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May 14, 2009

Board of Commissioners
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, 2005 to June 30, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Knox County Housing Authority, as of June 30, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

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

TWELVE MONTHS ENDED JUNE 30, 2006

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

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PAMELA J. SIMPSON, C.P.A.

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Independent Auditor's Report

Board of Directors
Knox County Housing Authority
Bicknell, Indiana

I have audited the accompanying basic financial statements of the Knox County Housing Authority, as of and for the year ended June 30, 2006, as listed in the table of contents. These basic 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 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 basic 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, 2006 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 14, 2007, on my consideration of the Authority's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulation, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 performed for the purpose of forming an opinion 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 basic financial statements of the 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 basic financial statements and, in my opinion, is fairly stated, in all materials respects, in relation to the basic financial statements taken as a whole.

Decatur, Illinois
March 14, 2007


Certified Public Accountant

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

3

Management's Discussion and Analysis

As management of the Knox County Housing Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2006. 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, Tilley Estates Office, Bicknell, Indiana, (812) 882-0220.

Financial Highlights

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,848,400 (net assets).

The Authority's cash balance at June 30, 2006, was \$357,989 representing an increase of \$43,646 from June 30, 2005.

The Authority had operating revenues of \$138,738, Department of Housing and Urban Development (HUD) grants of \$1,379,133, Capital Grants of \$114,998 and investment income of \$897 for the year ended June 30, 2006.

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 (short term spendable 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, capital and non-capital activities.

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

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/Comprehensive Grant Program (CFP/CGP)

These grant programs are awarded by HUD on an annual basis. The purpose of these grants is to improvement 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 full expend an annual award.

Future Events (New Business)

There are no future events planned by the Authority during the fiscal year ending June 30, 2006 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, 2006**

Condensed Comparative Financial Statements

Analysis of Entity Wide Net Assets (Statement of Net Assets)

Total Current Assets for FYE 2006 was \$427,655 and at FYE 2005 the amount was \$452,946. This represents a decrease of \$25,291.

Total Capital Assets decreased by \$30,933. At FYE 2005 and 2006, the amount was \$2,538,552 and \$2,507,619, respectively.

Total Liabilities decreased by \$69,117 partly due to a payable to HUD in the Section 8 program.

Revenues decreased by \$3,376 from FYE June 30, 2005. At FYE 2005 and 2006, total revenues were \$1,637,642 and \$1,633,766, respectively

Total Expenses increased by \$14,674 which is mostly due to a decrease in Housing Assistance Payments.

The table below illustrates our analysis:

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>	<u>Percent Variances</u>
Cash	357,989	314,343	43,646	13.9%
Other Current Assets	69,666	138,603	(68,937)	-49.7%
Capital Assets	<u>2,507,619</u>	<u>2,538,552</u>	<u>(30,933)</u>	<u>-1.2%</u>
Total Assets	<u>2,935,274</u>	<u>2,991,498</u>	<u>(56,224)</u>	<u>-1.9%</u>
Current Liabilities	55,989	136,970	(80,981)	-59.1%
Long Term Liabilities	<u>30,885</u>	<u>19,021</u>	<u>11,864</u>	<u>62.4%</u>
Total Liabilities	<u>86,874</u>	<u>155,991</u>	<u>(69,117)</u>	<u>-44.3%</u>
Net Invested in Capital Assets	2,507,619	2,538,552	(30,933)	-1.2%
Restricted Net Assets	0	0	0	0.0%
Unrestricted Net Assets	<u>340,781</u>	<u>296,955</u>	<u>43,826</u>	<u>14.8%</u>
Total Net Assets	<u><u>2,848,400</u></u>	<u><u>2,835,507</u></u>	<u><u>12,893</u></u>	<u><u>0.5%</u></u>

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

Analysis of Entity Wide Revenues (Statement of Activities)

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2006 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$274,828
Section 8 Vouchers	\$1,225,552
Capital Funds Program	\$130,998
Business Activities	\$2,388

Total revenues for Fiscal Year Ending June 30, 2005 were \$1,637,642 as compared to the total revenues for Fiscal Year Ending June 30, 2006 of \$1,633,766. Comparatively, Fiscal Year Ending 2006 revenues were less than Fiscal Year Ending 2005 revenues by \$3,376.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>	<u>Percent Variances</u>
Total Tenant Revenue	134,274	131,480	2,794	2%
HUD Operating Grants	1,379,133	1,361,298	17,835	1%
HUD Capital Grants	114,998	122,502	(7,504)	-6%
Investment Income	897	1,164	(267)	-23%
Other Revenue	4,464	20,698	(16,234)	-78%
Total Revenue	<u>1,633,766</u>	<u>1,637,142</u>	<u>(3,376)</u>	<u>0%</u>

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

Analysis of Entity Wide Expenditures

Total Expenditures for Fiscal Year Ending June 30, 2005 were \$1,679,756 as compared to \$1,694,430 of total expenditures for Fiscal Year Ending June 30, 2006. Comparatively, Fiscal Year Ending 2005 expenditures were less than Fiscal Year Ending 2006 expenditures by \$14,674. Changes by major expense category will be presented below.

Administrative expenditures decreased by \$10,572 or 4%. The major cause for this decrease is the reduction in administrative salaries.

Tenant Services expenditures stayed consistent.

Utilities increased by \$18,387 or 40% this related to normal fluctuations in usage and prices increases.

Ordinary Maintenance expenditures increased by \$4,009 or 6%. The Authority also made several other improvements that did not meet capitalization requirements.

General Expense decreased by \$55,941 or 51%. The major cause was a decrease in other general expenses.

Extraordinary Maintenance stayed consistent.

Housing Assistance Payments increased by \$43,904 or 4%. Leased units for the Voucher Program stayed consistent to current year budget constraints.

The table below illustrates our analysis:

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>	<u>Percent Variances</u>
Administrative	286,935	297,507	(10,572)	-4%
Tenant Services	0	0	0	0%
Utilities	64,812	46,425	18,387	40%
Ordinary Maintenance	76,548	72,539	4,009	6%
General Expense	54,020	109,961	(55,941)	-51%
Extraordinary Maintenance	0	0	0	0%
Housing Assistance Payments	1,051,185	1,007,281	43,904	4%
Depreciation Expense	160,930	146,043	14,887	10%
Total Expenses	<u>\$1,694,430</u>	<u>\$1,679,756</u>	<u>14,674</u>	<u>1%</u>

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

Section 8 Program Highlights

The Section 8 Administrative budget is determined by estimating the total dollars required to administer the program for a fiscal year. Annual Contributions consists of estimates made by the Authority for Housing Assistance Payments, audit cost, hard to house fees, administrative fees and salary and benefits for a FSS Coordinator.

HAP payments, hard to house fees, and audit costs are reimbursed to the Authority. A \$75 fee per eligible Hard to House family is earned each month, and the administrative fee is earned for every voucher leased each month. After December 31, 2004, the administrative fees were \$12,842/ month.

Section 8 Choice Vouchers

The Knox County Housing Authority did not prepare a budget for June 30, 2006 due to the changes in the way administrative fees are calculated, since they are no longer calculated based on vouchers leased. The following is a brief comparison of the current year and previous year.

Annual Contributions Required – Revenues

Administrative fees were \$153,158 for June 30, 2005 and \$154,521 for June 30, 2006. HAP payments were \$1,007,281 for June 30, 2005 and \$1,051,185 for June 30, 2006.

Net loss for the Section 8 program was \$2,080, and the net loss from the previous year was \$53,490. The losses for both years are due to donations made.

ANALYSIS OF CAPITAL ASSET ACTIVITY

As of June 30, 2006, the Authority's investment in capital assets was \$2,507,619 (net of accumulated depreciation). The investment includes land, buildings, equipment and leasehold improvements. Capital outlays for the year were \$129,998 consisting of the following purchases:

• Copy Machine	\$	1,599
• Site Improvements		85,028
• Computers		3,501
• Furnace		2,906
• Appliances		5,464
• Pest Control		2,500
• Lawn Roller		2,000
• 2005 Cobalt		15,000
• John Deere Gator		12,000

**KNOX COUNTY HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2006**

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>	<u>Percent Variance</u>
Land	1,002,773	1,002,773	0	0.0%
Buildings	2,732,179	2,416,023	316,156	13.1%
Furniture, Equipment, & Machinery - Dwelling	94,279	94,279	0	0.0%
Furniture, Equipment, & Machinery - Administrative	373,330	558,387	(185,057)	-33.1%
Leasehold Improvements	0	0	0	0.0%
Construction in Process	0	0	0	0.0%
Total Fixed Assets	4,202,561	4,071,462	131,099	3.2%
Accumulated Depreciation	1,694,942	1,532,911	162,031	10.6%
Net Fixed Assets	2,507,619	2,538,551	(30,932)	-1.2%

Debt Activity

The Housing Authority had no outstanding debt during 2005 or 2006.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF JUNE 30, 2006**

ASSETS

CURRENT ASSETS

Cash	\$ 357,989
Accounts receivable (interfund eliminated)	23,407
Investments	42,885
Deferred charges	<u>3,374</u>

Total Current Assets \$ 427,655

CAPITAL ASSETS

Land, buildings and equipment	\$ 4,202,561
Less: Accumulated depreciation	<u>-1,694,942</u>

Net Capital Assets \$ 2,507,619

Total Assets \$ 2,935,274

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 45,108
Accrued liabilities	8,370
Deferred revenue	<u>2,511</u>

Total Current Liabilities \$ 55,989

NONCURRENT LIABILITIES

Trust and deposit liabilities	<u>\$ 30,885</u>
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Total Noncurrent Liabilities \$ 30,885

NET ASSETS

Invested in capital assets	\$ 2,507,619
Unrestricted	<u>340,781</u>

Total Net Assets \$ 2,848,400

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES - PROPRIETARY FUNDS
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006**

Operating Income

Tenant revenue	\$ 134,274
Total Rental Income	\$ 134,274
HUD grants - operating	1,379,133
Other revenue	3,349
Fraud recovery	<u>1,115</u>
Total Operating Income	<u>\$ 1,517,871</u>

Operating Expenses

Administration	\$ 286,935
Utilities	64,812
Ordinary maintenance and operation	76,548
General expense	54,020
Housing assistance payments	1,051,185
Depreciation	<u>160,930</u>
Total Operating Expenses	<u>\$ 1,694,430</u>
Net Operating Income (Loss)	<u>\$ -176,559</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 114,998
Interest income	<u>897</u>
Total Nonoperating Income (Expense)	<u>\$ 115,895</u>
Changes in net assets	\$ -60,664
Net assets, beginning of year	2,835,507
Prior year adjustments	<u>73,557</u>
Net assets, end of year	<u>\$ 2,848,400</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2006**

Operating Activities

Operating grants	\$ 1,305,576
Tenant revenue	138,477
Other revenue	4,464
Housing assistance payments	-1,051,185
Payments to employees	-203,407
Payments to suppliers and contractors	<u>-124,312</u>

Net Cash Provided (Used) by Operating Activities \$ 69,613

Investing Activities

Investments (purchased) redeemed	\$ -11,864
Interest income	<u>897</u>

Net Cash Provided (Used) by Investing Activities \$ -10,967

Capital and Related Financing Activities

HUD grants - capital	\$ 114,998
Additions/deletions to fixed assets	<u>-129,998</u>

Net Cash Provided (Used) by
Capital and Related Financing Activities \$ -15,000

Net Change in Cash \$ 43,646

Cash Balance at June 30, 2005 314,343

Cash Balance at June 30, 2006 \$ 357,989

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED JUNE 30, 2006**

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

Net operating income (loss)	\$ -176,559
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	160,930
Adjustment to net assets	73,557
(Increase) decrease in accounts receivable	68,724
(Increase) decrease in deferred charges	-3,374
Increase (decrease) in accounts payable	-64,126
Increase (decrease) in accrued liabilities	-2,234
Increase (decrease) in deferred revenues	831
Increase (decrease) in other liabilities	<u>11,864</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 69,613</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006**

Note 1 - Summary of Significant Accounting Policies

(a) Organization and Reporting Entity -

The Knox County Housing Authority was established by Knox 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. 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, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) 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

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.

(d) Cash and Cash Equivalents -

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

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at June 30, 2006, 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.

(f) Investments -

Investments are stated at cost which approximates market.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(g) 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, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Income Tax -

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

(i) 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.

(j) 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.

(k) 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.

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 \$100,000 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.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(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>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 157,231	\$ 178,225
Voucher	148,224	161,833
Business Activities	<u>52,534</u>	<u>54,933</u>
Total	<u>\$ 357,989</u>	<u>\$ 394,991</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>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 12,000	\$ 12,000
Voucher	<u>30,885</u>	<u>30,885</u>
Total	<u>\$ 42,885</u>	<u>\$ 42,885</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(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 were \$13,676 for fiscal year end 2006.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ <u>23,407</u>
Subtotal	\$ 23,407
Interfund	<u>15,451</u>
Total	<u>\$ 38,858</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 6 - Investments

At June 30, 2006 investments consist of the following:

	<u>Rate</u>	
Savings	.32%	\$ 30,885
Certificates of deposit	5.00%	<u>12,000</u>
Total		<u>\$ 42,885</u>

Note 7 - Fixed Assets

Balance as of June 30, 2006	\$ 2,507,619
Balance as of June 30, 2005	<u>2,538,551</u>
Net Increase (Decrease)	<u>\$ -30,932</u>

Reconciliation

Additions	\$ 129,998
Current year depreciation expense	<u>-160,930</u>
Net Increase (Decrease)	<u>\$ -30,932</u>

<u>Analysis</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 1,002,773	\$ 0	\$ 0	\$ 1,002,773
Buildings	2,416,023	316,156	0	2,732,179
Equipment and furniture	<u>652,666</u>	<u>34,100</u>	<u>219,157</u>	<u>467,609</u>
Total Assets	\$ 4,071,462	\$ 350,256	\$ 219,157	\$ 4,202,561
Accumulated depreciation	<u>-1,532,911</u>	<u>8,579</u>	<u>170,610</u>	<u>-1,694,942</u>
Total Net Assets	<u>\$ 2,538,551</u>	<u>\$ 358,835</u>	<u>\$ 389,767</u>	<u>\$ 2,507,619</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 8 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 9,031
Tenants security deposits	16,326
Payroll taxes payable	119
Accounts payable - HUD	12,482
Accounts payable - other	<u>7,150</u>
Subtotal	\$ 45,108
Interfund	<u>15,451</u>
Total	<u>\$ 60,559</u>

Note 9 - 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 10 - Accrued Liabilities

Accrued liabilities consists of the following:

Accrued compensated absences	<u>\$ 8,370</u>
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Note 11 - Trust and Deposit Liabilities

This classification consists of the following accounts:

FSS escrow accounts	<u>\$ 30,885</u>
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**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 12 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ 2,331
Other	<u>180</u>
Total	<u>\$ 2,511</u>

Note 13 - 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 an annual basis.

Note 14 - 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 15 - 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 16 - Prior Period Adjustments

Prior period adjustments posted directly to surplus are detailed below:

Prior year HUD payable	<u>\$ 73,557</u>
------------------------	------------------

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED JUNE 30, 2006
(CONTINUED)**

Note 17 - 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 18 - 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, 2006**

<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	14.850	C-2075	FYE 06/30/06	\$ 139,125	\$ 139,125	\$ 139,125
Housing Choice Voucher Program*	14.871	C-2045V	FYE 06/30/06	\$ 1,224,008	\$ 1,224,008	\$ 1,224,008
Public Housing - Capital Fund	14.872	C-2075	FYE 06/30/06	\$ 130,998	\$ 130,998	\$ 130,998
Total Housing Assistance				<u>\$ 1,494,131</u>	<u>\$ 1,494,131</u>	<u>\$ 1,494,131</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED JUNE 30, 2006**

Note 1: Expenditures to the Housing Choice Voucher Program are reported as equal to revenues recognized. This method of expenditure recognition does not reconcile to the Housing Authority's financial statements, but is required by HUD.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
CURRENT ASSETS				
Cash	\$ 157,231	\$ 0	\$ 148,224	\$ 52,534
Accounts receivable	577	0	0	38,281
Investments	12,000	0	30,885	0
Deferred charges	<u>2,500</u>	<u>0</u>	<u>874</u>	<u>0</u>
Total Current Assets	<u>\$ 172,308</u>	<u>\$ 0</u>	<u>\$ 179,983</u>	<u>\$ 90,815</u>
CAPITAL ASSETS				
Land, buildings and equipment	\$ 4,055,330	\$ 114,998	\$ 27,811	\$ 4,422
Less: Accumulated depreciation	<u>-1,673,810</u>	<u>-5,748</u>	<u>-10,962</u>	<u>-4,422</u>
Net Capital Assets	<u>\$ 2,381,520</u>	<u>\$ 109,250</u>	<u>\$ 16,849</u>	<u>\$ 0</u>
Total Assets	<u>\$ 2,553,828</u>	<u>\$ 109,250</u>	<u>\$ 196,832</u>	<u>\$ 90,815</u>
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Accounts payable	\$ 30,057	\$ 0	\$ 30,352	\$ 150
Accrued liabilities	3,400	0	3,300	1,670
Deferred revenue	<u>2,331</u>	<u>0</u>	<u>0</u>	<u>180</u>
Total Current Liabilities	<u>\$ 35,788</u>	<u>\$ 0</u>	<u>\$ 33,652</u>	<u>\$ 2,000</u>
NONCURRENT LIABILITIES				
Trust and deposit liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,885</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,885</u>	<u>\$ 0</u>
<u>NET ASSETS</u>				
Invested in capital assets	\$ 2,381,520	\$ 109,250	\$ 16,849	\$ 0
Unrestricted	<u>136,520</u>	<u>0</u>	<u>115,446</u>	<u>88,815</u>
Total Net Assets	<u>\$ 2,518,040</u>	<u>\$ 109,250</u>	<u>\$ 132,295</u>	<u>\$ 88,815</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
Tenant revenue	\$ 134,274	\$ 0	\$ 0	\$ 0
Total Rental Revenue	\$ 134,274	\$ 0	\$ 0	\$ 0
HUD grants - operating	139,125	16,000	1,224,008	0
Other revenue	1,058	0	0	2,291
Fraud recovery	<u>0</u>	<u>0</u>	<u>1,115</u>	<u>0</u>
Total Operating Revenue	<u>\$ 274,457</u>	<u>\$ 16,000</u>	<u>\$ 1,225,123</u>	<u>\$ 2,291</u>
<u>Operating Expenses</u>				
Administration	\$ 97,119	\$ 16,000	\$ 153,430	\$ 20,386
Utilities	64,812	0	0	0
Ordinary maintenance and operation	76,548	0	0	0
General expense	48,012	0	4,624	1,384
Housing assistance payments	0	0	1,051,185	0
Depreciation	<u>152,240</u>	<u>5,748</u>	<u>2,942</u>	<u>0</u>
Total Operating Expenses	<u>\$ 438,731</u>	<u>\$ 21,748</u>	<u>\$ 1,212,181</u>	<u>\$ 21,770</u>
Net Operating Income (Loss)	<u>\$ -164,274</u>	<u>\$ -5,748</u>	<u>\$ 12,942</u>	<u>\$ -19,479</u>
<u>Nonoperating Income (Expense)</u>				
HUD grants - capital	\$ 0	\$ 114,998	\$ 0	\$ 0
Interest income	371	0	429	97
Transfer	<u>-600</u>	<u>0</u>	<u>-15,451</u>	<u>16,051</u>
Total Nonoperating Income (Expense)	<u>\$ -229</u>	<u>\$ 114,998</u>	<u>\$ -15,022</u>	<u>\$ 16,148</u>
Change in Net Assets	<u>\$ -164,503</u>	<u>\$ 109,250</u>	<u>\$ -2,080</u>	<u>\$ -3,331</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
Balance at June 30, 2005	\$ 2,417,923	\$ 115,838	\$ 4,791	\$ 0
Current year net income (loss)	-152,241	109,250	12,058	0
Transfer	<u>115,838</u>	<u>-115,838</u>	<u>0</u>	<u>0</u>
Balance at June 30, 2006	<u>\$ 2,381,520</u>	<u>\$ 109,250</u>	<u>\$ 16,849</u>	<u>\$ 0</u>
 <u>Unrestricted Net Assets</u>				
Balance at June 30, 2005	\$ 148,782	\$ 0	\$ 56,027	\$ 92,146
Current year net income (loss)	0	0	73,557	0
Prior year adjustment	<u>-12,262</u>	<u>0</u>	<u>-14,138</u>	<u>-3,331</u>
Balance at June 30, 2006	<u>\$ 136,520</u>	<u>\$ 0</u>	<u>\$ 115,446</u>	<u>\$ 88,815</u>
Total Net Assets	<u>\$ 2,518,040</u>	<u>\$ 109,250</u>	<u>\$ 132,295</u>	<u>\$ 88,815</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
Operating grants	\$ 139,125	\$ 16,000	\$ 1,150,451	\$ 0
Tenant revenue	135,827	0	0	2,650
Other revenue	1,058	0	1,115	2,291
Housing assistance payments	0	0	-1,051,185	0
Payments to employees	-97,301	-16,000	-71,987	-18,119
Payments to suppliers/contractors	<u>-123,251</u>	<u>0</u>	<u>16,945</u>	<u>-18,006</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 55,458</u>	<u>\$ 0</u>	<u>\$ 45,339</u>	<u>\$ -31,184</u>
 <u>Investing Activities</u>				
Investments (purchased) redeemed	\$ 0	\$ 0	\$ -11,864	\$ 0
Interest income	<u>371</u>	<u>0</u>	<u>429</u>	<u>97</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 371</u>	<u>\$ 0</u>	<u>\$ -11,435</u>	<u>\$ 97</u>
 <u>Capital and Related Financing Activities</u>				
HUD grants - capital	\$ 0	\$ 114,998	\$ 0	\$ 0
Additions to fixed assets	0	-114,998	-15,000	0
Transfer	<u>-600</u>	<u>0</u>	<u>-15,451</u>	<u>16,051</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ -600</u>	<u>\$ 0</u>	<u>\$ -30,451</u>	<u>\$ 16,051</u>
Net Change in Cash	\$ 55,229	\$ 0	\$ 3,453	\$ -15,036
Cash Balance at June 30, 2005	<u>102,002</u>	<u>0</u>	<u>144,771</u>	<u>67,570</u>
Cash Balance at June 30, 2006	<u>\$ 157,231</u>	<u>\$ 0</u>	<u>\$ 148,224</u>	<u>\$ 52,534</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>
Net operating income (loss)	\$ -164,274	\$ -5,748
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	152,240	5,748
Adjustment to net assets	0	0
(Increase) decrease in accounts receivable	81,525	0
(Increase) decrease in deferred charges	-2,500	0
Increase (decrease) in accounts payable	-5,884	0
Increase (decrease) in accrued liabilities	-6,300	0
Increase (decrease) in deferred revenues	<u>651</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 55,458</u>	<u>\$ 0</u>

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Voucher</u>	<u>Business Activities</u>
Net operating income (loss)	\$ 12,942	\$ -19,479
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	2,942	0
Adjustment to net assets	73,557	0
(Increase) decrease in accounts receivable	0	-12,801
(Increase) decrease in deferred charges	-874	0
Increase (decrease) in accounts payable	-58,392	150
Increase (decrease) in accrued liabilities	3,300	766
Increase (decrease) in other liabilities	<u>11,864</u>	<u>180</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 45,339</u>	<u>\$ -31,184</u>

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P067501-05**

1. The Actual Modernization Costs of Phase IN36P067501-05 are as follows:

Funds approved	\$ 130,998
Funds expended	<u>130,998</u>
Excess of Funds Approved	<u><u>\$ 0</u></u>
Funds advanced	
Project notes, non-HUD	\$ 130,998
Funds expended	<u>130,998</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 July 5, 2006, 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.

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD
DECATUR, ILLINOIS 62526
(217) 872-1908

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

Board of Directors
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, 2006, and have issued my report thereon dated March 14, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Knox County Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
March 14, 2007


Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD
DECATUR, ILLINOIS 62526
(217) 872-1908

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Knox County Housing Authority
Bicknell, Indiana

Compliance

I have audited the compliance of Knox County Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 on Knox County Housing Authority's compliance with those requirements.

In my opinion, Knox County Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Knox County Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Knox County Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the financial statements of the Knox County Housing Authority of and for the year ended June 30, 2006, and have issued my report hereon dated March 14, 2007. My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. 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 material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
March 14, 2007


Certified Public Accountant

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED JUNE 30, 2006**

Summary of Auditor's Results

Low Risk Auditee X yes no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? yes X no

* Reportable condition(s) identified that are not
considered to be material weaknesses? yes X 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

* Reportable condition(s) identified that are not
considered to be material weaknesses? yes X 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 Circular A-133? yes X no

Major Programs: (Threshold \$300,000) CFDA Number(s)

Housing Choice Voucher Program 14.871

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended June 30, 2005 contained no findings.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

CURRENT FINDINGS AND RECOMMENDATIONS

There were no audit findings discussed with Mary Lou Terrell, Executive Director, during the course of the audit or at an exit conference held March 14, 2007.

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
JUNE 30, 2006**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Prepaid insurance	1211	\$ 2,500.00		1211
Insurance expense	4510		\$ 2,500.00	2810
(To record check #16548 - payment for premium on public official liability policy effective 07/01/06 through 07/01/07)				
<u>Voucher</u>				
(1)				
Accounts payable - HUD	2118	\$ 86,039.00		2118
Unreserved surplus	2810		\$ 86,039.00	2810
(To reverse prior year accounts payable, YES amount will not be collected by HUD)				
(2)				
Sundry	4190	\$ 918.07		2810
Prepaid expenses - support	1600	873.75		1600
Travel	4150	108.52		2810
Accounting	4170	400.00		2810
Accounts payable	2111		\$ 2,300.34	2111
(To record vendor payable @ 06/30/06 per examination of subsequently paid invoices)				
(3)				
Transfer	----	\$ 15,451.00		----
Wages	4110		\$ 15,451.00	2810
(To reclassify transfer - AJE @ 06/30/06)				
(4)				
Unreserved surplus	2810	\$ 12,482.00		2810
Accounts payable - HUD	2118		\$ 12,482.00	2118
(To record payable to HUD for 2004 final settlements per notice dated 09/25/06 withheld from 8/06 payment received)				
(5)				
Accumulated depreciation	1400.5	\$ 8,579.00		1400.5
Fixed assets	1400.4		\$ 8,579.00	1400.4
(To remove van from books, traded in 08/18/05 on new auto)				

**KNOX COUNTY HOUSING AUTHORITY
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES
JUNE 30, 2006**

<u>Business Activities</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
Administrative salaries	4110	\$ 170.38		2806
Accrued compensated absences	2120		\$ 170.38	2120
(To correct accrual of absences to actual)				
(2)				
Accounts receivable - J. Lamph	1129.84	\$ 59.79		1129.84
Interest income	3610		\$ 59.79	2806
(To correct posting of loan receivable payment and interest portion)				
(3)				
Accounts receivable - J. Lamph	1129.84	\$ 180.38		1129.84
Deferred revenue	2290		\$ 180.38	2290
(To adjust loan receivable to schedule amount when opened)				
(4)				
Accounts receivable - A. Vash	1129.79		\$ 1,384.40	1129.79
Collection losses	4510	\$ 1,384.40		2806
(To write off account receivable per board minutes)				
(5)				
Interest income	3610		\$ 28.60	2806
Unrestricted net assets	2806		.79	2806
Other revenue	3690	\$ 29.39		2806
(To correct posting of interest income)				
(6)				
Employee benefits	4540	\$ 260.00	\$ 259.87	2806
Unrestricted fund balance	2806		.13	2806
(To correct amount posted from prior year)				
(7)				
Free meal program	4100	\$ 149.63		2806
Accounts payable - vendors	2111		\$ 149.63	2111
(To set-up accounts payable for FYE 06/30/06)				

PHA: IN067 FYED: 06/30/2006

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$52,534	\$157,231	\$148,224	\$0	\$357,989
100	Total Cash	\$52,534	\$157,231	\$148,224	\$0	\$357,989
126	Accounts Receivable - Tenants - Dwelling Rents	\$22,830	\$577	\$0	\$0	\$23,407
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0	\$0
120	Total Receivables, net of allowances for doubtful accounts	\$22,830	\$577	\$0	\$0	\$23,407
131	Investments - Unrestricted	\$0	\$12,000	\$30,885	\$0	\$42,885
142	Prepaid Expenses and Other Assets	\$0	\$2,500	\$874	\$0	\$3,374
144	Interprogram Due From	\$15,451	\$0	\$0	\$0	\$15,451
150	Total Current Assets	\$90,815	\$172,308	\$179,983	\$0	\$443,106
161	Land	\$0	\$1,002,773	\$0	\$0	\$1,002,773
162	Buildings	\$4,422	\$2,631,859	\$0	\$95,898	\$2,732,179
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$94,279	\$0	\$14,000	\$108,279
164	Furniture, Equipment & Machinery - Administration	\$0	\$326,419	\$27,811	\$5,100	\$359,330
166	Accumulated Depreciation	\$-4,422	\$-1,673,810	\$-10,962	\$-5,748	\$-1,694,942
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$2,381,520	\$16,849	\$109,250	\$2,507,619
180	Total Non-Current Assets	\$0	\$2,381,520	\$16,849	\$109,250	\$2,507,619
190	Total Assets	\$90,815	\$2,553,828	\$196,832	\$109,250	\$2,950,725

PHA: IN067 FYED: 06/30/2006

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$150	\$6,581	\$2,300	\$0	\$9,031
321	Accrued Wage/Payroll Taxes Payable	\$0	\$0	\$119	\$0	\$119
322	Accrued Compensated Absences - Current Portion	\$1,670	\$3,400	\$3,300	\$0	\$8,370
331	Accounts Payable - HUD PHA Programs	\$0	\$0	\$12,482	\$0	\$12,482
341	Tenant Security Deposits	\$0	\$16,326	\$0	\$0	\$16,326
342	Deferred Revenues	\$180	\$2,331	\$0	\$0	\$2,511
345	Other Current Liabilities	\$0	\$7,150	\$0	\$0	\$7,150
347	Interprogram Due To	\$0	\$0	\$15,451	\$0	\$15,451
310	Total Current Liabilities	\$2,000	\$35,788	\$33,652	\$0	\$71,440
353	Noncurrent Liabilities - Other	\$0	\$0	\$30,885	\$0	\$30,885
350	Total Noncurrent Liabilities	\$0	\$0	\$30,885	\$0	\$30,885
300	Total Liabilities	\$2,000	\$35,788	\$64,537	\$0	\$102,325
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$2,381,520	\$16,849	\$109,250	\$2,507,619
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$88,815	\$136,520	\$115,446	\$0	\$340,781
513	Total Equity/Net Assets	\$88,815	\$2,518,040	\$132,295	\$109,250	\$2,848,400
600	Total Liabilities and Equity/Net Assets	\$90,815	\$2,553,828	\$196,832	\$109,250	\$2,950,725

PHA: IN067 FYED: 06/30/2006

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$0	\$134,274	\$0	\$0	\$134,274
705	Total Tenant Revenue	\$0	\$134,274	\$0	\$0	\$134,274
706	HUD PHA Operating Grants	\$0	\$139,125	\$1,224,008	\$16,000	\$1,379,133
706.1	Capital Grants	\$0	\$0	\$0	\$114,998	\$114,998
711	Investment Income - Unrestricted	\$97	\$371	\$429	\$0	\$897
714	Fraud Recovery	\$0	\$0	\$1,115	\$0	\$1,115
715	Other Revenue	\$2,291	\$1,058	\$0	\$0	\$3,349
700	Total Revenue	\$2,388	\$274,828	\$1,225,552	\$130,998	\$1,633,766

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Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$19,789	\$47,491	\$75,406	\$16,000	\$158,686
912	Auditing Fees	\$0	\$2,493	\$2,605	\$0	\$5,098
914	Compensated Absences	\$0	\$0	\$0	\$0	\$0
915	Employee Benefit Contributions - Administrative	\$0	\$25,906	\$45,564	\$0	\$71,470
916	Other Operating - Administrative	\$597	\$21,229	\$29,855	\$0	\$51,681
931	Water	\$0	\$42,160	\$0	\$0	\$42,160
932	Electricity	\$0	\$13,015	\$0	\$0	\$13,015
933	Gas	\$0	\$8,716	\$0	\$0	\$8,716
938	Other Utilities Expense	\$0	\$921	\$0	\$0	\$921
941	Ordinary Maintenance and Operations - Labor	\$0	\$43,510	\$0	\$0	\$43,510
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$8,056	\$0	\$0	\$8,056
943	Ordinary Maintenance and Operations - Contract Costs	\$0	\$1,068	\$0	\$0	\$1,068
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$23,914	\$0	\$0	\$23,914
961	Insurance Premiums	\$0	\$33,008	\$4,624	\$0	\$37,632
962	Other General Expenses	\$0	\$8,897	\$0	\$0	\$8,897
963	Payments in Lieu of Taxes	\$0	\$6,107	\$0	\$0	\$6,107
964	Bad Debt - Tenant Rents	\$1,384	\$0	\$0	\$0	\$1,384
969	Total Operating Expenses	\$21,770	\$286,491	\$158,054	\$16,000	\$482,315
970	Excess Operating Revenue over Operating Expenses	\$-19,382	\$-11,663	\$1,067,498	\$114,998	\$1,151,451
973	Housing Assistance Payments	\$0	\$0	\$1,051,185	\$0	\$1,051,185
974	Depreciation Expense	\$0	\$152,240	\$2,942	\$5,748	\$160,930
900	Total Expenses	\$21,770	\$438,731	\$1,212,181	\$21,748	\$1,694,430
1001	Operating Transfers In	\$16,051	\$0	\$0	\$0	\$16,051
1002	Operating Transfers Out	\$0	\$-600	\$-15,451	\$0	\$-16,051
1010	Total Other Financing Sources (Uses)	\$16,051	\$-600	\$-15,451	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-3,331	\$-164,503	\$-2,080	\$109,250	\$-60,664

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Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$92,146	\$2,566,705	\$60,818	\$115,838	\$2,835,507
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$115,838	\$73,557	\$-115,838	\$73,557
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$0	\$0	\$0	\$0
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$0	\$0
1116	Total Annual Contributions Available	\$0	\$0	\$0	\$0	\$0
1120	Unit Months Available	0	888	4,008	0	4,896
1121	Number of Unit Months Leased	0	888	3,974	0	4,862

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