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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, Independent Public Accountant, for the period July 1, 2011 to June 30, 2012. 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, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding on page 33 of 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, 2012**

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

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## Independent Auditor's Report

Board of Directors  
Knox County Housing Authority  
Bicknell, Indiana

I have audited the accompanying financial statements of the Knox County Housing Authority, as of and for the year ended June 30, 2012, 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 the Knox County Housing Authority, as of June 30, 2012 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.

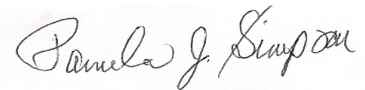
In accordance with *Government Auditing Standards*, I have also issued my report dated July 13, 2012, on my consideration of the Knox County Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures on 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial systems. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards and the Financial Data Schedule are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I do not express an opinion or provide any assurance on it.

Decatur, Illinois  
July 13, 2012



Certified Public Accountant

KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FISCAL YEAR ENDING JUNE 30, 2012

**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, 2012. 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, 2012

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, 2013 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, 2012

**Condensed Comparative Financial Statements**

**Analysis of Entity Wide Net Assets**

**Total Current Assets** for FYE 2012 were \$365,218, and at FYE 2011, the amount was \$533,313. This represents a decrease of \$168,095.

**Total Capital Assets** decreased by \$112,174. At FYE 2012 and 2011, the amounts were \$2,190,188 and \$2,302,362 respectively.

**Total Liabilities** decreased by \$31,537.

**Revenues** decreased by \$313,988 from FYE June 30, 2011. At FYE 2012 and 2011, total revenues were \$1,543,125 and \$1,857,244, respectively.

**Total Expenses** decreased by \$27,008 which is mostly due to a decrease in administrative costs.

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>	<u>Percent Variances</u>
Cash	297,262	398,789	(101,527)	-25%
Other Current Assets	67,956	134,524	(66,568)	-49%
Capital Assets	2,190,188	2,302,362	(112,174)	-5%
<b>Total Assets</b>	<b>\$ 2,555,406</b>	<b>\$ 2,835,675</b>	<b>\$ (280,269)</b>	-10%
Current Liabilities	47,189	77,958	(30,769)	-39%
Long Term Liabilities	24,032	24,800	(768)	-3%
<b>Total Liabilities</b>	<b>\$ 71,221</b>	<b>\$ 102,758</b>	<b>\$ (31,537)</b>	-31%
Net Invested in Capital Assets	2,190,188	2,302,362	(112,174)	-5%
Restricted Net Assets	137,004	228,618	(91,614)	-40%
Unrestricted Net Assets	156,993	201,937	(44,944)	-22%
<b>Total Net Assets</b>	<b>\$ 2,484,185</b>	<b>\$ 2,732,917</b>	<b>\$ (248,732)</b>	-9%



KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FISCAL YEAR ENDING JUNE 30, 2012

*Analysis of Entity Wide Revenues*

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2012 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$308,778
Section 8 Vouchers	\$1,173,606
Capital Funds Program	\$60,386
Business Activities	\$486

Total revenues for Fiscal year ending June 30, 2012 were \$1,543,256 as compared to the total revenues for fiscal year ending June 30, 2011 of \$1,857,244. Comparatively, fiscal year ending 2012 revenues was less than fiscal year ending 2011 revenues by \$313,988. The overall change was 17%.

	<u>2012</u>	<u>2011</u>	<u>Net change</u>	<u>Percent Variances</u>
Total tenant revenue	132,451	129,489	2,962	2%
HUD Operating grants	1,345,785	1,508,121	(162,336)	-11%
HUD Capital grants	52,324	154,808	(102,484)	-66%
Investment income	933	1,680	(747)	-44%
Other revenue	13,111	63,146	(50,035)	-79%
Gain/Loss on sale of capital assets	(1,348)	-	(1,348)	100%
<b>Total Revenue</b>	<b><u>\$ 1,543,256</u></b>	<b><u>\$ 1,857,244</u></b>	<b><u>\$ (313,988)</u></b>	-17%

KNOX COUNTY HOUSING AUTHORITY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 FISCAL YEAR ENDING JUNE 30, 2012

*Analysis of Entity Wide Expenditures*

**Total Expenditures** for Fiscal Year Ending June 30, 2012 were \$1,791,988 as compared to \$1,818,996 of total expenditures for Fiscal Year Ending June 30, 2011. Comparatively, Fiscal Year Ending 2012 expenditures were less than Fiscal Year Ending 2011 expenditures by \$27,008. Changes by major expense category are presented below.

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>	<u>Percent Variances</u>
Administrative	283,905	310,981	(27,076)	-9%
Tenant Services	5,764	2,980	2,784	93%
Utilities	56,812	56,699	113	0%
Ordinary Maintenance	103,610	80,977	22,633	28%
General Expense	54,874	71,741	(16,867)	-24%
Housing Assistance Payments	1,122,525	1,119,997	2,528	0%
Depreciation Expense	164,498	175,621	(11,123)	-6%
<b>Total Expenses</b>	<b><u>\$ 1,791,988</u></b>	<b><u>\$ 1,818,996</u></b>	<b><u>\$ (27,008)</u></b>	<b>-1%</b>

**Analysis of Capital Asset Activity**

As of June 30, 2012, the Authority's investment in capital assets was \$2,190,188 (net of accumulated depreciation). The investment includes land, buildings, equipment, and leasehold improvements. Capital outlays for the year were \$52,324 consisting of the following purchases:

- Roof at Wheatland units \$14,955
- Various building improvements \$29,817
- Appliances \$7,552

**Debt Activity**

The Housing Authority had no outstanding debt during 2012 or 2011.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF JUNE 30, 2012**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 147,354
Accounts receivable (interfund eliminated)	28,835
Investments	12,000
Deferred charges	<u>3,089</u>

Total Current Assets \$ 191,278

**RESTRICTED ASSETS**

Cash	\$ 149,908
Investments	<u>24,032</u>

Total Restricted Assets \$ 173,940

**CAPITAL ASSETS**

Land, buildings and equipment	\$ 4,922,588
Less: Accumulated depreciation	<u>-2,732,400</u>

Net Capital Assets \$ 2,190,188

Total Assets \$ 2,555,406

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable (interfund eliminated)	\$ 25,431
Accrued liabilities	8,854
Deferred revenue	<u>12,904</u>

Total Current Liabilities \$ 47,189

**NONCURRENT LIABILITIES**

Trust and deposit liabilities	<u>\$ 24,032</u>
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Total Noncurrent Liabilities \$ 24,032

**NET ASSETS**

Invested in capital assets	\$ 2,190,188
Restricted	137,004
Unrestricted	<u>156,993</u>

Total Net Assets \$ 2,484,185

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2012**

Operating Income

Tenant revenue	\$ 132,451
Total Rental Income	\$ 132,451
HUD grants - operating	1,345,785
Other revenue	13,111
Gain/loss on sale of capital assets	<u>-1,348</u>
Total Operating Income	<u>\$ 1,489,999</u>

Operating Expenses

Administration	\$ 283,905
Tenant services	5,764
Utilities	56,812
Ordinary maintenance and operation	103,610
General expense	54,874
Housing assistance payments	1,122,525
Depreciation	<u>164,498</u>
Total Operating Expenses	<u>\$ 1,791,988</u>
Net Operating Income (Loss)	\$ -301,989

Nonoperating Income (Expense)

Interest income	933
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Capital Contributions

Capital funds grants	<u>52,324</u>
Changes in net assets	\$ -248,732
Net assets, beginning of year	<u>2,732,917</u>
Net assets, end of year	<u>\$ 2,484,185</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, 2012**

Operating Activities

Operating grants	\$ 1,327,153
Tenant revenue	133,989
Other revenue	11,763
Housing assistance payments	-1,122,525
Payments to employees	-208,295
Payments to suppliers and contractors	<u>-245,313</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -103,228</u>

Investing Activities

Investments (purchased) redeemed	\$ 768
Interest income	<u>933</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,701</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 52,324
Additions (deletions) to fixed assets	<u>-52,324</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 0</u>

Net Change in Cash	\$ -101,527
Cash Balance at June 30, 2011	<u>398,789</u>
Cash Balance at June 30, 2012	<u><u>\$ 297,262</u></u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2012**

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

Net operating income (loss)	\$ -301,989
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	164,498
(Increase) decrease in accounts receivable	25,008
(Increase) decrease in deferred charges	40,792
Increase (decrease) in accounts payable	-22,971
Increase (decrease) in accrued liabilities	-6,865
Increase (decrease) in deferred revenues	-933
Increase (decrease) in other liabilities	<u>-768</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -103,228</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012**

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, 2012  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) 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
- \* Capital Fund Program
- \* Housing Choice Vouchers
- \* Business Activities

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, 2012  
(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, 2012, 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 seven hundred fifty dollars (\$750) 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	7 - 40	years
Equipment	3 - 10	years
Leasehold improvements	3 - 40	years

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012  
(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 disabled 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, 2012  
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

- (q) Rental income is recognized as rents become due.
- ® 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, 2012  
(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	\$ 79,621	\$ 89,065
Voucher	179,383	191,929
Business Activities	<u>38,258</u>	<u>38,308</u>
Total	<u>\$ 297,262</u>	<u>\$ 319,302</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 (restricted)	<u>24,032</u>	<u>24,032</u>
Total	<u>\$ 36,032</u>	<u>\$ 36,032</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012  
(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. For calendar year 2011 the Housing Authority was required to contribute 5.75% and for calendar year 2012 the employer rate was 7.5%. Total contributions to PERF paid by the Housing Authority on behalf of the employees were \$4,855 for fiscal year end 2012 related to wages paid of \$161,840. The Housing Authority's contribution was \$10,052.

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, 2012 consists of the following accounts:

Tenants accounts receivable	\$ 479
Notes receivable	<u>28,356</u>
Subtotal	\$ 28,835
Interfund	<u>1,110</u>
Total	<u><u>\$ 29,945</u></u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012  
(CONTINUED)**

Note 7 - Investments

At June 30, 2012 investments consist of the following:

	<u>Rate</u>	
Savings	0.10%	\$ 24,032
Certificates of deposit	1.65%	<u>12,000</u>
Total		<u>\$ 36,032</u>

Note 8 - Fixed Assets

Balance as of June 30, 2012	\$ 2,190,188
Balance as of June 30, 2011	<u>2,302,362</u>
Net Increase (Decrease)	<u>\$ -112,174</u>

Reconciliation

Betterments and additions	\$ 52,324
Current year depreciation expense	<u>-164,498</u> *
Net Increase (Decrease)	<u>\$ -112,174</u>

<u>Analysis</u>	<u>07/01/2011 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>06/30/2012 Balance</u>
Land	\$ 1,002,773	\$ 0	\$ 0	\$ 1,002,773
Buildings	3,332,940	52,324	0	3,385,264
Equipment and furniture	<u>534,551</u>	<u>0</u>	<u>0</u>	<u>534,551</u>
Total Assets	\$ 4,870,264	\$ 52,324	\$ 0	\$ 4,922,588
Accumulated depreciation	<u>-2,567,902</u>	<u>0</u>	<u>164,498</u> *	<u>-2,732,400</u>
Total Net Assets	<u>\$ 2,302,362</u>	<u>\$ 52,324</u>	<u>\$ 164,498</u>	<u>\$ 2,190,188</u>

\*Current year depreciation expense recognized.

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 2,061
Tenants security deposits	<u>23,370</u>
Subtotal	\$ 25,431
Interfund	<u>1,110</u>
Total	<u>\$ 26,541</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012  
(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	\$ 3,117
Accrued wages and payroll taxes	1,934
Accrued liabilities - other	2,933
Other current liabilities	<u>870</u>
Total	<u>\$ 8,854</u>

Note 12 - Trust and Deposit Liabilities

This classification consists of the following accounts:

FSS escrow accounts	<u>\$ 24,032</u>
---------------------	------------------

Note 13 - Summary of Long Term Liabilities

A summary of long term liabilities as of June 30, 2012:

	07/01/2011			06/30/2012
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
FSS escrow	<u>\$ 24,800</u>	<u>\$ 0</u>	<u>\$ 768</u>	<u>\$ 24,032</u>

Note 14 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ 2,254
CFP - deferred	<u>10,650</u>
Total	<u>\$ 12,904</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2012  
(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 quarterly basis.

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, 2012, the Housing Authority had entered into the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended To Date</u>
CFP 501-11	\$ <u>97,865</u>	\$ <u>35,780</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 (91%) 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, 2012**

<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 06/30/12	\$ 164,242	\$ 164,242	\$ 164,242
Housing Choice Voucher Program*	14.871	C-2045V	FYE 06/30/12	\$ 1,173,481	\$ 1,173,481	\$ 1,173,481
Public Housing - Capital Fund	14.872	C-2075	FYE 06/30/12	\$ 216,398	\$ 60,386	\$ 60,386
Total Housing Assistance				<u>\$ 1,554,121</u>	<u>\$ 1,398,109</u>	<u>\$ 1,398,109</u>

\*Denotes major program.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P067501-09**

1. The Actual Modernization Costs of Phase IN36P067501-09 are as follows:

Funds approved	\$ 118,933
Funds expended	<u>118,933</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 118,933
Funds expended	<u>118,933</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated December 2, 2010, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36S067501-09**

1. The Actual Modernization Costs of Phase IN36S067501-09 are as follows:

Funds approved	\$ 151,335
Funds expended	<u>151,335</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 151,335
Funds expended	<u>151,335</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated January 5, 2010, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P067501-10**

1. The Actual Modernization Costs of Phase IN36P067501-10 are as follows:

Funds approved	\$ 118,533
Funds expended	<u>118,533</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Grants	\$ 118,533
Funds expended	<u>118,533</u>
Excess of Funds Advanced	<u><u>\$ 0</u></u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated November 1, 2011, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.



**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, 2012, and have issued my report thereon dated July 13, 2012. 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. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies in internal control over financial reporting. These deficiencies are listed starting on page 33. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

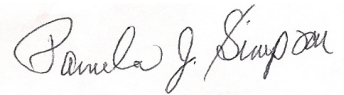
## Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs, listed starting on page 33.

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

I noted certain matters that I reported to management of Knox County Housing Authority in a separate letter dated July 13, 2012.

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  
July 13, 2012



**Independent Auditor's 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, 2012. 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 requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Knox County Housing Authority's compliance with those requirements.

In my opinion, 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, 2012. However, the results of my auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items (2012-2).



## 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.

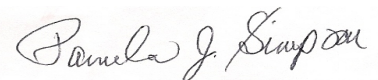
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be *material weaknesses*, as defined above. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items (2012-21). 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.

Knox County Housing Authority's responses to the finding 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.

Decatur, Illinois  
July 13, 2012



Certified Public Accountant

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit report for the period ended June 30, 2011 contained one finding.

**Finding 2011-1: Incomplete Section 8 Participant Files**

HUD regulations require that all participant files contain adequate documentation to support a participant's eligibility and the accurate calculation of Housing Assistance Payments (HAP).

It cannot be determined if the Section 8 participants were eligible and their HAP assistance was calculated in accordance with HUD regulations. Adequate quality control procedures had not been implemented to assure that only eligible participants were provided Housing Assistance. The procedures in place did not provide adequate assurance that correct data was collected and used in accurate assistance payment calculations for each eligible participant. This finding continues (Finding 2012-2).

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2012**

**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? X\_\_\_\_\_ yes \_\_\_\_\_ none reported

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

*Federal Awards*

Internal control over major programs:

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

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

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

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

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

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

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**CURRENT FINDINGS, RECOMMENDATIONS AND GRANTEE RESPONSE**

**Section II - Financial Statement Audit Findings**

There was one financial statement audit finding discussed with Elizabeth Ellis, Executive Director, and members of the Board of Commissioners during the course of the audit and at an exit conference held July 13, 2012.

**Finding 2012-1: Internal Control Procedures**

*Condition and Criteria:* To insure the effectiveness of Internal Controls, there needs to be an adequate design of internal controls that describes the separation of primary functions and duties. Internal control design must be considered in designing and implementing an effective segregation of primary duties. A written internal control manual is not maintained and it is noted that not all internal control procedures are sufficient.

*Effect:* In the absence of adequate internal control procedures there is an increased risk of error and other intentional activities that could affect the integrity of the financial statements or the physical custody of assets.

*Cause:* Formal quality control procedures had not been developed or implemented.

*Auditor's Recommendation:* I recommend that Housing Authority Management develop a formal internal control policy and document it in manual to be distributed to all personnel for use and reference. An adequate system of internal control procedures would address all of the features of an effective internal control system with due consideration given to the limitations imposed by limited personnel and funds available.

*Grantee Response:* The Housing Authority had been developing a written manual covering internal control procedures, but prior to year end, there was a major staffing change. Internal control procedures were reviewed and in the process of being revised. New procedures will be documented in a manual by the new Executive Director prior to the end of the next fiscal year.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**CURRENT FINDINGS, RECOMMENDATIONS AND GRANTEE RESPONSE**

**Section III - Federal Award Findings**

There was one federal award audit finding discussed with Elizabeth Ellis, Executive Director, and members of the Board of Commissioners during the course of the audit and at an exit conference held July 13, 2012.

**Finding 2012-2: Incomplete Section 8 Participant Files**

*Condition and Criteria:* HUD regulations require that all participant files contain adequate documentation to support a participant's eligibility and the accurate calculation of Housing Assistance Payments (HAP). During my current year test of participant eligibility (40 files examined), I noted incomplete documentation and incorrect calculations of HAP in fifteen (15) of those files.

*Effect:* It cannot be determined if the Section 8 participants were eligible and their HAP assistance was calculated in accordance with HUD regulations.

*Cause:* Adequate quality control procedures had not been implemented to assure that only eligible participants were provided Housing Assistance. The procedures in place did not provide adequate assurance that correct data was collected and used in accurate assistance payment calculations for each eligible participant

*Auditor's Recommendation:* I recommend that quality control procedures be reviewed and revised to ensure that all required documentation is maintained in each file to support eligibility. Procedures should be developed to ensure that all intake staff are familiar with the policies established in the Housing Authority's Section 8 Admin Plan and that they are trained in the proper procedures for applying those policies and HUD regulations.

*Grantee Response:* The Section 8 Administrative Plan will be reviewed by all staff. Additionally, it will be requested that the Board of Commissioners approve additional training for the current Section 8 staff. The Housing Authority Section 8 staff will review its current quality control procedures and more quality control checks of files will be completed by individuals (executive director) not completing the participant intake paper work.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2012**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Sundry	4190	\$ 1,135.93		2892
Contract cost - landscape	4430	665.00		2892
Vendor payable (To record vendor payable)	2111		\$ 1,800.93	2111
(2)				
Deferred revenue	2200	\$ 70.19		2200
CIAP contribution (To reclassify amount already spent with check #1800 for CFP expenditure in deferred revenue)	8026		\$ 70.19	2892
(3)				
Prepaid insurance	1211	\$ 1,676.92		1211
Liability insurance (To record prepaid insurance)	4512		\$ 1,676.92	2892
(4)				
Interfund social/tenant services	----	\$ 1,109.85		----
Admin wages	4110		\$ 1,109.85	2892
Compensated absence liability (To transfer compensated absence liability to Low Rent for employee who was completely moved and paid on Low Rent during year)	2135.1	1,109.85	1,109.85	2135.1
<u>Voucher</u>				
(1)				
Prepaid insurance	1211	\$ 1,412.18		1211
Insurance	4510		\$ 6.70	3000
Liability insurance (To record prepaid insurance)	4512		1,405.48	3000
<u>Social &amp; Tenant Services</u>				
(1)				
Interfund social/tenant services	----		\$ 1,109.85	----
Sundry	4190	\$ 1,109.85		2810
Compensated absence liability (To transfer compensated absence liability to Low Rent for employee who was completely moved and paid on Low Rent during year)	2135.1	1,109.85	1,109.85	2135.1

## Knox County Housing Authority (IN067)

BICKNELL, IN

## Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2012

	Project Total	14.871 Housing Choice Vouchers	1 Business Activities	Subtotal	Total
111 Cash - Unrestricted	\$43,347	\$42,379	\$38,258	\$123,984	\$123,984
112 Cash - Restricted - Modernization and Development	\$10,650			\$10,650	\$10,650
113 Cash - Other Restricted		\$137,004		\$137,004	\$137,004
114 Cash - Tenant Security Deposits	\$23,370			\$23,370	\$23,370
115 Cash - Restricted for Payment of Current Liabilities	\$2,254			\$2,254	\$2,254
100 Total Cash	\$79,621	\$179,383	\$38,258	\$297,262	\$297,262
121 Accounts Receivable - PHA Projects					
122 Accounts Receivable - HUD Other Projects					
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous					
126 Accounts Receivable - Tenants	\$479			\$479	\$479
126.1 Allowance for Doubtful Accounts - Tenants	\$0			\$0	\$0
126.2 Allowance for Doubtful Accounts - Other	\$0			\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current	\$28,356			\$28,356	\$28,356
128 Fraud Recovery					
128.1 Allowance for Doubtful Accounts - Fraud					
129 Accrued Interest Receivable					
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$28,835	\$0	\$0	\$28,835	\$28,835
131 Investments - Unrestricted	\$12,000			\$12,000	\$12,000
132 Investments - Restricted		\$24,032		\$24,032	\$24,032
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$1,677	\$1,412		\$3,089	\$3,089
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From	\$1,110			\$1,110	\$1,110
145 Assets Held for Sale					
150 Total Current Assets	\$123,243	\$204,827	\$38,258	\$366,328	\$366,328
161 Land	\$1,002,773			\$1,002,773	\$1,002,773
162 Buildings	\$3,385,264			\$3,385,264	\$3,385,264
163 Furniture, Equipment & Machinery - Dwellings	\$139,171			\$139,171	\$139,171
164 Furniture, Equipment & Machinery - Administration	\$357,085	\$33,873	\$4,422	\$395,380	\$395,380
165 Leasehold Improvements					
166 Accumulated Depreciation	-\$2,694,105	-\$33,873	-\$4,422	-\$2,732,400	-\$2,732,400
167 Construction in Progress					
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$2,190,188	\$0	\$0	\$2,190,188	\$2,190,188
171 Notes, Loans and Mortgages Receivable - Non-Current					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due					
173 Grants Receivable - Non Current					
174 Other Assets					
176 Investments in Joint Ventures			\$0	\$0	\$0
180 Total Non-Current Assets	\$2,190,188	\$0	\$0	\$2,190,188	\$2,190,188
190 Total Assets	\$2,313,431	\$204,827	\$38,258	\$2,556,516	\$2,556,516

## Knox County Housing Authority (IN067)

BICKNELL, IN

## Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2012

	Project Total	14,871 Housing Choice Vouchers	1 Business Activities	Subtotal	Total
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$2,061			\$2,061	\$2,061
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable		\$1,934		\$1,934	\$1,934
322 Accrued Compensated Absences - Current Portion	\$1,322	\$1,795		\$3,117	\$3,117
324 Accrued Contingency Liability					
325 Accrued Interest Payable					
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government					
341 Tenant Security Deposits	\$23,370			\$23,370	\$23,370
342 Deferred Revenues	\$12,904			\$12,904	\$12,904
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds					
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities	\$870			\$870	\$870
346 Accrued Liabilities - Other	\$2,933			\$2,933	\$2,933
347 Inter Program - Due To			\$1,110	\$1,110	\$1,110
348 Loan Liability - Current					
310 Total Current Liabilities	\$43,460	\$3,729	\$1,110	\$48,299	\$48,299
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue					
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other		\$24,032		\$24,032	\$24,032
354 Accrued Compensated Absences - Non Current					
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities					
350 Total Non-Current Liabilities	\$0	\$24,032	\$0	\$24,032	\$24,032
300 Total Liabilities	\$43,460	\$27,761	\$1,110	\$72,331	\$72,331
508.1 Invested In Capital Assets, Net of Related Debt	\$2,190,188			\$2,190,188	\$2,190,188
511.1 Restricted Net Assets		\$137,004		\$137,004	\$137,004
512.1 Unrestricted Net Assets	\$79,783	\$40,062	\$37,148	\$156,993	\$156,993
513 Total Equity/Net Assets	\$2,269,971	\$177,066	\$37,148	\$2,484,185	\$2,484,185
600 Total Liabilities and Equity/Net Assets	\$2,313,431	\$204,827	\$38,258	\$2,556,516	\$2,556,516



## Knox County Housing Authority (IN067)

BICKNELL, IN

## Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2012

	Project Total	14,871 Housing Choice Vouchers	1 Business Activities	Subtotal	Total
70300 Net Tenant Rental Revenue	\$132,451			\$132,451	\$132,451
70400 Tenant Revenue - Other					
70500 Total Tenant Revenue	\$132,451	\$0	\$0	\$132,451	\$132,451
70600 HUD PHA Operating Grants	\$172,304	\$1,173,481		\$1,345,785	\$1,345,785
70610 Capital Grants	\$52,324			\$52,324	\$52,324
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees					
70700 Total Fee Revenue					
70800 Other Government Grants					
71100 Investment Income - Unrestricted	\$808	\$125		\$933	\$933
71200 Mortgage Interest Income					
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery		\$0		\$0	\$0
71500 Other Revenue	\$12,625		\$486	\$13,111	\$13,111
71600 Gain or Loss on Sale of Capital Assets	-\$1,348			-\$1,348	-\$1,348
72000 Investment Income - Restricted		\$0		\$0	\$0
70000 Total Revenue	\$369,164	\$1,173,606	\$486	\$1,543,256	\$1,543,256
91100 Administrative Salaries	\$70,648	\$81,724		\$152,372	\$152,372
91200 Auditing Fees	\$2,910	\$2,910		\$5,820	\$5,820
91300 Management Fee					
91310 Book-keeping Fee					
91400 Advertising and Marketing					
91500 Employee Benefit contributions - Administrative	\$30,348	\$28,232		\$58,580	\$58,580
91600 Office Expenses	\$751	\$7,844		\$8,595	\$8,595
91700 Legal Expense		\$378		\$378	\$378
91800 Travel	\$7,811	\$3,825		\$11,636	\$11,636
91810 Allocated Overhead					
91900 Other	\$9,692	\$26,772	\$10,060	\$46,524	\$46,524
91000 Total Operating - Administrative	\$122,160	\$151,685	\$10,060	\$283,905	\$283,905
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs					
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other			\$5,764	\$5,764	\$5,764
92500 Total Tenant Services	\$0	\$0	\$5,764	\$5,764	\$5,764

Knox County Housing Authority (IN067)  
BICKNELL, IN  
Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2012

	Project Total	14,871 Housing Choice Vouchers	1 Business Activities	Subtotal	Total
93100 Water	\$39,917			\$39,917	\$39,917
93200 Electricity	\$12,797			\$12,797	\$12,797
93300 Gas	\$4,098			\$4,098	\$4,098
93400 Fuel					
93500 Labor					
93600 Sewer					
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense					
93000 Total Utilities	\$56,812	\$0	\$0	\$56,812	\$56,812
94100 Ordinary Maintenance and Operations - Labor	\$49,602			\$49,602	\$49,602
94200 Ordinary Maintenance and Operations - Materials and Other	\$17,437	\$410		\$17,847	\$17,847
94300 Ordinary Maintenance and Operations Contracts	\$19,677			\$19,677	\$19,677
94500 Employee Benefit Contributions - Ordinary Maintenance	\$16,484			\$16,484	\$16,484
94000 Total Maintenance	\$103,200	\$410	\$0	\$103,610	\$103,610
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other					
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0
96110 Property Insurance	\$33,689	\$1,406		\$35,095	\$35,095
96120 Liability Insurance	\$6,478	\$395		\$6,873	\$6,873
96130 Workmen's Compensation	\$3,346			\$3,346	\$3,346
96140 All Other Insurance					
96100 Total insurance Premiums	\$43,513	\$1,801	\$0	\$45,314	\$45,314
96200 Other General Expenses	\$6,078			\$6,078	\$6,078
96210 Compensated Absences					
96300 Payments in Lieu of Taxes	\$3,482			\$3,482	\$3,482
96400 Bad debt - Tenant Rents					
96500 Bad debt - Mortgages					
96600 Bad debt - Other					
96800 Severance Expense					
96000 Total Other General Expenses	\$9,560	\$0	\$0	\$9,560	\$9,560
96710 Interest of Mortgage (or Bonds) Payable					
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs					
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$335,245	\$153,896	\$15,824	\$504,965	\$504,965
97000 Excess of Operating Revenue over Operating Expenses	\$33,919	\$1,019,710	-\$15,338	\$1,038,291	\$1,038,291

## Knox County Housing Authority (IN067)

BICKNELL, IN

## Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2012

	Project Total	14,871 Housing Choice Vouchers	1 Business Activities	Subtotal	Total
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments		\$1,122,525		\$1,122,525	\$1,122,525
97350 HAP Portability-In					
97400 Depreciation Expense	\$163,284	\$1,214		\$164,498	\$164,498
97500 Fraud Losses					
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$498,529	\$1,277,635	\$15,824	\$1,791,988	\$1,791,988
10010 Operating Transfer In					
10020 Operating transfer Out					
10030 Operating Transfers from/to Primary Government	\$0			\$0	\$0
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out					
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$129,365	-\$104,029	-\$15,338	-\$248,732	-\$248,732
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0
11030 Beginning Equity	\$2,399,336	\$281,095	\$52,486	\$2,732,917	\$2,732,917
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0		\$0	\$0
11050 Changes in Compensated Absence Balance					
11060 Changes in Contingent Liability Balance					
11070 Changes in Unrecognized Pension Transition Liability					
11080 Changes in Special Term/Severance Benefits Liability					
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity		\$40,062		\$40,062	\$40,062
11180 Housing Assistance Payments Equity		\$137,004		\$137,004	\$137,004
11190 Unit Months Available	888	4008		4896	4896
11210 Number of Unit Months Leased	869	3633		4502	4502
11270 Excess Cash	\$50,841			\$50,841	\$50,841
11610 Land Purchases	\$0			\$0	\$0
11620 Building Purchases	\$52,325			\$52,325	\$52,325
11630 Furniture & Equipment - Dwelling Purchases	\$0			\$0	\$0
11640 Furniture & Equipment - Administrative Purchases	\$0			\$0	\$0
11650 Leasehold Improvements Purchases	\$0			\$0	\$0
11660 Infrastructure Purchases	\$0			\$0	\$0
13510 CFFP Debt Service Payments	\$0			\$0	\$0
13901 Replacement Housing Factor Funds	\$0			\$0	\$0



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, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the Housing Authority's 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.

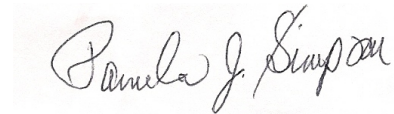
Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the 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. During my review of insurance coverage, it was noted that only a small portion of the insurance premiums had been allocated to the Section 8 Housing Choice Voucher Program. The PHA should allocate a portion of all applicable insurance expenses to the Section 8 program (for example: worker's compensation) on an equitable basis.
2. The Housing Authority's adopted capitalization policy indicates that only item with an original value greater than \$750 will be capitalized. During the review of the current depreciations schedule, I noted items on the Public Housing depreciation schedule under the \$750 threshold. The schedule and policy should be reviewed and updated accordingly.
3. While reviewing the agency's SEMAP certification, the Housing could not provide written documentation to substantiate that the required number of participant files and units had been tested as a basis for data collection for the submission. This documentation must to be retained as support and detailed for the certification.

4. During the current year, the Housing Authority changed insurance companies and obtained policies that expired subsequent to the end of the fiscal year. As such, generally accepted accounting principles require that material balances of the prepaid policies should be recorded on the financial statements. There was no prepaid insurance recorded at year end.
5. Rent income is being recorded on a cash basis with no collection loss write offs being maintained. This method cause an understatement of revenue and an understatement of collection losses although the transactions net themselves out. All transactions should be recorded at gross.
6. It was noted that the Housing Authority incurred extra-ordinary professional services costs in the fiscal year. Per the Housing Authority's procurement policies, three documented quotes should have been obtained prior to contract awards. The Housing Authority could not provide documentation that the required quotes had been obtained.

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  
July 13, 2012