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April 2, 2014

Board of Directors  
Knox County Housing Authority  
11 Powell Street  
Bicknell, IN 47512

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period July 1, 2009 to June 30, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountant's opinion, the financial statements included in the report present fairly the financial condition of the Knox County Housing Authority, as of June 30, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountant's report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

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**REPORT ON EXAMINATION OF  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

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**TWELVE MONTHS ENDED JUNE 30, 2010**

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

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Board of Directors  
Knox County Housing Authority  
Bicknell, Indiana

I have audited the accompanying financial statements of Knox County Housing Authority, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Knox County Housing Authority, as of June 30, 2010 and the respective changes in financial position and cash flows for the year end in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 9, 2010, on my consideration of the Knox County Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls 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 considered in assessing the results of my audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Knox County Housing Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Knox County Housing Authority. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Knox County Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all materials respects in relation to the financial statements taken as a whole.



Certified Public Accountant

Decatur, Illinois  
March 3, 2011

KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FISCAL YEAR ENDING JUNE 30, 2010

**Management's Discussion and Analysis**

As management of the Knox County Housing Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Knox County Housing Authority, 11 Powell Place, Tilly Estate Office, Bicknell, Indiana, (812) 882-0220.

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets – reports the Authority's current financial resources with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in fund Net Assets – reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows - reports the Authority's cash flows from operating, investing, and capital and non-capital activities.

KNOX COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

To fully understand the financial statements of the Housing Authority, one must start with an understanding of what the Authority actual does. The following is a brief description of the programs and services that the Authority provides for the residents of Knox County:

***Low Income Public Housing (LIPH)***

The Housing Authority owns 74 units in Knox County, Indiana. The Authority is responsible for the management, maintenance, and utilities for all units and sites. On an annual basis, the Authority submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Authority has an Allowable Expense Level, Allowable Utilities Expense Level and Audit Costs and that HUD will fund the difference between the Allowable Expenses and the amount of rents that the Authority can charge the Authority's tenants.

***Section 8 Housing Choice Vouchers (Section 8 Vouchers)***

HUD has contracted with the Housing Authority support for 334 Housing Choice Vouchers. The Authority pays Housing Assistance Payments to Landlords for Low Income tenants. The Housing Assistance Payment matches the difference between the total rent that the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount that the tenant can pay. For each unit that the Authority administers, HUD pays the Authority an administrative fee. The Housing Authority is not responsible for the upkeep and maintenance of the units and properties associated with this program.

***Capital Fund Program (CFP)***

These grant programs are awarded by HUD on an annual basis. The purpose of these grants is for improvement to the Authority's sites and the management of the Authority. The Authority requisitions funds from HUD as the Authority expends funds. The Authority is permitted four years to fully expend an annual award.

**Future Events (New Business)**

There are no future events planned by the Authority during the fiscal year ending June 30, 2011 that will significantly affect the Authority's Net Assets either positively or negatively.

KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FISCAL YEAR ENDING JUNE 30, 2010

**Condensed Comparative Financial Statements**

**Analysis of Entity Wide Net Assets**

**Total Current Assets** for FYE 2010 were \$459,738, and at FYE 2009, the amount was \$434,256. This represents an increase of \$25,482 due to an increase in funds received as deferred revenues.

**Total Capital Assets** decreased by \$70. At FYE 2010 and 2009, the amounts were \$2,323,176 and \$2,323,246 respectively.

**Total Liabilities** increased by \$40,870 due largely to deferred revenues.

**Revenues** increased by \$42,241 from FYE June 30, 2009. At FYE 2010 and 2009, total revenues were \$1,779,843 and \$1,737,602, respectively.

**Total Expenses** decreased by \$43,084 which is mostly due to a decrease in housing assistance payments.

	2010	2009	Net Change	Percent Variances
Cash	373,717	353,700	20,017	6%
Other Current Assets	86,021	80,556	5,465	7%
Capital Assets	2,323,176	2,323,246	(70)	0%
<b>Total Assets</b>	<b>\$ 2,782,914</b>	<b>\$ 2,757,502</b>	<b>\$ 25,412</b>	<b>1%</b>
Current Liabilities	76,425	39,613	36,812	93%
Long Term Liabilities	65,583	61,525	4,058	7%
<b>Total Liabilities</b>	<b>\$ 142,008</b>	<b>\$ 101,138</b>	<b>\$ 40,870</b>	<b>40%</b>
Net Invested in Capital Assets	2,323,176	2,323,246	(70)	0%
Restricted Net Assets	159,279	128,123	31,156	24%
Unrestricted Net Assets	158,451	204,995	(46,544)	-23%
<b>Total Net Assets</b>	<b>\$ 2,640,906</b>	<b>\$ 2,656,364</b>	<b>\$ (15,458)</b>	<b>-1%</b>



KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FISCAL YEAR ENDING JUNE 30, 2010

*Analysis of Entity Wide Revenues*

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2010 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$269,620
Section 8 Vouchers	\$1,296,832
Capital Funds Program	\$41,143
Formula Capital Funds Stimulus Grant	\$151,335
Business Activities	\$20,913

Total revenues for Fiscal year ending June 30, 2010 were \$1,779,843 as compared to the total revenues for fiscal year ending June 30, 2009 of \$1,737,602. Comparatively, Fiscal year ending 2010 revenues was more than fiscal year ending 2009 revenues by \$42,241. The overall change was 2%.

	<b>2010</b>	<b>2009</b>	<b>Net change</b>	<b>Percent Variances</b>
Total tenant revenue	133,131	141,257	(8,126)	-6%
HUD Operating grants	1,428,613	1,433,361	(4,748)	0%
HUD Capital grants	180,873	107,952	72,921	68%
Other government grants	-	2,100	(2,100)	-100%
Investment income	598	1,994	(1,396)	-70%
Other revenue	36,628	50,938	(14,310)	-28%
<b>Total Revenue</b>	<b>\$ 1,779,843</b>	<b>\$ 1,737,602</b>	<b>\$ 42,241</b>	<b>2%</b>

KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FISCAL YEAR ENDING JUNE 30, 2010

*Analysis of Entity Wide Expenditures*

**Total Expenditures** for Fiscal Year Ending June 30, 2010 were \$1,795,301 as compared to \$1,838,385 of total expenditures for Fiscal Year Ending June 30, 2009. Comparatively, Fiscal Year Ending 2010 expenditures were less than Fiscal Year Ending 2009 expenditures by \$43,084. Changes by major expense category are presented below.

	<b>2010</b>	<b>2009</b>	<b>Net Change</b>	<b>Percent Variances</b>
Administrative	311,982	287,902	24,080	8%
Tenant Services	2,942	2,587	355	14%
Utilities	55,759	56,708	(949)	-2%
Ordinary Maintenance	106,536	100,435	6,101	6%
General Expense	58,117	61,225	(3,108)	-5%
Housing Assistance Payments	1,079,021	1,151,032	(72,011)	-6%
Depreciation Expense	180,944	178,496	2,448	1%
<b>Total Expenses</b>	<b>\$ 1,795,301</b>	<b>\$ 1,838,385</b>	<b>\$ (43,084)</b>	<b>-2%</b>

**Analysis of Capital Asset Activity**

As of June 30, 2010, the Authority's investment in capital assets was \$2,323,176 (net of accumulated depreciation). The investment includes land, buildings, equipment, and leasehold improvements. Capital outlays for the year were \$180,874 consisting of the following purchases:

- Computer software and maintenance \$23,990
- Filing cabinets \$1,647
- Dwelling improvements \$115,980
- Appliances \$3,619
- Utility truck \$29,350
- Snow plow and salt spreader \$6,288

**Debt Activity**

The Housing Authority had no outstanding debt during 2010 or 2009.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF JUNE 30, 2010**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 187,212
Accounts receivable (interfund eliminated)	8,438
Investments	<u>12,000</u>
Total Current Assets	<u>\$ 207,650</u>

**RESTRICTED ASSETS**

Cash	\$ 186,505
Investments	<u>65,583</u>
Total Restricted Assets	<u>\$ 252,088</u>

**CAPITAL ASSETS**

Land, buildings and equipment	\$ 4,715,457
Less: Accumulated depreciation	<u>-2,392,281</u>
Net Capital Assets	<u>\$ 2,323,176</u>
Total Assets	<u>\$ 2,782,914</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable (interfund eliminated)	\$ 39,604
Accrued liabilities	17,730
Deferred revenue	<u>19,091</u>
Total Current Liabilities	<u>\$ 76,425</u>

**NONCURRENT LIABILITIES**

Trust and deposit liabilities	<u>\$ 65,583</u>
Total Noncurrent Liabilities	<u>\$ 65,583</u>

**NET ASSETS**

Invested in capital assets	\$ 2,323,176
Restricted	159,279
Unrestricted	<u>158,451</u>
Total Net Assets	<u>\$ 2,640,906</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2010**

Operating Income

Tenant revenue	\$ 133,131
Total Rental Income	\$ 133,131
HUD grants - operating	1,428,613
Gain/loss on sale of capital assets	350
Other revenue	<u>36,278</u>
Total Operating Income	<u>\$ 1,598,372</u>

Operating Expenses

Administration	\$ 311,982
Tenant services	2,942
Utilities	55,759
Ordinary maintenance and operation	106,536
General expense	58,117
Housing assistance payments	1,079,021
Depreciation	<u>180,944</u>
Total Operating Expenses	<u>\$ 1,795,301</u>
Net Operating Income (Loss)	\$ -196,929

Nonoperating Income (Expense)

Interest income	598
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Capital Contributions

Capital funds grants	<u>180,873</u>
Changes in net assets	\$ -15,458
Net assets, beginning of year	<u>2,656,364</u>
Net assets, end of year	<u>\$ 2,640,906</u>

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

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2010**

Operating Activities

Operating grants	\$ 1,425,476
Tenant revenue	133,811
Other revenue	36,628
Housing assistance payments	-1,079,021
Payments to employees	-211,374
Payments to suppliers and contractors	<u>-282,042</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 23,478</u>

Investing Activities

Investments (purchased) redeemed	\$ -4,058
Interest income	<u>598</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -3,460</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 180,873
Additions (deletions) to fixed assets	<u>-180,874</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -1</u>

Net Change in Cash	\$ 20,017
Cash Balance at June 30, 2009	<u>353,700</u>
Cash Balance at June 30, 2010	<u><u>\$ 373,717</u></u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2010**

Reconciliation of Operating Income (Loss) to Net Cash  
Provided (Used) by Operating Activities

Net operating income (loss)	\$ -196,929
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	180,944
(Increase) decrease in accounts receivable	-1,407
Increase (decrease) in accounts payable	9,590
Increase (decrease) in accrued liabilities	9,430
Increase (decrease) in deferred revenues	17,792
Increase (decrease) in other liabilities	<u>4,058</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 23,478</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

The Knox County Housing Authority was established by county pursuant to the laws of the State of Indiana, to transact business and to have powers as defined therein. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) had direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the County of Knox and concluded that the County does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the County, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the County government. Debt incurred by the Authority is not an obligation of the County; the County does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority.

The Authority is governed by a Board of Commissioners appointed by the office of the County Board, and has governance responsibilities over all activities related to all housing activities within the County. The Board of Commissioners has decision making authority and the power to designate management. The members do not serve at the discretion of the County, i.e. they can only be removed for cause. The Authority's Board elects its own chairperson.

Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Knox County Housing Authority is a separate reporting entity. The Housing Authority has no component units.

(b) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

© Financial Statement Presentation

Although a formal policy has not been adopted, by practice the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues are tenant rents and HUD grants. Operating expenses include administration, maintenance, insurance, depreciation, utilities, housing assistance payments and other general expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(d) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- \* Low Rent Public Housing
- \* Section 8 Choice Vouchers
- \* Capital Fund Program
- \* Business Activities
- \* Formula Capital Fund Stimulus Grant

These programs are all accounted for within the 'Proprietary' (enterprise) fund as described below:

*Proprietary Fund Types:*

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(e) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the practice of the Housing Authority is to consider all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of one (1) month or less when purchased to be cash equivalents.

(f) Interprogram Receivables and Payables -

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. These receivables and payables are classified as "due from other programs" or "due to other programs" on the combining statement of net assets and have been eliminated in the basic financial statements.



**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at June 30, 2010, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(h) Investments -

Investments are stated at cost which approximates market.

(i) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

If the initial cost of a piece of equipment and/or other personal property is five hundred dollars (\$500) or more and the anticipated life or useful life of said equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

- 1) The total development construction costs incurred for each project at the end of the initial operating period,
- 2) nonexpendable equipment, and
- 3) property betterments and additions
- 4) land acquisitions.

These are recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Buildings	40	years
Equipment	5-7	years
Leasehold improvements	10	years

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Net Assets -

GASB Statement 34 requires the classification of net assets into three components as defined below:

- 1) Invested in capital assets, net of related debt - this component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues and unamortized debt expense reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- 2) Restricted - this component of net assets consist of constraints placed on net assets use through external constraints imposed by creditors, contributors or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(k) Income Tax -

The Authority, organized as a non-profit corporation subsidized by the Federal government, is exempt from Federal and State income taxes.

(l) Annual Contributions/Subsidies and Other Grants

Annual contributions and subsidies received from the Department of HUD are recorded as grant revenues.

Other grants (such as CFP grants) are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(m)The Housing Authority adopts a budget annually. The budget is submitted to the Board of Commissioners for approval. Subsequent budget revisions may also be required to be submitted to the Board for approval.

(n)The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) Leasing activities (as lessor) - the Authority is the lessor of dwelling units mainly to low income and/or elderly and disables residents. The rents under the lease are determined generally by the resident's income as adjusted by eligible deductions regulated by HUD, although the resident may elect for a flat rent option. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

- (q) Rental income is recognized as rents become due.
- (r) At any time during the year and at year end, there are construction projects in process. These projects include modernizing rental units. The projects are funded by HUD and funds are requested periodically as costs are incurred.

Note 2 - Cash and Investments

Statutes authorize the Housing Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities.

All cash and investments are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

*Custodial Credit Risk*

- a. Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to or that the Authority will not be able to recover collateral securities in the possession of an outside party.
- b. Investments - Custodial credit risk is the risk that in the event of the failure of the depository, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

*Credit Risk Investments, Concentration of Credit Risk and Interest Rate Risks - Investments*

*Credit Risk* is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Housing Authority has no investment policy that limits its investment choices other than the limitation of state law and/or the Department of Urban Development regulations.

*Concentrations of Credit Risk* is the risk of loss attributed to the amount of the investment in a single issuer. The Authority does not have a formal investment policy covering the concentration of credit risk.

*Investment Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The Housing Authority has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.

Category 3 - Deposits which are not collateralized or insured.

Based on the three levels of risk, all of the Housing Authority's funds are classified as Category 1.

<u>Program</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 76,636	\$ 80,088
Voucher	242,451	249,109
Business Activities	<u>54,630</u>	<u>57,220</u>
Total	<u>\$ 373,717</u>	<u>\$ 386,417</u>

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.

Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.

Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

Based on the three levels of risk, all of the Housing Authority's investments are classified as Category 1.

<u>Program</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 12,000	\$ 12,000
Voucher	<u>65,583</u>	<u>65,583</u>
Total	<u>\$ 77,583</u>	<u>\$ 77,583</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 3 - Compensated Absences

Vacation leave with pay shall be earned by all regular full time employees at the specified rates. Employees shall not be granted pay in lieu of vacation. All vacation must be taken during the calendar year of eligibility. Employees who terminate without proper notification shall forfeit all right to vacation pay.

Employees may be paid for leave because of illness or accident. All eligible employees shall be entitled to ten full days with pay for sick leave in any twelve month period, which twelve month period shall be measured from anniversary date of such employees employment. Any employee may accumulate his or her unused sick leave toward increasing the period of sick leave to which he or she is entitled in any given twelve month period, up to a maximum of fifteen days of sick leave in any given twelve months period.

Note 4 - Defined Contribution Plan

The Housing Authority provides pension benefits for all of its full-time employees through the Public Employee's Retirement Fund of Indiana (PERF). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan requires the employee to contribute at least 3% of covered wages. Total contributions to PERF paid by the Housing Authority on behalf of the employees were \$15,495 for fiscal year end 2010 relating to covered wages of \$211,373.

Note 5 - Post-Employment Benefits

The Housing Authority does not provide post employment retirement benefits. As a result there are no disclosures included in these statements as required by GASB 45.

Note 6 - Accounts Receivable

Accounts receivable at June 30, 2010 consists of the following accounts:

Tenants accounts receivable	\$ 5,301
Accounts receivable - HUD	<u>3,137</u>
Total	<u>\$ 8,438</u>

Note 7 - Investments

At June 30, 2010 investments consist of the following:

	<u>Rate</u>	
Savings	0.10%	\$ 65,583
Certificates of deposit	1.65%	<u>12,000</u>
Total		<u>\$ 77,583</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 8 - Fixed Assets

Balance as of June 30, 2010	\$ 2,323,176
Balance as of June 30, 2009	<u>2,323,246</u>
Net Increase (Decrease)	<u>\$ -70</u>

Reconciliation

Additions	\$ 180,874
Current year depreciation expense	<u>-180,944</u> *
Net Increase (Decrease)	<u>\$ -70</u>

<u>Analysis</u>	<u>07/01/2009 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>06/30/2010 Balance</u>
Land	\$ 1,002,773	\$ 0	\$ 0	\$ 1,002,773
Buildings	3,048,788	137,195	0	3,185,983
Equipment and furniture	<u>483,540</u>	<u>43,679</u>	<u>518</u>	<u>526,701</u>
Total Assets	\$ 4,535,101	\$ 180,874	\$ 518	\$ 4,715,457
Accumulated depreciation	<u>-2,211,855</u>	<u>-180,944</u>	* <u>-518</u>	<u>-2,392,281</u>
Total Net Assets	<u>\$ 2,323,246</u>	<u>\$ -70</u>	<u>\$ 0</u>	<u>\$ 2,323,176</u>

\*Current year depreciation expense recognized.

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 17,919
Tenants security deposits	<u>21,685</u>
Total	<u>\$ 39,604</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 10 - Notes Payable

On August 4, 1987, the U.S. Department of Housing and Urban Development (HUD) issued notice PIH 87-212 to implement the provisions of the Housing and Community Development Reconciliation Amendments of 1985 (PL 99-272, enacted April 7, 1986). This notice states, in part, the following:

Project debt to HUD (HUD-held notes) will be forgiven after a debt forgiveness amendment to the consolidated Annual Contributions Contract has been executed by HUD and the Public Housing Authority and after the Actual Development Cost Certificate has been included in an audit and approved.

As a part of the HUD mandated GAAP conversion and the above referenced notice, all HUD-held notes were recorded as debt forgiveness during a prior fiscal year.

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

Accrued compensated absences	\$ 6,400
Accrued wages and payroll taxes	2,261
Tenant deposited escrow	<u>9,069</u>
 Total	 <u>\$ 17,730</u>

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

FSS escrow accounts	\$ <u>65,583</u>
---------------------	------------------

Note 13 - Summary of Long Term Liabilities

A summary of long term liabilities as of June 30, 2010:

	07/01/2009 <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	06/30/2010 <u>Balance</u>
FSS escrow	\$ <u>61,525</u>	\$ <u>4,058</u>	\$ <u>0</u>	\$ <u>65,583</u>

Note 14 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ 934
CFP - deferred	<u>18,157</u>
 Total	 <u>\$ 19,091</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2010  
(CONTINUED)**

Note 15 - Administrative Fee

The PHA receives an "Administrative Fee" as part of the annual contribution from HUD to cover the costs (including overhead) of administering the HAP Program. The fee is calculated by HUD on a monthly basis as of January 1, 2010.

Note 16 - Allocation of Costs

The PHA allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program. Management considers this to be an equitable method of allocation.

Note 17 - Contingencies

Federal Grants

In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by agents of HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Note 18 - Contracts/Commitments

As of June 30, 2010, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-	\$ 118,933	\$ 41,143
Stimulus Grant 501-09	<u>151,335</u>	<u>151,335</u>
Total	<u>\$ 270,268</u>	<u>\$ 192,478</u>

Note 19 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation.

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

Note 20 - Economic Dependency

The Housing Authority received most of its revenue (90%) from the United State Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.



## **SUPPLEMENTAL DATA**

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2010**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing	14.850s	C-2075	FYE 06/30/10	\$ 135,292	\$ 135,292	\$ 135,292
Housing Choice Voucher Program*	14.871	C-2045V	FYE 06/30/10	\$ 1,281,716	\$ 1,281,716	\$ 1,245,707
Public Housing - Capital Fund	14.872	C-2075	FYE 06/30/10	\$ 118,933	\$ 41,143	\$ 41,143
Formula Capital Fund Stimulus Grant	14.885	C-2075	FYE 06/30/10	\$ 151,335	\$ 151,335	\$ 151,335
Total Housing Assistance				<u>\$ 1,687,276</u>	<u>\$ 1,609,486</u>	<u>\$ 1,573,477</u>

\*Denotes major program.

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Commissioners  
Knox County Housing Authority  
Bicknell, Indiana

I have audited the financial statements of Knox County Housing Authority as of and for the year ended June 30, 2010, and have issued my report thereon dated March 3, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knox County Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Knox County Housing Authority in a separate letter dated March 3, 2011.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Decatur, Illinois  
March 3, 2011



**Report on Compliance With Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133**

Board of Commissioners  
Knox County Housing Authority  
Bicknell, Indiana

**Compliance**

I have audited Knox County Housing Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Knox County Housing Authority's major federal programs for the year ended June 30, 2010. Knox County Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Knox County Housing Authority's management. My responsibility is to express an opinion on Knox County Housing Authority's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knox County Housing Authority's compliance with those requirement and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Knox County Housing Authority's compliance with those requirements.

As described in item (2010-1) in the accompanying schedule of findings and questioned costs, Knox County Housing Authority did not comply with requirements regarding allowable costs that are applicable to its Formula Capital Fund Stimulus Grant. Compliance with such requirements is necessary, in my opinion, for Knox County Housing Authority to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, Knox County Housing Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

Management of Knox County Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Knox County Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Knox County Housing Authority's internal control over compliance.

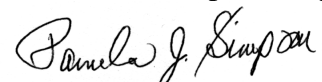
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item (2010-1) to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I do not consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item (2010-1) to be a significant deficiency.

Knox County Housing Authority's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Knox County Housing Authority's responses and, accordingly, I express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, Housing and Urban Development, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

Decatur, Illinois  
March 3, 2011

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit report for the period ended June 30, 2009 contained no findings.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2010**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report: Unqualified

\* Material weakness(es) identified? \_\_\_\_\_ yes X\_\_\_\_\_ no

\* Significant deficiency (ies) identified? \_\_\_\_\_ yes X\_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes X\_\_\_\_\_ no

*Federal Awards*

Internal control over major programs:

\* Material weakness(es) identified? X\_\_\_\_\_ yes \_\_\_\_\_ no

\* Significant deficiency (ies) identified? X\_\_\_\_\_ yes \_\_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X\_\_\_\_\_ yes \_\_\_\_\_ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Choice Voucher Program
14.885	Formula Capital Fund Stimulus Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes X\_\_\_\_\_ no

Questioned Costs \$ 42,703.26



**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**CURRENT FINDINGS AND RECOMMENDATIONS**

**Section II - Financial Statement Audit Findings**

There were no financial statement audit findings discussed with Mary Lou Terrell, Executive Director, or Katri Clodfelder, Associate Director during the course of the audit and at an exit conference held March 3, 2011.

**Section III - Federal Award Audit Findings**

There was one federal award audit findings discussed with Mary Lou Terrell, Executive Director and Katri Clodfelder, Associate Director during the course of the audit and at an exit conference held March 3, 2011.

**Finding 1: Use of Formula Capital Fund Stimulus Grant for Operating Expenses (CFDA 14.885)**

*Criteria or specific requirement:* It is permissible to purchase modernization vehicles and equipment with Recovery Act Capital Fund formula grant funds, however it is not permissible to purchase equipment or vehicles used for operational purposes. (Recovery Act Capital Fund Formula Grant Frequently Asked Questions #2 dated October 5, 2009). Housing Authorities may not use any Recovery Act Capital Fund formula grant for operating assistance activities.

*Condition:* The PHA used funds from its Formula Capital Fund Stimulus Grant for operating assistance activities. Specifically (1) a truck equipped with a snow plow, salt spreader and tool boxes (cost \$35,637.92) (2) monthly maintenance fees for the ADT security system (\$584.67), (3) eighteen hours of computer software support (\$1,800.00) and (4) five computers used by the administrative office staff (\$4,096.00)

*Questioned costs:* \$42,703.26

*Effect:* The PHA expended Formula Capital Grant Stimulus funds for ineligible activities per the Recovery Act.

*Cause:* The Housing Authority used the Stimulus funds for activities identified in their approved five year action plan as Capital Fund expenditures, however, they were not allowed expenditures for this particular grant (Recovery Act Funds). The Housing Authority failed to familiarize themselves with the specific requirements of this grant.

*Recommendation:* Management must familiarize themselves with the requirements of the grants and obligate and spend funds accordingly.

*Views of responsible officials and planned correct actions:* Housing Authority Management communicated with the local HUD office on several occasions regarding the purchase of the truck. The Authority plans to use the truck for land clearing and landscaping (physical improvements as allowed in Handbook 7485.3; Section 1) during the seasonal months when inclement weather does not interfere with such activities. Based on the planned usage of the truck, the Housing Authority considers the truck a utility or modernization vehicle. The monthly maintenance of the security systems was purchased in conjunction with new security cameras (allowed improvements). The software support is for the tenant based software and the computers are used for the tenant accounting and intake. The Authority expended the funds according to the approved five year plan and feels the expenditures should be allowed.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2010**

<u>Low Rent</u>	<u>Audit</u>			<u>Posting</u>
(1)	<u>Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Account Number</u>
Sundry	4190	\$ 575.00		2810
Travel	4150		\$ 575.00	2810
(To reclassify PHADA membership out of travel account)				
 <u>Voucher</u>				
(1)				
Salaries	4110		\$ 37,998.00	3000
Transfers (Social & Tenant)	----	\$ 37,998.00		3000
(To reclassify amounts transferred from Voucher to Social & Tenant for FSS wages)				
(2)				
Donation revenue	----		\$ 15,006.41	3000
Salaries	4110	\$ 13,940.00		3000
Benefits	4182	1,066.41		3000
(To correct deposit for wage reimbursement form Knox County Rural)				
(3)				
Cash	1111	\$ 1,987.28		1111
State tax	2117.3		\$ 402.74	2117.3
County tax	2117.6		100.14	2117.6
Federal withholding	2117.2		787.92	2117.2
Medicare withholding	2117.15		132.02	2117.15
FICA withholding	2117.10		564.46	2117.10
(To record deposit in transit at year end for June withholding)				
(4)				
Vendor payable	2111		\$ 1,098.56	2111
Sundry	4190	\$ 1,098.56		3000
(To set up vendor payable per search)				
(5)				
Accounts receivable - HUD	1125	\$ 3,137.00		1125
Admin fee contribution	8026		\$ 3,137.00	3000
(To set up FYE 06/30/10 admin fee collected after year end)				

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2010**

<u>Business Activities</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
FSS program	4104	\$ 6,000.00		2810
Transfer from Voucher	----		\$ 6,000.00	2810
FSS program	4104		821.92	2810
Travel	----	821.92		2810
Salaries	4110	31,998.00		2810
Transfer from Voucher	----		31,998.00	2810
(To reclassify transfers from Voucher Program)				
(2)				
Other social & tenant services	4102	\$ 2,150.25		2810
FEMA	4103		\$ 2,150.25	2810
(To reclassify expenditures - already expended 100% of FEMA funds)				

Board of Commissioners  
Knox County Housing Authority  
Bicknell, Indiana

In planning and performing my audit of the financial statements of Knox County Housing Authority as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United State of America, I considered the Housing Authorities internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knox County Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Knox County Housing Authority's internal control.

The administration of the Housing Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. However, my study and evaluation disclosed certain conditions in the following areas of which you should be aware in order to improve operating efficiencies and strengthen internal controls:

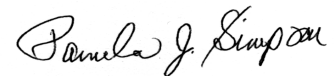
1. The Housing Authority's system of internal controls should be formally documented in a written internal control manual (handbook). Discussions with Housing Authority management indicate that the Housing Authority has a system of internal control in place, but without the policies being in writing and formally adopted, adherence to the procedures cannot always be verified.

The written policies should also cover the extent that outside consultants are used to enhance internal controls. The policies should include the detail of level of responsibility the fee accountant is assuming in the preparation and review of the year end financial statements as compared to the level responsibility the housing is authority is maintaining. The written procedures should indicate who will prepare and maintain copies of year end schedules, journal entries and reconciliations. However the Housing Authority management should keep in mind that you have the ultimate responsibility for preparation of accurate and complete financial statements.

2. The Low Income Housing Program has previously allocated interest earnings to be used in their "Tenant Services" program. The interest income was recorded directly in the tenant service account. The interest income must be recorded on the public housing books and then recorded as a transfer out to properly record all aspects of the transaction.
3. The Housing Authority needs to review the new prescribed HUD chart of accounts developed by HUD to be used in conjunction with asset management. Based on the new chart of accounts the Housing Authority needs to delete some accounts currently being used and incorporate some of the new accounts. Specifically surplus/equity accounts and insurance and contract expense accounts need to be reviewed.
4. During the review of cash reconciliations, it was noted that some reconciling items from prior periods were still being used in the reconciliations. The Housing Authority should adopt a policy for investigating and clearing reconciling items on a monthly basis.
5. The Housing Authority policy states that the PHA will have 2 signatures on checks. As part of sample, it was noticed that some checks were issued with only one signature.
6. The Housing Authority's Admissions and Continued Occupancy Policy requires "proof" from tenants such as birth certificates, social security cards and 214 declarations, however in some cases, the required written proof was not located. The Housing Authority housing staff should review their policies and each participant file during the certification/recertification process to determine that all required documents are contained in the file.

Also while reviewing the files it was noted that the PHA did not have written notification with explanations for landlord increases in rent. When the processes rent increased, new move ins and changes in unit it should be completing new rent reasonableness.

This communication is intended solely for the information and used of management, the Board of Commissioners, and others within the housing authority, and is not intended to be and should not be used by anyone other than these specified parties. Please feel free to contact me if you have any questions.



Certified Public Accountant

Decatur, Illinois  
March 3, 2011