivable (excluding fraud recovery receivable) to be collected in full.

**2. CASH AND CASH EQUIVALENTS**

Cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

All monies are deposited into banks as determined by the Authority. Funds are deposited in either interest bearing or non-interest bearing accounts at the Authority's discretion. Security shall be furnished for all accounts in the Authority's name.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**2. CASH AND CASH EQUIVALENTS – (CONTINUED)**

Cash and cash equivalents included in the Authority's cash position at September 30, 2012 are as follows:

Demand deposits:

Bank balance - Checking	\$209,472	Bank balance - Savings	\$387,662
Items-in-transit	<u>(1,933)</u>	Items-in-transit	<u>-</u>
Carrying balance	<u>\$207,539</u>	Carrying balance	<u>\$387,662</u>

Of the fiscal year-end bank balance, \$250,000 of deposits of the total checking and saving account balances were covered by federal deposit insurance and the remaining balance of \$347,134 was covered by pledged and pooled securities held by third-party trustees maintaining collateral for all public funds on deposit. \$100 was maintained in petty cash funds

Based on the Authority having only demand deposits at September 30, 2012, the Authority is not subject to interest rate, credit, concentration, or custodial credit risks.

**3. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year 2012, the Authority purchased commercial insurance for public officials and employment practices liability for general insurance, property, crime, electronic equipment, and automobile insurance

Public officials liability and employment practices liability insurance each carries a \$5,000 deductible. Commercial property, general liability, and vehicle insurance each carries a \$500 deductible.

Settled claims have not exceeded this coverage in any of the last three years. There has been no significant reduction in coverage from last year.

**4. CAPITAL ASSETS**

The following is a summary of capital assets at September 30, 2012:

	<u>Balance</u> <u>October 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>September 30, 2012</u>
<u>Business-Type Activities - Cost</u>				
Equipment	\$ 85,149	\$ 2,210	\$ -	\$ 87,359
Total at cost	<u>85,149</u>	<u>2,210</u>	<u>-</u>	<u>87,359</u>
<u>Less: accumulated depreciation</u>				
Equipment	<u>(52,084)</u>	<u>(13,560)</u>	<u>-</u>	<u>(65,644)</u>
Total accumulated depreciation	<u>(52,084)</u>	<u>(13,560)</u>	<u>-</u>	<u>(65,644)</u>
Capital assets, net	<u>\$ 33,065</u>	<u>\$(11,350)</u>	<u>\$ -</u>	<u>\$ 21,715</u>

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**5. FSS ESCROW PAYABLE**

The Authority is involved in the Family Self-Sufficiency program through the Housing Choice Vouchers Program. Each month contributions are deposited into the Authority's savings account on behalf of the program participants. Participants are limited to a five year contract (with a two year extension option) at which time, they either meet their program goals and may withdraw their money earned from the savings account, or they fail to meet their goals and forfeit their money. If a forfeiture occurs, the money earned is used by the Authority to reinvest into the Housing Choice Voucher Program.

**6. DEFINED BENEFIT PENSION PLANS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

*Plan Description* – All employees of the Authority are eligible to participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

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

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-retirement health care coverage. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222- 7377.

*Funding Policy* – The Authority and covered employees contribute at actuarially determined rates for both 2012 and 2011, 14% and 10%, respectively, of covered employee payroll to OPERS. The Authority's contributions to OPERS for the years ended September 30, 2012, 2011, and 2010 were \$42,569, \$40,473, and \$36,152, respectively which were equal to the required contributions for each year. Employer and employee contributions equaled 100% of charges.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**6. DEFINED BENEFIT PENSION PLANS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(CONTINUED)**

*Other Post Retirement Benefits* – In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have ten 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-Retirement Employment Benefit (OPEB) as described in GASB Statement 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.

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 post retirement health care benefits.

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. The portion of employer contributions allocated to health care for members of the Traditional Plan was 4.0% during calendar year 2011 (latest information available). The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The OPERS Board of trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contributions made to fund post-employment benefits for fiscal year 2012 were approximately \$12,162.

The Health Care Preservation Fund (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

**7. COMPENSATED ABSENCES**

Employees earn annual vacation and sick leave per anniversary year, based on years of service. Annual vacation leave may be carried forward to the next fiscal year and paid upon termination or retirement. Sick leave may be accumulated and is paid out based on Board policy upon termination or retirement. As of September 30, 2012, the accrual for compensated absences totaled \$17,277 and has been included in the accompanying Statement of Net Assets.

The following is a summary of compensated absences at September 30, 2012:

<u>Balance at October 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at September 30, 2012</u>	<u>Due in One Year</u>
\$18,219	\$13,297	\$(14,239)	\$17,277	\$1,100

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**8. CONTINGENT LIABILITIES**

**A. Grants**

Amounts grantor agencies pay to the Authority are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims could have a material adverse effect on the overall financial position of the Authority at September 30, 2012.

**B. Litigation**

The Authority is unaware of any outstanding lawsuits or other contingencies.

**9. SUBSEQUENT EVENTS**

In November 2012 the Authority purchased their office building for the amount of \$340,400. The Authority utilized \$114,284 in unrestricted cash as a down payment and secured a mortgage loan in the amount of \$225,000 to finance the remaining portion of the purchase.

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**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF NET ASSETS  
FDS SCHEDULE SUBMITTED TO HUD  
SEPTEMBER 30, 2012**

FDS Line Item No.	Account Description	14.871 Section 8 Housing Choice Vouchers	Business Activities	Total
	Current Assets			
	Cash			
111	Cash - Unrestricted	\$ 78,290	\$ 268,850	\$ 347,140
113	Cash - Other Restricted	248,161	-	248,161
100	Total Cash	<u>326,451</u>	<u>268,850</u>	<u>595,301</u>
	Accounts Receivable			
122	HUD Other Projects	323	-	323
125	Miscellaneous	3,521	-	3,521
128	Fraud Recovery	5,675	-	5,675
128.1	Allowance for Doubtful Accounts	<u>(5,675)</u>	<u>-</u>	<u>(5,675)</u>
120	Total Receivables, Net of Allowance for Doubtful Accounts	<u>3,844</u>	<u>-</u>	<u>3,844</u>
	Other Assets			
142	Prepaid Items	<u>7,333</u>	<u>-</u>	<u>7,333</u>
150	Total Current Assets	<u>337,628</u>	<u>268,850</u>	<u>606,478</u>
	Noncurrent Assets			
	Capital Assets			
164	Furniture and Equipment - Administration	87,359	-	87,359
166	Accumulated Depreciation	<u>(65,644)</u>	<u>-</u>	<u>(65,644)</u>
160	Total Capital Assets net of accumulated depreciation	<u>21,715</u>	<u>-</u>	<u>21,715</u>
180	Total Noncurrent Assets	<u>21,715</u>	<u>-</u>	<u>21,715</u>
190	Total Assets	<u>\$ 359,343</u>	<u>\$ 268,850</u>	<u>\$ 628,193</u>
	Current Liabilities			
312	Accounts Payable	\$ 6,307	\$ -	\$ 6,307
321	Accrued Wages and Payroll Taxes	25,827	-	25,827
322	Accrued Compensated Absences - Current	<u>1,100</u>	<u>-</u>	<u>1,100</u>
310	Total Current Liabilities	<u>33,234</u>	<u>-</u>	<u>33,234</u>
	Non-Current Liabilities			
353	Non-Current Liabilities - Other	31,468	-	31,468
354	Accrued Compensated Absences-Non-Current	<u>16,177</u>	<u>-</u>	<u>16,177</u>
350	Total Non-Current Liabilities	<u>47,645</u>	<u>-</u>	<u>47,645</u>
300	Total Liabilities	<u>80,879</u>	<u>-</u>	<u>80,879</u>
	Net Assets			
508.1	Invested in Capital Assets	21,715	-	21,715
511.1	Restricted Net Assets	216,693	-	216,693
512.1	Unrestricted Net Assets	<u>40,056</u>	<u>268,850</u>	<u>308,906</u>
	Total Net Assets	<u>278,464</u>	<u>268,850</u>	<u>547,314</u>
600	Total Liabilities and Net Assets	<u>\$ 359,343</u>	<u>\$ 268,850</u>	<u>\$ 628,193</u>

NOTE FOR REAC REPORTING: The accompanying statements have been prepared in accordance with the format as required for HUD's electronic filing REAC system. The format and classifications of various line items may differ from those used in the preparation of the financial statements presented in accordance with accounting principles generally accepted in the United States of America.

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FDS SCHEDULE SUBMITTED TO HUD  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

FDS Line Item No.	Account Description	14.871 Section 8 Housing Choice Vouchers	Business Activites	14.238 Shelter Plus Care	Total
	Revenue				
70600	HUD PHA Operating Grants	\$ 2,999,463	\$ -	\$ 218,067	\$ 3,217,530
71100	Investment Income - Unrestricted	-	291	-	291
71400-010	Housing Assistance Payments	1,770	-	-	1,770
71400-020	Administrative Fees	1,770	-	-	1,770
71400	Fraud Recovery	3,540	-	-	3,540
71500	Other Revenue	2,812	116,459	-	119,271
70000	Total Revenue	3,005,815	116,750	218,067	3,340,632
	Expenses				
91100	Administrative Salaries	245,125	60,667	9,100	314,892
91200	Auditing Fees	4,370	-	-	4,370
91500	Employee Benefit Contribution - Administrative	54,100	9,373	2,316	65,789
91600	Office Expenses	69,924	6,258	4,547	80,729
91800	Travel	2,293	775	-	3,068
91000	Total Operating - Administrative	375,812	77,073	15,963	468,848
94200	Ordinary Maintenance and Operations - Materials and Other	8,961	1,981	-	10,942
94000	Total Maintenance and Operations	8,961	1,981	-	10,942
96120	Liability Insurance	1,954	710	-	2,664
96130	Workmen's Compensation	1,618	50	190	1,858
96140	All Other Insurance	3,081	2,200	-	5,281
96100	Total Insurance Premiums	6,653	2,960	190	9,803
96900	Total Operating Expenses	391,426	82,014	16,153	489,593
97000	Excess Operating Revenue Over Operating Expenses	2,614,389	34,736	201,914	2,851,039
	Other Expenses				
97300	Housing Assistance Payments	2,649,208	-	201,914	2,851,122
97400	Depreciation Expense	13,560	-	-	13,560
	Total Other Expenses	2,662,768	-	201,914	2,864,682
90000	Total Expenses	3,054,194	82,014	218,067	3,354,275
10000	Excess of Revenues under Expenses	(48,379)	34,736	-	(13,643)
11030	Beginning Net Assets	326,843	234,114	-	560,957
11170	Administrative Fee Equity	61,771	-	-	61,771
11180	Housing Assistance Payment Equity	216,693	-	-	216,693
	Total Ending Net Assets	\$ 278,464	\$ 268,850	\$ -	\$ 547,314

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**STATEMENT OF CHANGES IN EQUITY BALANCES  
FDS SCHEDULE SUBMITTED TO HUD  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<b>FDS Line Item No.</b>	<b>Account Description</b>	<b>14.871 Housing Choice Vouchers</b>	
11170-001	Administrative Fee Equity - Beginning Balance		\$ 90,971
11170-010	Administrative Fee Revenue	\$ 327,772	
11170-021	FSS Cordinator Grant	46,244	
11170-045	Fraud Recovery Revenue	<u>1,770</u>	
11170-060	Total Administrative Fee Revenues		375,786
11170-080	Total Operating Expenses	391,426	
11170-090	Depreciation	<u>13,560</u>	
11170-110	Total Expenses		<u>404,986</u>
11170-002	Net Administrative Fee		<u>(29,200)</u>
11170-003	Administrative Fee Equity - Ending Balance		61,771
11170	Administrative Fee Equity		<u><u>\$ 61,771</u></u>
11180-001	Housing Assistance Payments Equity - Beginning Balance		\$ 235,872
11180-010	Housing Assistance Payment Revenues	2,625,447	
11180-015	Fraud Recovery Revenue	1,770	
11180-020	Other Revenue	<u>2,812</u>	
11180-021	Represents FSS forietures during the fiscal year.		
11180-030	Total Housing Assistance Payments Revenues		2,630,029
11180-080	Housing Assistance Payments	<u>2,649,208</u>	
11180-100	Total Housing Assistance Payments Expenses		<u>2,649,208</u>
11180-002	Net Housing Assistance Payments		<u>(19,179)</u>
11180-003	Housing Assistance Payments Equity - Ending Balance		216,693
11180	Housing Assistance Payments Equity		<u><u>\$ 216,693</u></u>

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<u>Federal Grantor / Pass Through Grantor Program Title</u>	<u>Pass- Through Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Direct Funding:</i>			
Shelter Plus Care	N/A	14.238	\$ 218,067
Section 8 Housing Choice Vouchers	N/A	14.871	<u>2,999,463</u>
Total Federal Award Expenditures			<u><u>\$ 3,217,530</u></u>

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal awards programs. The schedule has been prepared on the accrual basis of accounting.



**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Required by Government Auditing Standards**

Board of Trustees  
Knox Metropolitan Housing Authority  
201A West High Street  
Mount Vernon, Ohio 43050

We have audited the financial statements of the Knox Metropolitan Housing Authority, Knox County, Ohio (the Authority) as of and for the fiscal year ended September 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our 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, we 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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 to be material weaknesses, as defined above.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
1-800-523-6611  
FAX (740) 345-5635

**Compliance and Other Matters**

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we 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 our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Trustees, management, federal awarding agencies, and other members of the Authority. We intend it for no one other than these specified parties.

*Wilson, Shannon & Snow, Inc.*

Newark, Ohio  
February 21, 2013



**Independent Auditors' Report on Compliance with Requirements  
Applicable to Its Major Federal Program and on Internal Control over  
Compliance Required by OMB Circular A-133**

Board of Trustees  
Knox Metropolitan Housing Authority  
201A West High Street  
Mount Vernon, Ohio 43050

**Compliance**

We have audited the compliance of the Knox Metropolitan Housing Authority, Knox County, Ohio (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 its major federal program for the fiscal year ended September 30, 2012. 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. Our responsibility is to opine on the Authority's compliance based on our audit.

Our 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 we 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 Authority's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with these requirements.

In our opinion, the Knox Metropolitan Housing Authority, Knox County, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended September 30, 2012.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANT**

Ten West Locust Street

Newark, Ohio 43051

(740) 345-661

1-800-523-661

FAX (740) 345-563

### **Internal Control over Compliance**

The Authority's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our 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 opining on the effectiveness of internal control over compliance. Accordingly, we 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.

Our consideration of the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the Board of Trustees, management, federal awarding agencies, and other members of the Authority. It is not intended for anyone other than these specified parties.

*Wilson, Shannon E. Shaw, Inc.*

Newark, Ohio  
February 21, 2013

**KNOX METROPOLITAN HOUSING AUTHORITY  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Section 8 Housing Choice Vouchers/CFDA #14.871
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

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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 28, 2013**