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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, 2006 to June 30, 2007. 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, 2007, 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.

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, 2007**

**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 financial statements of Knox County Housing Authority, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Knox County Housing Authority, as of June 30, 2007 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 January 15, 2008, on my consideration of the Knox County Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

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

Decatur, Illinois  
January 15, 2008

  
Certified Public Accountant

**KNOX COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2007**

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**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, 2007. 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 (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, 2007**

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 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, 2007 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, 2007**

**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 2007 the amount was \$289,412. This represents a decrease of \$138,243. The majority of the decrease relates to a decrease in cash which was caused by a decrease in HUD funding in the Voucher program and increase in current year expenses.

**Total Capital Assets** decreased by \$62,792. At FYE 2006 and 2007, the amount was \$2,507,619 and \$2,444,827, respectively. The changes are more fully detailed in the Capital Asset section of this discussion.

**Total Liabilities** decreased by \$14,532 due to the decrease in accounts payable to HUD.

**Revenues** decreased by \$6,442 from FYE June 30, 2006. At FYE 2006 and 2007, total revenues were \$1,633,766 and \$1,627,324, respectively

**Total Expenses** increased by \$119,397 which is mostly due to an increase in administrative salaries, tenant services, maintenance materials and a bad debt expense.

The table below illustrates our analysis:

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>	<u>Percent Variances</u>
Cash	237,940	357,989	(120,049)	-33.5%
Other Current Assets	51,472	69,666	(18,194)	-26.1%
Capital Assets	2,444,827	2,507,619	(62,792)	-2.5%
<b>Total Assets</b>	<b>2,734,239</b>	<b>2,935,274</b>	<b>(201,035)</b>	<b>-6.8%</b>
Current Liabilities	40,735	55,989	(15,254)	-27.2%
Long Term Liabilities	31,607	30,885	722	2.3%
<b>Total Liabilities</b>	<b>72,342</b>	<b>86,874</b>	<b>(14,532)</b>	<b>-16.7%</b>
Net Invested in Capital Assets	2,444,827	2,507,619	(62,792)	-2.5%
Restricted Net Assets	0	0	0	0.0%
Unrestricted Net Assets	217,070	340,781	(123,711)	-36.3%
<b>Total Net Assets</b>	<b>2,661,897</b>	<b>2,848,400</b>	<b>(186,503)</b>	<b>-6.5%</b>

**KNOX COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2007**

*Analysis of Entity Wide Revenues*

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2007 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$259,807
Section 8 Vouchers	\$1,215,677
Capital Funds Program	\$119,300
Business Activities	\$32,540

Total revenues for Fiscal Year Ending June 30, 2007 were \$1,627,324 as compared to the total revenues for Fiscal Year Ending June 30, 2006 of \$1,633,766. Comparatively, Fiscal Year Ending 2006 revenues were more than Fiscal Year Ending 2007 revenues by \$6,442. The overall change was less than 1%.

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>	<u>Percent Variances</u>
Total Tenant Revenue	130,527	134,274	(3,747)	-3%
HUD Operating Grants	1,355,809	1,379,133	(23,324)	-2%
HUD Capital Grants	107,300	114,998	(7,698)	-7%
Other Government Grants	1,600	0	1,600	100%
Investment Income	1,498	897	601	67%
Fraud Recovery	0	1,115	(1,115)	-100%
Other Revenue	30,190	3,349	26,841	802%
Gain/Loss on Sale of Fixed Assets	400	0	400	100%
<b>Total Revenue</b>	<b><u>1,627,324</u></b>	<b><u>1,633,766</u></b>	<b><u>(6,442)</u></b>	<b><u>0%</u></b>

**KNOX COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2007**

*Analysis of Entity Wide Expenditures*

**Total Expenditures** for Fiscal Year Ending June 30, 2007 were \$1,813,827 as compared to \$1,694,430 of total expenditures for Fiscal Year Ending June 30, 2006. Comparatively, Fiscal Year Ending 2007 expenditures were more than Fiscal Year Ending 2006 expenditures by \$119,397. Changes by major expense category will be presented below.

**Administrative** expenditures increased by \$41,302 or 14%. The major cause for this increase is the increase in administrative salaries related to annual increases granted.

**Tenant Services** expenditures increased by \$12,792. This was due to the additional activities funded in the Business Activities Program.

**Utilities** increased by \$9,305 or 14% this related to normal fluctuations in usage and prices increases.

**Ordinary Maintenance** expenditures increased by \$2,240 or 3%. The reason for the increase was more maintenance materials were required.

**General Expense** increased by \$7,795 or 14%. The major cause was an increase in total bad debt expense also in the Business Activities Program.

**Extraordinary Maintenance** stayed consistent.

**Housing Assistance Payments** increased by \$36,799 or 4%. Leased units for the Voucher Program stayed fairly consistent to current year budget constraints.

The table below illustrates our analysis:

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>	<u>Percent Variances</u>
Administrative	328,237	286,935	41,302	14%
Tenant Services	12,792	0	12,792	100%
Utilities	74,117	64,812	9,305	14%
Ordinary Maintenance	78,788	76,548	2,240	3%
General Expense	61,815	54,020	7,795	14%
Housing Assistance Payments	1,087,984	1,051,185	36,799	4%
Depreciation Expense	170,094	160,930	9,164	6%
<b>Total Expenses</b>	<u><u>\$1,813,827</u></u>	<u><u>\$1,694,430</u></u>	<u><u>119,397</u></u>	<u><u>7%</u></u>

**KNOX COUNTY HOUSING AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2007**

**ANALYSIS OF CAPITAL ASSET ACTIVITY**

As of June 30, 2007, the Authority's investment in capital assets was \$2,444,827 (net of accumulated depreciation). The investment includes land, buildings, and equipment. Capital outlays for the year were \$107,300.

**Buildings** increased by \$55,077 or 2%. This was due to spending of the 2006 Capital Fund grant for improvements.

**Furniture, Equipment & Machinery – Dwelling** increased by a net amount \$33,423 or 31%. The increase in this category was also due to the spending of the 2006 Capital Fund grant.

**Furniture, Equipment & Machinery – Administration** increased by a net amount \$18,800 or 5%. The following is a list of the assets purchased under this category during the fiscal year ending June 30, 2007:

Security System Installation	18,800
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**Accumulated Depreciation** increased by \$170,092 or 10%. This is the amount of current year depreciation expense with rounding.

<u>Analysis</u>	<u>07/01/2006 Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>06/30/2007 Balance</u>
Land	\$ 1,002,773	\$ 0	\$ 0	\$ 1,002,773
Buildings	2,732,179	150,975	95,898	2,787,256
Equipment and furniture	<u>467,609</u>	<u>71,323</u>	<u>19,100</u>	<u>519,832</u>
 Total Assets	 \$ 4,202,561	 \$ 222,298	 \$ 114,998	 \$ 4,309,861
 Accumulated depreciation	 <u>-1,694,942</u>	 <u>2</u>	 <u>170,094</u>	 <u>-1,865,034</u>
 Total Net Assets	 <u>\$ 2,507,619</u>	 <u>\$ 222,300</u>	 <u>\$ 285,092</u>	 <u>\$ 2,444,827</u>

**DEBT ACTIVITY**

The Housing Authority had no outstanding debt during 2006 or 2007.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF JUNE 30, 2007**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 237,940
Accounts receivable (interfund eliminated)	7,865
Investments	<u>43,607</u>

Total Current Assets \$ 289,412

**CAPITAL ASSETS**

Land, buildings and equipment	\$ 4,309,861
Less: Accumulated depreciation	<u>-1,865,034</u>

Net Capital Assets \$ 2,444,827

Total Assets \$ 2,734,239

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable (interfund eliminated)	\$ 28,628
Accrued liabilities	11,366
Deferred revenue	<u>741</u>

Total Current Liabilities \$ 40,735

**NONCURRENT LIABILITIES**

Trust and deposit liabilities	\$ <u>31,607</u>
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Total Noncurrent Liabilities \$ 31,607

**NET ASSETS**

Invested in capital assets	\$ 2,444,827
Unrestricted	<u>217,070</u>

Total Net Assets \$ 2,661,897

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2007**

Operating Income

Tenant revenue	\$ 130,527
Total Rental Income	\$ 130,527
HUD grants - operating	1,355,809
Other governmental grants	1,600
Other revenue	30,190
Gain/loss on sale of fixed assets	<u>400</u>
Total Operating Income	<u>\$ 1,518,526</u>

Operating Expenses

Administration	\$ 328,237
Tenant services	12,792
Utilities	74,117
Ordinary maintenance and operation	78,788
General expense	61,815
Housing assistance payments	1,087,984
Depreciation	<u>170,094</u>
Total Operating Expenses	<u>\$ 1,813,827</u>
Net Operating Income (Loss)	<u>\$ -295,301</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 107,300
Interest income	<u>1,498</u>
Total Nonoperating Income (Expense)	<u>\$ 108,798</u>
Changes in net assets	\$ -186,503
Net assets, beginning of year	<u>2,848,400</u>
Net assets, end of year	<u>\$ 2,661,897</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, 2007**

Operating Activities

Operating grants	\$ 1,344,927
Tenant revenue	147,763
Other revenue	30,590
Housing assistance payments	-1,087,984
Payments to employees	-222,397
Payments to suppliers and contractors	<u>-333,722</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -120,823</u>

Investing Activities

Investments (purchased) redeemed	\$ -722
Interest income	<u>1,498</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 776</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 107,300
Additions (deletions) to fixed assets	<u>-107,302</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -2</u>

Net Change in Cash	\$ -120,049
Cash Balance at June 30, 2006	<u>357,989</u>
Cash Balance at June 30, 2007	<u>\$ 237,940</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
TWELVE MONTHS ENDED JUNE 30, 2007**

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities

Net operating income (loss)	\$ -295,301
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	170,094
(Increase) decrease in accounts receivable	15,387
(Increase) decrease in deferred charges	3,374
Increase (decrease) in accounts payable	-16,325
Increase (decrease) in accrued liabilities	2,996
Increase (decrease) in deferred revenues	-1,590
Increase (decrease) in other liabilities	<u>542</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -120,823</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007**

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, 2007  
(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, 2007, 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, 2007  
(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, 2007  
(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.

*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.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

*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.

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	\$ 107,838	\$ 125,767
Voucher	76,968	86,600
Business Activities	<u>53,134</u>	<u>55,256</u>
Total	<u>\$ 237,940</u>	<u>\$ 267,623</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

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>31,607</u>	<u>31,607</u>
Total	<u>\$ 43,607</u>	<u>\$ 43,607</u>

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 \$13,786 for fiscal year end 2007.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable	\$ 7,065
Accounts receivable - other	<u>800</u>
Subtotal	\$ 7,865
Interfund	<u>15,606</u>
Total	<u>\$ 23,471</u>

Note 6 - Investments

At June 30, 2007 investments consist of the following:

	<u>Rate</u>	
Savings	.50%	\$ 31,607
Certificates of deposit	5.00%	<u>12,000</u>
Total		<u>\$ 43,607</u>

Note 7 - Fixed Assets

Balance as of June 30, 2007	\$ 2,444,827
Balance as of June 30, 2006	<u>2,507,619</u>
Net Increase (Decrease)	<u>\$ -62,792</u>

Reconciliation

Additions	\$ 107,302
Current year depreciation expense	<u>-170,094</u>
Net Increase (Decrease)	<u>\$ -62,792</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 7 - Fixed Assets (Continued)

<u>Analysis</u>	07/01/2006 <u>Balance</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	06/30/2007 <u>Balance</u>
Land	\$ 1,002,773	\$ 0	\$ 0	\$ 1,002,773
Buildings	2,732,179	150,975	95,898	2,787,256
Equipment and furniture	<u>467,609</u>	<u>71,323</u>	<u>19,100</u>	<u>519,832</u>
Total Assets	\$ 4,202,561	\$ 222,298	\$ 114,998	\$ 4,309,861
Accumulated depreciation	<u>-1,694,942</u>	<u>2</u>	<u>170,094</u>	<u>-1,865,034</u>
Total Net Assets	<u>\$ 2,507,619</u>	<u>\$ 222,300</u>	<u>\$ 285,092</u>	<u>\$ 2,444,827</u>

Note 8 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 9,706
Tenants security deposits	18,810
Payroll taxes payable	<u>112</u>
Subtotal	\$ 28,628
Interfund	<u>15,606</u>
Total	<u>\$ 44,234</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.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 10 - Accrued Liabilities

Accrued liabilities consists of the following:

Accrued compensated absences	\$ <u>11,366</u>
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Note 11 - Trust and Deposit Liabilities

This classification consists of the following accounts:

FSS escrow accounts	\$ <u>31,607</u>
---------------------	------------------

Note 12 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	\$ <u>741</u>
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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.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS  
TWELVE MONTHS ENDED JUNE 30, 2007  
(CONTINUED)**

Note 16 - 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 17 - Economic Dependency

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

**SUPPLEMENTAL DATA**

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2007**

<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 06/30/07	\$ 128,457	\$ 128,457	\$ 128,457
Housing Choice Voucher Program*	14.871	C-2045V	FYE 06/30/07	\$ 1,215,352	\$ 1,215,352	\$ 1,215,352
Public Housing - Capital Fund	14.872	C-2075	FYE 06/30/07	\$ 119,300	\$ 119,300	\$ 119,300
Total HUD Assistance				\$ 1,463,109	\$ 1,463,109	\$ 1,463,109
<u>Other Federal Grants</u>						
FEMA	83.523	LRO-006	FYE 06/30/07	\$ 1,600	\$ 1,600	\$ 1,600
Total Housing Assistance				\$ 1,464,709	\$ 1,464,709	\$ 1,464,709

\*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)  
TWELVE MONTHS ENDED JUNE 30, 2007**

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, 2007**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
<b>CURRENT ASSETS</b>				
Cash	\$ 107,838	\$ 0	\$ 76,968	\$ 53,134
Accounts receivable	30	0	0	23,441
Investments	<u>12,000</u>	<u>0</u>	<u>31,607</u>	<u>0</u>
Total Current Assets	<u>\$ 119,868</u>	<u>\$ 0</u>	<u>\$ 108,575</u>	<u>\$ 76,575</u>
<b>CAPITAL ASSETS</b>				
Land, buildings and equipment	\$ 4,170,328	\$ 107,300	\$ 27,811	\$ 4,422
Less: Accumulated depreciation	<u>-1,837,612</u>	<u>-7,943</u>	<u>-15,057</u>	<u>-4,422</u>
Net Capital Assets	<u>\$ 2,332,716</u>	<u>\$ 99,357</u>	<u>\$ 12,754</u>	<u>\$ 0</u>
Total Assets	<u>\$ 2,452,584</u>	<u>\$ 99,357</u>	<u>\$ 121,329</u>	<u>\$ 76,575</u>
<b><u>LIABILITIES</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 27,248	\$ 0	\$ 16,949	\$ 37
Accrued liabilities	4,300	0	5,266	1,800
Deferred revenue	<u>741</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 32,289</u>	<u>\$ 0</u>	<u>\$ 22,215</u>	<u>\$ 1,837</u>
<b>NONCURRENT LIABILITIES</b>				
Trust and deposit liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,607</u>	<u>\$ 0</u>
Total Noncurrent Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,607</u>	<u>\$ 0</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets	\$ 2,332,716	\$ 99,357	\$ 12,754	\$ 0
Unrestricted	<u>87,579</u>	<u>0</u>	<u>54,753</u>	<u>74,738</u>
Total Net Assets	<u>\$ 2,420,295</u>	<u>\$ 99,357</u>	<u>\$ 67,507</u>	<u>\$ 74,738</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES  
TWELVE MONTHS ENDED JUNE 30, 2007**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
Tenant revenue	\$ 130,527	\$ 0	\$ 0	\$ 0
Total Rental Revenue	\$ 130,527	\$ 0	\$ 0	\$ 0
HUD grants - operating	128,457	12,000	1,215,352	0
Other governmental grants	0	0	0	1,600
Other revenue	521	0	0	29,669
Gain/loss on sale of fixed assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>400</u>
Total Operating Revenue	<u>\$ 259,505</u>	<u>\$ 12,000</u>	<u>\$ 1,215,352</u>	<u>\$ 31,669</u>
 <u>Operating Expenses</u>				
Administration	\$ 107,749	\$ 12,000	\$ 157,327	\$ 51,161
Tenant services	0	0	0	12,792
Utilities	74,117	0	0	0
Ordinary maintenance and operation	78,788	0	0	0
General expense	48,093	0	0	13,722
Housing assistance payments	0	0	1,087,984	0
Depreciation	<u>158,055</u>	<u>7,943</u>	<u>4,096</u>	<u>0</u>
Total Operating Expenses	<u>\$ 466,802</u>	<u>\$ 19,943</u>	<u>\$ 1,249,407</u>	<u>\$ 77,675</u>
Net Operating Income (Loss)	<u>\$ -207,297</u>	<u>\$ -7,943</u>	<u>\$ -34,055</u>	<u>\$ -46,006</u>
 <u>Nonoperating Income (Expense)</u>				
HUD grants - capital	\$ 0	\$ 107,300	\$ 0	\$ 0
Interest income	302	0	325	871
Transfer	<u>0</u>	<u>0</u>	<u>-31,058</u>	<u>31,058</u>
Total Nonoperating Income (Expense)	<u>\$ 302</u>	<u>\$ 107,300</u>	<u>\$ -30,733</u>	<u>\$ 31,929</u>
Change in Net Assets	<u>\$ -206,995</u>	<u>\$ 99,357</u>	<u>\$ -64,788</u>	<u>\$ -14,077</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**CHANGES IN NET ASSETS  
TWELVE MONTHS ENDED JUNE 30, 2007**

<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, 2006	\$ 2,381,520	\$ 109,250	\$ 16,849	\$ 0
Current year net income (loss)	-158,054	99,357	-4,095	0
Transfer	<u>109,250</u>	<u>-109,250</u>	<u>0</u>	<u>0</u>
Balance at June 30, 2007	<u>\$ 2,332,716</u>	<u>\$ 99,357</u>	<u>\$ 12,754</u>	<u>\$ 0</u>
 <u>Unrestricted Net Assets</u>				
Balance at June 30, 2006	\$ 136,520	\$ 0	\$ 115,446	\$ 88,815
Current year net income (loss)	<u>-48,941</u>	<u>0</u>	<u>-60,693</u>	<u>-14,077</u>
Balance at June 30, 2007	<u>\$ 87,579</u>	<u>\$ 0</u>	<u>\$ 54,753</u>	<u>\$ 74,738</u>
Total Net Assets	<u>\$ 2,420,295</u>	<u>\$ 99,357</u>	<u>\$ 67,507</u>	<u>\$ 74,738</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2007**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>	<u>Business Activities</u>
Operating grants	\$ 128,457	\$ 12,000	\$ 1,202,870	\$ 1,600
Tenant revenue	131,968	0	0	15,795
Other revenue	521	0	0	30,069
Housing assistance payments	0	0	-1,087,984	0
Payments to employees	-84,999	-12,000	-84,635	-40,763
Payments to suppliers/contractors	<u>-225,641</u>	<u>0</u>	<u>-70,051</u>	<u>-38,030</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -49,694</u>	<u>\$ 0</u>	<u>\$ -39,800</u>	<u>\$ -31,329</u>
 <u>Investing Activities</u>				
Investments (purchased) redeemed	\$ 0	\$ 0	\$ -722	\$ 0
Interest income	<u>302</u>	<u>0</u>	<u>325</u>	<u>871</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 302</u>	<u>\$ 0</u>	<u>\$ -397</u>	<u>\$ 871</u>
 <u>Capital and Related Financing Activities</u>				
HUD grants - capital	\$ 0	\$ 107,300	\$ 0	\$ 0
Additions to fixed assets	-1	-107,300	-1	0
Transfer	<u>0</u>	<u>0</u>	<u>-31,058</u>	<u>31,058</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ -1</u>	<u>\$ 0</u>	<u>\$ -31,059</u>	<u>\$ 31,058</u>
Net Change in Cash	\$ -49,393	\$ 0	\$ -71,256	\$ 600
Cash Balance at June 30, 2006	<u>157,231</u>	<u>0</u>	<u>148,224</u>	<u>52,534</u>
Cash Balance at June 30, 2007	<u>\$ 107,838</u>	<u>\$ 0</u>	<u>\$ 76,968</u>	<u>\$ 53,134</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**STATEMENT OF CASH FLOWS  
TWELVE MONTHS ENDED JUNE 30, 2007**

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)	\$ -207,297	\$ -7,943
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	158,055	7,943
(Increase) decrease in accounts receivable	547	0
(Increase) decrease in deferred charges	2,500	0
Increase (decrease) in accounts payable	-2,809	0
Increase (decrease) in accrued liabilities	900	0
Increase (decrease) in deferred revenues	<u>-1,590</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -49,694</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)	\$ -34,055	\$ -46,006
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	4,096	0
(Increase) decrease in accounts receivable	0	14,840
(Increase) decrease in deferred charges	874	0
Increase (decrease) in accounts payable	-13,403	-113
Increase (decrease) in accrued liabilities	1,966	130
Increase (decrease) in other liabilities	<u>722</u>	<u>-180</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -39,800</u>	<u>\$ -31,329</u>

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
PHASE IN36P067501-06**

1. The Actual Modernization Costs of Phase IN36P067501-06 are as follows:

Funds approved	\$ 119,300
Funds expended	<u>119,300</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Project notes, non-HUD	\$ 119,300
Funds expended	<u>119,300</u>
Excess of Funds Advanced	<u>\$ 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated July 8, 2007, 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 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 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, 2007, which collectively comprise the Knox County Housing Authority's basic financial statements and have issued my report thereon dated January 15, 2008. 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 the Knox County Housing Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Knox County Housing Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employee, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Knox County Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Knox County Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Knox County Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Knox County Housing Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. 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.

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, regulation, 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 an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that we reported to management of Knox County Housing Authority, in a separate letter dated January 15, 2008.

This reported in intended solely for the information of management, the Board of Commissioners, and 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  
January 15, 2008

  
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 on 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, 2007. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of my auditing procedures disclosed no instances of noncompliance with those requirements.

### Internal Control Over Compliance

The 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 in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, 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 the Knox County Housing Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

In addition, I noticed other matters involving the internal control and its operation that I have reported to management of Knox County Housing Authority in a separate letter dated January 15, 2008.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and 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  
January 15, 2008

  
Certified Public Accountant

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2007**

**Summary of Auditor's Results**

Low Risk Auditee  yes  no

*Financial Statements*

Type of auditor's report: Unqualified

- \* Material weakness(es) identified?  yes  no
- \* Reportable condition(s) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted  yes  no

*Federal Awards*

Internal control over major programs:

- \* Material weakness(es) identified?  yes  no
- \* Reportable condition(s) identified that are not considered to be material weaknesses?  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 Circular A-133?  yes  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, 2006 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 January 15, 2008.

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2007**

<u>Low Rent</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(1)				
PILOT expense	4520		\$ 770.68	2810
Other expense	4560		2,028.64	2810
Garbage	4500	\$ 2,799.32		2810
(To reclassify PILOT and other expense for vendor Republic Services)				
<u>Voucher</u>				
(1)				
Accrued compensated absences	2116	\$ 2,434.37		2116
Accrued compensated abs. expense	----		\$ 2,434.37	2810
(To reverse amount accrued - to be posted to LIPH program)				
(2)				
Accounts payable - HUD	2118	\$ 12,482.00		2118
HUD subsidy	2010/8029		\$ 12,482.00	2810
(To write off payable for prior year, offset 08/01/06)				
(3)				
Administrative salaries	4110		\$ 15,452.00	2810
Administrative salaries	4110		15,606.00	2810
Transfer to Business Activities	----	\$ 31,058.00		2810
(To reclassify check #27807 and 06/30/07 AJE for A/R)				
(4)				
Sundry - travel	4190.5	\$ 638.22		2810
Sundry - other	4190	630.00		2810
Vendor payable	2111		\$ 1,268.22	2111
(To set up vendor accounts payable @ 06/30/07 per examination of invoices paid subsequent to year end)				
<u>Business Activities</u>				
(1)				
Interest income	3610	\$ 59.79		2810
Accounts receivable - J. Lamph	1129.84		\$ 240.17	1129.84
Deferred revenue	2290	180.38		2290
(To correct accounts receivable account from AJE -2 made previous year)				

**KNOX COUNTY HOUSING AUTHORITY  
BICKNELL, INDIANA**

**SCHEDULE OF ADJUSTING JOURNAL ENTRIES  
JUNE 30, 2007**

<u>Business Activities</u>	<u>Audit Account Number</u>	<u>Debit</u>	<u>Credit</u>	<u>Posting Account Number</u>
(2)				
Bad debt expense	6000	\$ 13,721.88		2810
Accounts receivable - Chestnut	1129.81		\$ 13,721.88	1129.81
(To write off accounts receivable that has been deemed uncollectible)				
(3)				
Free meal program - income	4100		\$ 1,704.52	2810
Other tenant and social services	4102	\$ 1,704.52		2810
(To reclassify food and supplies purchased)				
(4)				
Other tenant and social services	4102	\$ 215.10		2810
Free meal program - income	4100		\$ 215.10	2810
(To reclassify 11/18/06 and 05/16/07 deposit)				
(5)				
FEMA	4103	\$ 800.00		2810
Other federal grants - FEMA	----		\$ 800.00	2810
(To reclassify 1/2 grant received 03/07 from FEMA)				
(6)				
Accounts receivable - FEMA	----	\$ 800.00		----
Other federal grants - FEMA	----		\$ 800.00	2810
(To record receivable for balance of FEMA grant subsequently received 08/03/07)				
(7)				
Other tenant and social services	4102	\$ 400.00		2810
Gain on sale of assets	6102		\$ 400.00	2810
(To reclassify deposit 05/23/07, sale of trailer)				
(8)				
FSS Program	4104	\$ 15,606.00		2810
Salaries	4110	15,452.00		2810
Transfer - Voucher	----		\$ 31,058.00	2810
(To reclassify fund received from Voucher program, FSS funds remit wages)				

PHA: IN067 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$53,134	\$89,028	\$45,361	\$0	\$187,523
113	Cash - Other Restricted	\$0	\$0	\$31,607	\$0	\$31,607
114	Cash - Tenant Security Deposits	\$0	\$18,810	\$0	\$0	\$18,810
100	Total Cash	\$53,134	\$107,838	\$76,968	\$0	\$237,940
125	Accounts Receivable - Miscellaneous	\$800	\$0	\$0	\$0	\$800
126	Accounts Receivable - Tenants - Dwelling Rents	\$7,035	\$30	\$0	\$0	\$7,065
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0
120	Total Receivables, net of allowances for doubtful accounts	\$7,835	\$30	\$0	\$0	\$7,865
131	Investments - Unrestricted	\$0	\$12,000	\$31,607	\$0	\$43,607
144	Interprogram Due From	\$15,606	\$0	\$0	\$0	\$15,606
150	Total Current Assets	\$76,575	\$119,868	\$108,575	\$0	\$305,018
161	Land	\$0	\$1,002,773	\$0	\$0	\$1,002,773
162	Buildings	\$4,422	\$2,727,757	\$0	\$55,077	\$2,787,256
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$108,279	\$0	\$33,423	\$141,702
164	Furniture, Equipment & Machinery - Administration	\$0	\$331,519	\$27,811	\$18,800	\$378,130
166	Accumulated Depreciation	\$-4,422	\$-1,837,612	\$-15,057	\$-7,943	\$-1,865,034
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$2,332,716	\$12,754	\$99,357	\$2,444,827
180	Total Non-Current Assets	\$0	\$2,332,716	\$12,754	\$99,357	\$2,444,827
190	Total Assets	\$76,575	\$2,452,584	\$121,329	\$99,357	\$2,749,845
312	Accounts Payable <= 90 Days	\$0	\$8,438	\$1,268	\$0	\$9,706
321	Accrued Wage/Payroll Taxes Payable	\$37	\$0	\$75	\$0	\$112
322	Accrued Compensated Absences - Current Portion	\$1,800	\$4,300	\$5,266	\$0	\$11,366
341	Tenant Security Deposits	\$0	\$18,810	\$0	\$0	\$18,810
342	Deferred Revenues	\$0	\$741	\$0	\$0	\$741
347	Interprogram Due To	\$0	\$0	\$15,606	\$0	\$15,606
310	Total Current Liabilities	\$1,837	\$32,289	\$22,215	\$0	\$56,341
353	Noncurrent Liabilities - Other	\$0	\$0	\$31,607	\$0	\$31,607
350	Total Noncurrent Liabilities	\$0	\$0	\$31,607	\$0	\$31,607
300	Total Liabilities	\$1,837	\$32,289	\$53,822	\$0	\$87,948
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$2,332,716	\$12,754	\$99,357	\$2,444,827
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	\$74,738	\$87,579	\$54,753	\$0	\$217,070
513	Total Equity/Net Assets	\$74,738	\$2,420,295	\$67,507	\$99,357	\$2,661,897
600	Total Liabilities and Equity/Net Assets	\$76,575	\$2,452,584	\$121,329	\$99,357	\$2,749,845
703	Net Tenant Rental Revenue	\$0	\$130,527	\$0	\$0	\$130,527
705	Total Tenant Revenue	\$0	\$130,527	\$0	\$0	\$130,527
706	HUD PHA Operating Grants	\$0	\$128,457	\$1,215,352	\$12,000	\$1,355,809
706.1	Capital Grants	\$0	\$0	\$0	\$107,300	\$107,300
708	Other Government Grants	\$1,600	\$0	\$0	\$0	\$1,600
711	Investment Income - Unrestricted	\$871	\$302	\$325	\$0	\$1,498
715	Other Revenue	\$29,669	\$521	\$0	\$0	\$30,190
716	Gain/Loss on Sale of Fixed Assets	\$400	\$0	\$0	\$0	\$400
700	Total Revenue	\$32,540	\$259,807	\$1,215,677	\$119,300	\$1,627,324
911	Administrative Salaries	\$40,930	\$48,709	\$88,991	\$12,000	\$190,630
912	Auditing Fees	\$0	\$2,493	\$2,647	\$0	\$5,140
914	Compensated Absences	\$0	\$0	\$-2,434	\$0	\$-2,434
915	Employee Benefit Contributions - Administrative	\$10,231	\$30,311	\$39,706	\$0	\$80,248

916	Other Operating - Administrative	\$0	\$26,236	\$28,417	\$0	\$54,653
924	Tenant Services - Other	\$12,792	\$0	\$0	\$0	\$12,792
931	Water	\$0	\$45,299	\$0	\$0	\$45,299
932	Electricity	\$0	\$15,476	\$0	\$0	\$15,476
933	Gas	\$0	\$9,113	\$0	\$0	\$9,113
938	Other Utilities Expense	\$0	\$4,229	\$0	\$0	\$4,229
941	Ordinary Maintenance and Operations - Labor	\$0	\$37,190	\$0	\$0	\$37,190
942	Ordinary Maintenance and Operations - Materials and Other	\$0	\$16,832	\$0	\$0	\$16,832
943	Ordinary Maintenance and Operations - Contract Costs	\$0	\$950	\$0	\$0	\$950
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$23,816	\$0	\$0	\$23,816
961	Insurance Premiums	\$0	\$39,482	\$0	\$0	\$39,482
962	Other General Expenses	\$0	\$7,293	\$0	\$0	\$7,293
963	Payments in Lieu of Taxes	\$0	\$1,318	\$0	\$0	\$1,318
965	Bad Debt - Mortgages	\$13,722	\$0	\$0	\$0	\$13,722
969	Total Operating Expenses	\$77,675	\$308,747	\$157,327	\$12,000	\$555,749
970	Excess Operating Revenue over Operating Expenses	\$-45,135	\$-48,940	\$1,058,350	\$107,300	\$1,071,575
973	Housing Assistance Payments	\$0	\$0	\$1,087,984	\$0	\$1,087,984
974	Depreciation Expense	\$0	\$158,055	\$4,096	\$7,943	\$170,094
900	Total Expenses	\$77,675	\$466,802	\$1,249,407	\$19,943	\$1,813,827
1001	Operating Transfers In	\$31,058	\$0	\$0	\$0	\$31,058
1002	Operating Transfers Out	\$0	\$0	\$-31,058	\$0	\$-31,058
1010	Total Other Financing Sources (Uses)	\$31,058	\$0	\$-31,058	\$0	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$-14,077	\$-206,995	\$-64,788	\$99,357	\$-186,503
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$88,815	\$2,518,040	\$132,295	\$109,250	\$2,848,400
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$109,250	\$0	\$-109,250	\$0
1120	Unit Months Available	0	888	3,809	0	4,697
1121	Number of Unit Months Leased	0	888	4,008	0	4,896
1117	Administrative Fee Equity	\$0	\$0	\$56,079	\$0	\$56,079
1118	Housing Assistance Payments Equity	\$0	\$0	\$11,428	\$0	\$11,428

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