KNOX METROPOLITAN HOUSING AUTHORITY

Financial Condition

As of

September 30, 2005

Together with Auditors' Report

Auditor of State
Betty Montgomery

Board of Trustees
Knox Metropolitan Housing Authority
236 South Main Street
Mount Vernon, Ohio 43050

We have reviewed the *Independent Auditor's Report* of the Knox Metropolitan Housing Authority, Knox County, prepared by Kevin L. Penn, Inc., for the audit period October 1, 2004 through September 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Knox Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 25, 2006

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KNOX METROPOLITAN HOUSING AUTHORITY
MT. VERNON, OHIO

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Independent Auditor's Report

Board of Trustees
Knox Metropolitan Housing Authority
Mt. Vernon, Ohio

I have audited the accompanying financial statements of the Knox Metropolitan Housing Authority, as of September 30, 2005 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Knox Metropolitan Housing Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 in my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knox Metropolitan Housing Authority, as of September 30, 2005, and the changes in net assets and revenues, expenditures and other changes, and the cash flows for the year ended September 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 9, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards,* I have also issued my report dated February 21, 2006 on my consideration of the Knox Metropolitan Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control 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 read in conjunction with this report in considering the result of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Knox Metropolitan Housing Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In addition, the financial data schedule, pages 23 to 25 are presented for additional analysis as required by the U.S. Department of Housing and Urban Development. These schedules are the responsibility of management of Knox Metropolitan Housing Authority, and is not a required part of the basic financial statements. 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 material respects, in relation to the basic financial statements taken as a whole.

Kevin L. Penn, Inc.

February 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Knox Metropolitan Housing Authority's (the Authority") management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent fiscal year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 10).

FINANCIAL HIGHLIGHTS

- During FY 2005, the Authority's net assets decreased by $14,335 (or 7.54%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were $190,046 and $175,711 for FY 2004 and FY 2005 respectively.

- The revenue decreased by $276,448 (or 9%) during FY 2005, and was $2,549,483 and $2,825,931 for FY 2005 and FY 2004 respectively.

- The total expenses of the Authority decreased by $257,426 (or 9%). Total expenses were $2,563,818 and $2,821,244 for FY 2005 and FY 2004 respectively.

Authority-Wide Financial Statements

The Authority-wide financial statements (see pgs 10-13) are designed to be corporate-like in that all business type activities are consolidated into columns, which add to a total for the entire Authority.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

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

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

Finally, Statement of Cash Flows (see page 12) is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

Fund Financial Statements

Traditional users of governmental financial statements will find the Authority-wide financial statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

The Authority's Funds

Business Type Funds

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of adjusted household income.

AUTHORITY – WIDE STATEMENT

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	FY 2005	FY 2004
Current and Other Assets	$ 312,377	$ 282,549
Capital Assets	40,693	126,797
Total Assets	353,070	409,346
Other Liabilities	160,786	129,717
Non-Current Liabilities	16,573	89,583
Total Liabilities	177,359	219,300
Net Assets:		
Invested in Capital Assets, Net of Related Debt	40,692	35,816
Restricted	0	0
Unrestricted	135,019	154,230
Total Net Assets	$ 175,711	$ 190,046

For more detailed information see page 10 for the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets were increased by $29,828 or 11% while liabilities were reduced by $41,941 or 19%. Current assets (primarily cash and investments) were used to extinguish liabilities. The largest factor for the decrease was the $48,855 change in funds due to HUD.

The sale of the office building originally costing $135,000 and the purchase of new office furniture costing $39,244 along with this years' depreciation of $8,060 were the major reasons for the decrease to Capital Assets of $86,104. For more detail see "Capital Assets and Debt Administration" below.

TABLE 2

CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets 9/30/2004		$ 154,230
Results of Operations	(14,335)	
Adjustments:		
Depreciation	8,060	
Debt retirement	(1,582)	
Gain from Sale of Building	27,889	
Adjusted Results from Operations		20,032
Capital Expenditures		(39,244)
Unrestricted Net Assets 9/30/05		$ 135,018

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

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

TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

	FY 2005	FY 2004
Revenues		
HUD PHA Operating Grants	$ 2,494,474	$ 2,801,277
Investment Income	3,437	1,718
Other Revenues – Other	48,437	20,687
Other Revenues – Fraud Recovery	3,135	2,249
Total Revenue	2,549,483	2,825,931
Expenses		
Administrative	337,913	331,511
Utilities	1,219	3,549
Maintenance	32,324	31,613
General	6,121	11,142
Housing Assistance Payments	2,178,181	2,434,245
Depreciation	8,060	9,184
Total Expenses	2,563,818	2,821,244
Net Increase/(Decrease)	$ (14,335)	$ 4,687

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

HUD PHA Grants decreased $306,803 or 11% from $2,801,277 in 2004 to $2,494,474 in 2005. Housing Assistance Payments decreased $256,064 11% from $2,434,245 in FY 2004 to $2,178,181 in FY 2005.

Unit months leased also decreased 120 unit months from 7,680 in 2004 to 7,560 in 2005.

All of these decreases can be attributed to the change and decrease in HUD funding.

Most other expenses increase moderately as the director and staff reduced expenditures because of the decrease of administrative fees and other HUD funding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of 9/30/05, the Authority had $40,693 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

TABLE 4

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	Business-type Activities	
	FY 2005	FY 2004
Land/Building	0	$ 135,000
Equipment – Administrative	79,616	40,371
Accumulated Depreciation	(38,923)	(48,574)
Total	$ 40,693	$ 126,797

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 19 of the notes.

TABLE 5

CHANGE IN CAPITAL ASSETS

Beginning Balance	$ 126,797
Additions	39,244
Disposition	(117,288)
Depreciation	(8,060)
Ending Balance	$ 40,693

This year's major additions are:

New office furniture totaling $39,244.

Debt Outstanding

As of 9/30/05, the Authority had $0 in debt (mortgage) outstanding as compared to $90,981 last year, a $90,981 decrease do to sell of building and paid of the mortgage.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recession and employment trends, which can affect resident incomes and therefore the amount of housing assistance
- Inflationary pressure on utility rates, supplies and other costs

FINANCIAL CONTACT

The individual to be contacted regarding this report is Teresa Bemiller, Executive Director for the Knox Metropolitan Housing Authority, at (740) 397-8787. Specific requests may be submitted to the Authority at 236 South Main Street, Suite 201, Mt. Vernon, OH 43050.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 1)	$	184,619
Investments - Unrestricted		99,603
Accounts Receivable - Fraud		16,573
Accounts Receivable - Other		34
Prepaid Expenses		11,548
Total Current Assets		312,377
Non-Current Assets		
Property and Equipment - Net (Note 1)		40,693
Total Non-Current Assets		40,693
TOTAL ASSETS	$	353,070
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable - Vendor	$	1,217
Accrued Liabilities		7,471
Deferred Revenue - HUD		144,037
Other Current Liabilities		17,238
Total Current Liabilities		169,963
Non-Current Liabilities		
Accrued Compensated Absences		7,396
Total Non-Current Liabilities		7,396
Total Liabilities	$	177,359
Net Assets		
Invested in Capital Assets	$	40,693
Unrestricted		135,018
Total Net Assets	$	175,711

The accompanying notes are an integral part of the financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Operating Revenue:	
HUD Grants	$ 2,494,474
Other Revenue	51,572
Total Operating Revenue	2,546,046
Operating Expenses:	
Housing Assistance Payments	2,178,181
Administrative Salaries	192,697
Compensated Absences	2,935
Employee Benefits	73,976
Other Administrative Expenses	69,524
Material and Labor - Maintenance	32,324
Depreciation Expense	8,060
Interest Expense	1,025
General Expenses	5,096
Total Operating Expenses	2,563,818
Operating Income (Loss)	(17,772)
Non-Operating Revenues (Expenses)	
Investment Income	3,437
Change in Net Assets	(14,335)
Net Assets- Beginning of Year	190,046
Net Assets- End of Year	$ 175,711

The accompanying notes are an integral part of the financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Cash Flows From Operating Activities:		
Cash payments to suppliers for goods and services	$	(100,203)
Cash payments for salaries and benefits		(269,608)
Housing assistance payments		(2,178,181)
HUD operating subsidies and grants		2,494,474
Other receipts		51,572
Other payments		(1,025)
Net Cash Provided (Used) by Operating Activities		(2,971)
Cash Flows From Non-Capital Financing:		
Net Cash Provided (Used) by Non-Capital Financing		-
Cash Flows From Capital and Related Financing Activities:		
Repayment of long-term debt		(91,338)
Net Cash Provided (Used) by Capital and Related Financing Activities		(91,338)
Cash Flows From Investing Activities:		
Change in Investments		(2,490)
Investment Income		3,437
Proceeds from Sale of Assets		145,500
Acquisition of Machinery and Equipment		(39,244)
Net Cash Provided (Used) by Investing Activities		107,203
Increase (Decrease) in Cash and Cash Equivalents		12,894
Cash and Cash Equivalents - Beginning of Year		171,725
Cash and Cash Equivalents - End of Year	$	184,619

The accompanying notes are an integral part of the financial statements.

KNOX METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Income (Loss)	$	(17,772)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		8,060
Gain on Sale of Building		(27,889)
(Increase) decrease in:		
Accounts Receivable		(11,766)
Prepaid Expenses		(2,644)
Increase (decrease) in:		
Accounts Payable – Vendor		(5,952)
Accounts Payable – HUD		(92,049)
Deferred Revenue		144,037
Accrued Expenses		3,004
Net cash used in operating activities	$	(2,971)

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 - Summary of Significant Accounting Policies:

A. Organization

The Knox Metropolitan Housing Authority (KMHA) is a political subdivision of the State of Ohio, located in Mt. Vernon, Ohio, created under Section 3735.27 of the Ohio Revised Code, to engage in the acquisition, development, leasing and administration of low-rent housing program. An Annual Contributions Contract was signed by the KMHA and the United States Department of Housing and Urban Development (HUD), to provide low and moderate income persons with safe and sanitary housing through rent subsidies, via the Section 8 and Voucher Program. Based on the criteria established by Governmental Accounting Standards Board (GASB) codification 2100, there are no component units to be included with the reporting entity.

B. Basis of Accounting

The Authority has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America. Effective October 1, 2002, the Authority implement GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, and Statement No. 38, Certain Financial Statement Disclosures. These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. The Authority now follows the business-type activities reporting requirements of GASB Statement No. 34. In accordance with GASB statement No. 34, the accompanying basic financial statements are reported on an Authority-wide basis.

Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Notes to the Financial Statements

NOTE 1 - Summary of Significant Accounting Policies: (continued)

B. Basis of Accounting (continued)

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority has elected not to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989. The Authority will continue to apply all applicable pronouncements of the Governmental Accounting Standards Board.

C. Land, Property and Equipment

Land, property and equipment are recorded at cost. Property and equipment are depreciated over the estimated useful lives of the assets. Depreciation is calculated using the straight-line method over the useful life lives of the respective assets, which are as follows:

Property	15 – 40 Years
Equipment	3 - 7 Years

Total depreciation expense for the 2005 calendar year was $8,060.

D. Accounting and Reporting for Nonexchange Transactions

The Authority adopted GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36 “Recipient for Certain Shared Nonexchange Revenues’, effective for the year ended September 30, 2003.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows and for presentation of the Balance Sheet, cash and cash equivalents consist principally of checking and savings accounts.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - Summary of Significant Accounting Policies: (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as prepaid item using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation are attributable to services already rendered and it is probable that employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will probably be paid as termination benefits.

Vacation and sick leave policies are established by the Board of Commissioners based on local and state laws. Employees are entitled to 10 days of annual leave after completing twelve months of consecutive employment, 15 days after six years of service, 20 days after 13 years of service, and 25 days after 23 years of service. Sick pay is accumulated at the rate of 5 hours for each completed 75 hours of pay to a maximum of 900 hours.

At September 30, 2005, $7,396 was accrued by the Authority for unused vacation and sick time.

I. Revenue Recognition

Subsidies and grants received from HUD and other grantors are generally recognized during the periods to which the grants relate. Tenant rental revenues are recognized during the period of occupancy. Expenses are recognized as incurred.

NOTE 2 – Deposits and Investments:

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

NOTE 2 – Deposits and Investments: (continued)

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Monies held by the Authority which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government Authority or instrumentality, including but no limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal Authority securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be market daily, and that the term of the agreement must not exceed thirty days.

4. Bond and other obligations of the State of Ohio or its political subdivisions , provided that such political subdivisions are located wholly or partly within the Authority;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

6 No-loan money market mutual funds consisting exclusively or obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio);

8. Securities lending agreements in which the Authority lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;

NOTE 2 – Deposits and Investments: (continued)

9. High grade commercial paper in an amount not to exceed five percent of the Authority's total average portfolio; and

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Authority's total average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purchase of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand. The Authority had $140 in undeposited cash on hand which is included on the balance sheet of the Authority as part of "Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB No. 3 "Deposits with Financial Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits. At year-end, the carrying amount of the Authority's deposits was $184,479 and the bank balance was $192,719. Of the bank balance, $100,000 was covered by federal depository insurance and $92,719 was insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investments. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1, includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2, includes uninsured deposits unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3, includes uninsured and unregistered investments for which the securities are held by the counterparty's or by its trust department or agent, but not in the Authority's name. Mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The Authority's investments consist principally of deposits with STAR Ohio and repurchase agreements.

NOTE 2 – Deposits and Investments: (continued)

STAR Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the Authority does not own identifiable securities of the pool. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940. The cost of the Authority's deposits with STAR Ohio was $99,603 at September 30, 2005, which approximates fair value.

RISK CATEGORY

	1	2	3	Carrying Amount	Fair Value
Star Ohio	$ -	$ -	$ -	$ 99,603	$ 99,603
Total	$ -	$ -	$ -	$ 99,603	$ 99,603

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the Authority's cash management pool.

NOTE 3 – Property and Equipment:

A summary of capital assets at September 30, 2005 by class is as follows:

	10/1/2004	Additions	Deductions	9/30/2005
Capital Assets Not Being Depreciated				
Land	$ 15,600	$ -	$ 15,600	$ -
Total Capital Assets Not Being Depreciated	15,600	-	15,600	-
Capital Assets Being Depreciated				
Building	119,400		119,400	-
Equipment	40,372	39,244		79,616
Subtotal Capital Assets Being Depreciated	159,772	39,244	119,400	79,616
Accumulated Depreciation:	(48,575)	(8,060)	17,712	(38,923)
Depreciable Assets, Net	111,197	31,184	-	40,693
Total Capital Assets, Net	$ 126,797	$ 31,184	$ 117,288	$ 40,693

NOTE 4 - PENSION PLAN

Ohio Public Employees Retirement System

All Authority full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

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

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Authority was 13.55 percent of covered payroll. The Authority's required contributions to OPERS for the years ended September 30, 2005, 2004, and 2003 were $27,028, $24,786 and $20,607, respectively.

NOTE 5 - POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No.12.

NOTE 5 - POST-EMPLOYMENT BENEFITS (continued)

Ohio Public Employees Retirement System

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 6 – Insurance Coverage and Risk Retention:

The Authority is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of damage to, and destruction of assets; errors and omissions; and injuries to employees.

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, and building contents. There was no significant reduction in coverage and no settlements exceeded insurance coverage, during the past three years.

NOTE 7 – Schedule of Expenditures of Federal Awards:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Konx Metropolitan Housing Authority and is presented on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

KNOX METROPOLITAN HOUSING AUTHORITY
Balance Sheet
September 30, 2005
Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description	Local	Public Housing	Total
	ASSETS			
111	Cash and Cash Equivalents	$ 56,792	$ 127,827	$ 184,619
100	**TOTAL CASH**	56,792	127,827	184,619
125	Accounts Receivable – Other	-	34	
128	Accounts Receivable - Fraud Recovery	-	16,573	16,573
120	**TOTAL ACCOUNTS RECEIVABLE**	-	16,607	16,607
131	Investments – Unrestricted	46,143	53,460	99,603
142	Prepaid Expenses	-	11,548	11,548
150	**TOTAL CURRENT ASSETS**	102,935	209,442	312,377
164	Furniture, Equipment & Machinery - Administration	-	79,616	79,616
166	Accumulated Depreciation	-	(38,923)	(38,923)
160	**TOTAL FIXED ASSETS, NET**	-	40,693	40,693
190	**TOTAL ASSETS**	$102,935	$ 250,135	$ 353,070
	LIABILITIES			
312	Accounts Payable	$ -	$ 1,217	$ 1,217
321	Accrued Wage/Payroll Taxes Payable	-	5,202	5,202
322	Accrued Compensated Absences	-	10,330	10,330
342	Deferred Revenues	-	144,037	144,037
310	**TOTAL CURRENT LIABILITIES**	-	160,786	160,786
353	Undistributed Credits - Fraud Recovery	-	16,573	16,573
	TOTAL NON-CURRENT LIABILITIES	-	16,573	16,573
	TOTAL LIABILITIES	-	177,359	177,359
512	Retained Earnings	102,935	72,776	175,711
	TOTAL NET ASSETS	102,935	72,776	175,711
	TOTAL LIABILITIES AND NET ASSETS	$102,935	$ 250,135	$ 353,070

KNOX METROPOLITAN HOUSING AUTHORITY
Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended September 30, 2005

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description	Local	Public Housing	Total
	Revenue:			
706	HUD PHA Operating Grant	$ -	$ 2,494,474	$ 2,494,474
711	Investment Income - Unrestricted	1,661	1,776	3,437
715	Other Revenues	20,548	3,135	23,683
716	Gain/Loss on Sale of Fixed Assets	-	27,889	27,889
700	Total Revenue	22,209	2,527,274	2,549,483
	Expenses:			
911	Administrative Salaries	6,500	186,197	192,697
912	Audit Fees	-	3,923	3,923
914	Compensated Absences	-	2,935	2,935
915	Employee Benefit Contributions – Administrative	1,434	72,542	73,976
916	Other Operating - Administrative	1,066	63,316	64,382
938	Other Utilities Expense	-	1,219	1,219
942	Ordinary Maintenance and Operations - Materials and Other	-	28,365	28,365
943	Ordinary Maintenance and Operations - Contract Costs	-	3,959	3,959
961	Insurance Premiums	-	5,096	5,096
967	Interest Expense	-	1,025	1,025
969	Total Operating Expenses	9,000	368,577	377,577
970	Excess Operating Revenue over Expenses	13,209	2,158,697	2,171,906
	Other Expenses			
973	Housing Assistance Payments	-	2,178,181	2,178,181
974	Depreciation Expense	-	8,060	8,060
900	**Total Expenses**	9,000	2,554,818	2,563,818
1010	**Total Other Funding Sources(Uses)**	-	-	-
1000	**Excess of Operating Revenue Over Expenses**	13,209	(27,544)	(14,335)
1103	**Beginning Net Assets**	89,726	100,320	190,046
	Ending Net Assets	$102,935	$ 72,776	$ 175,711

KNOX METROPOLITAN HOUSING AUTHORITY
Additional Information Required by HUD
Year Ended September 30, 2005

Financial Data Schedule Submitted to U.S. Department of HUD

FDS Line Item No.	Account Description		
1113	Maximum Annual Contributions Commitment (Per ACC)	$	2,507,800
1114	Applicable to a Period of Less Than Twelve Months	$	-
1115	Contingency Reserve, ACC Program Reserve	$	-
1116	Total Annual Contributions Available	$	2,507,800
1120	Unit Months Available		7,824
1121	Number of Unit Months Leased		7,560

KNOX METROPOLITAN HOUSING AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

Federal Grantor/Program Title	Federal CFDA Number	Contract Number	Grant Amount Received	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Program:				
Section 8 Tenant Based Cluster:				
Housing Choice Vouchers	14.871	C-5101	$2,638,511	$2,494,474
TOTAL FEDERAL FINANCIAL ASSISTANCE				$2,494,474

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

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Independent Auditor's 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 Trustees
Knox Metropolitan Housing Authority
Norwalk, Ohio

I have audited the financial statements of Knox Metropolitan Housing Authority as of and for the year ended September 30, 2005, and have issued my report thereon dated February 21, 2006. I conducted my audit in accordance with generally accepted auditing standards 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 Metropolitan 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knox Metropolitan 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 or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Knox Metropolitan Housing Authority in a separate letter dated February 21, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

February 21, 2006

Kevin L.
Penn, Inc.

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Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Knox Metropolitan Housing Authority
Norwalk, Ohio

Compliance

I have audited the compliance of Knox Metropolitan 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 September 30, 2005. Knox Metropolitan 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 Metropolitan Housing Authority's management. My responsibility is to express an opinion on Knox Metropolitan Housing Authority's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; 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 Metropolitan 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 Metropolitan Housing Authority's compliance with those requirements.

In my opinion, Knox Metropolitan 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 September 30, 2005.

Internal Control Over Compliance

The management of Knox Metropolitan 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 Metropolitan 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 caused by error or fraud 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.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

February 21, 2006

Knox Metropolitan Housing Authority
Schedule of Findings and Questioned Costs
September 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	
14.871	Housing Choice Voucher Program
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000 (Type A)
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Knox Metropolitan Housing Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2005

There were no audit findings, during the 2004 fiscal year.

Auditor of State
Betty Montgomery

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KNOX METROPOLITAN HOUSING AUTHORITY

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 11, 2006