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KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

**REPORT ON AUDIT OF BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND SINGLE AUDIT**

FOR THE YEAR ENDED MARCH 31, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Knox County Housing Authority
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knox County Housing Authority ("the Authority") as of and for the year ended March 31, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

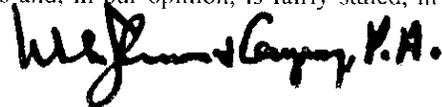
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2009, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the Authority's internal control over financial reporting and on our 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 our 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis as detailed in this Report, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries made of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The Schedule of Expenditures of Federal Awards and the other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are 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 our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 23, 2009

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

Management's Discussion and Analysis

The management of the Knox County Housing Authority (the Authority) offers the readers of the financial statements this narrative overview and analysis of the Authority's financial activities for the year ended March 31, 2009. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. Readers should consider the information presented here in conjunction with the Authority's financial statements to obtain a full understanding of its financial position.

This management discussion and analysis is presented in accordance with the requirements of the generally accepted accounting principles accepted in the United States. We have made every effort to provide prior year data that allows the reader to gain an adequate understanding of the Authority's annual operating results and financial position as of March 31, 2009.

Questions concerning the information provided in this discussion or requests for additional information should be addressed to the Authority's Executive Director.

Financial Highlights

- The Authority's cash and investments balance as of March 31, 2009 was \$91,201 representing a decrease of \$382,749 from March 31, 2008.
- The Authority had total revenues of \$3,613,140 and total expenses of \$4,329,368 for the year ended March 31, 2009. Depreciation totaled \$136,790 for 2009.

Overview of the Financial Reports

The following outline describes the integral parts of this financial presentation and is a guideline for understanding its components:

- I. MD&A
Serves as an introduction to the Authority's basic financial statements

- II. Basic Financial Statements
Authority-wide financial statements
Fund financial statements
Notes to the financial statements

- III. Supplemental Information

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

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

Overview of the Financial Reports (Continued)

- **Statement of Net Assets** – presents information about the Authority's assets and liabilities and 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, equal "Net Assets," formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as "current" (convertible to cash within one year), and "non-current." Increases or decreases in net assets will serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- **Statement of Revenues, Expenses and Changes in Net Assets** – reports the authority's revenues by source and type and its expenses by category to substantiate the change in net assets for the fiscal year.
- **Statement of Cash Flows** – discloses net cash provided by, or used for operating activities, non-capital financing activities, and capital and related financing activities.

Our analysis of the Authority as a whole follows with the most important question, "Has the Authority's financial health improved or worsened as a result of the year's activities?" The following analysis of entity-wide net assets, revenues, and expenses is provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual method of accounting, which recognizes revenue when earned and expenses when incurred regardless of when cash is received or paid.

Analysis of Authority-wide net Assets (Statement of Net Assets) – Without eliminating inter-program receivables and payables of \$195,554 and \$439,754 in March 31, 2009 and 2008 respectively.

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Assets			
Cash and investments	\$ 473,950	\$ 91,201	\$ (382,749)
Other current assets	682,080	272,372	(409,708)
Capital assets	2,211,555	2,262,096	50,541
Total Assets	<u>3,367,585</u>	<u>2,625,669</u>	<u>(741,916)</u>
Liabilities			
Current liabilities	656,685	639,580	(17,105)
Noncurrent liabilities	45,280	36,696	(8,584)
Total Liabilities	<u>701,965</u>	<u>676,276</u>	<u>(25,689)</u>
Net Assets			
Net investment in Capital Assets	2,211,555	2,262,096	50,541
Restricted	-	10,102	10,102
Unrestricted	454,065	(322,805)	(776,870)
Total Net Assets	<u>2,665,620</u>	<u>1,949,393</u>	<u>(716,227)</u>
Total Liabilities and Net Assets	<u>\$ 3,367,585</u>	<u>\$ 2,625,669</u>	<u>\$ (741,916)</u>

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

Analysis of Authority-wide net Assets (Statement of Net Assets) (Continued)

Cash and Investments decreased \$382,749 to \$91,201 which represents an 81% decrease from last year. This decrease is due to cuts in Federal awards and Section 8 producing a loss of \$534,014. Capital Assets increased to \$2,262,096, an increase of \$50,541 which was the result of capital asset additions. Other current assets decreased \$409,708 due to decreases in Receivables from HUD and a decrease in Interprogram Due From of \$244,200 which was primarily due to a decrease in the receivable of the Housing Choice Voucher program and component units.

Total Current Liabilities decreased \$17,105 due to bank overdrafts of \$61,848, increases in vendors payable of \$82,708, increase in pension liability of \$64,278, increase in wages payable of \$12,362, decrease in interprogram payables of \$244,200 and other decreases of \$5,899.

Net assets decreased by \$716,227, which is outlined in detail on the Statement of Revenues, Expenses and Changes in Net Assets.

Analysis of Entity-Wide Revenue and Expenses (Statement of Activities)

The federal government continued its historic under-funding of operating subsidy. With no signs of improvement in federal funding or economic conditions in the foreseeable future, the Authority is being merged with KCDC in 2009.

The following table illustrates changes in revenue from FY 2008 to FY 2009.

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Revenue			
Tenant revenue	\$ 343,741	\$ 349,510	\$ 5,769
HUD operating grants	3,095,813	2,897,767	(198,046)
HUD Capital grants	-	353,738	353,738
Investment income	7,470	1,356	(6,114)
Other revenue	59,328	10,769	(48,559)
Total Revenue	<u>\$ 3,506,352</u>	<u>\$ 3,613,140</u>	<u>\$ 106,788</u>

Total Revenue increased \$106,788 which is primarily the result of an increase in the HUD Capital grants received.

HUD Capital Grants were up by \$353,738.

The decrease in Other Revenue of \$48,559 was due to fraud recovery in 2008 and very little in 2009.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

The following table illustrates changes in expenses from FY 2008 to FY 2009.

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Expenses			
Administration	\$ 714,656	\$ 787,719	\$ 73,063
Tensnt services	150	2,322	2,172
Utilities	322,990	370,054	47,064
Maintenance	364,520	445,049	80,529
General expenses	69,143	244,262	175,119
Total Operating Expenses	<u>1,471,459</u>	<u>1,849,406</u>	<u>377,947</u>
Housing assistance payments	2,200,545	2,343,172	142,627
Depreciation expense	135,079	136,790	1,711
Total Nonoperating Expense	<u>2,335,624</u>	<u>2,479,962</u>	<u>144,338</u>
Total Expenses	<u>\$ 3,807,083</u>	<u>\$ 4,329,368</u>	<u>\$ 522,285</u>

The Administration increase of \$73,063 was primarily due to salary and benefits increases, plus some legal and professional services due to last audit findings. Utilities were up \$47,064 due to rate increases. Maintenance expenses were up \$80,529 due to salary and benefits increases and general conditions of properties. HAP expenses were up \$142,627 from 2008. General expenses were increased due to a bad debt write-off of \$166,602 for the Section 8 Voucher Program.

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Land	\$ 705,960	\$ 705,960	\$ -
Buildings	8,267,825	8,267,825	-
Equipment	367,847	367,847	-
Construction in progress	366,920	554,251	187,331
Assumulated depreciation	(7,496,997)	(7,633,787)	(136,790)
Net Fixed Assets	<u>\$ 2,211,555</u>	<u>\$ 2,262,096</u>	<u>\$ 50,541</u>

Capital Assets increased during the year to \$2,262,096, a net increase of \$50,541, which was primarily due to normal depreciation expense for the year and construction in progress increase of \$187,331.

Debt Outstanding

All debt has been forgiven by HUD in prior years and written off the books.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2009

Economic Factors

Several significant economic factors are present that may impact the Authority in the future.

- The Department of Housing and Urban Development has historically underestimated the subsidy needs of public housing authorities. We do not expect this trend to change.
- At the close of FY 2008, the funding/collection of low rent public housing end of year utility adjustments has been halted.
- Health care and other insurance costs are expected to increase dramatically over the next several years.

Financial Contact

Questions concerning any of the information provided in this Management Discussion & Analysis should be addressed to:

William G. Pierce, Executive Director
Knox County Housing Authority
6333 Pleasant Ridge Road
Knoxville, TN

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

STATEMENT OF NET ASSETS
MARCH 31, 2009

ASSETS

Current assets

Cash and cash equivalents, unrestricted	\$	52,453
Cash and cash equivalents, restricted		38,748
Accounts receivable, net of allowance		37,121
Inventories, net of obsolescence		1,623
Prepaid insurance		38,074

Total current assets		168,019
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Noncurrent assets

Capital assets

Not being depreciated		1,260,211
Depreciable, net		1,001,885

Total capital assets, net		2,262,096
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Total assets

		2,430,115
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LIABILITIES

Current liabilities

Vendors and contractors payable		235,309
Accrued wages/taxes payable		12,362
Accrued compensated absences		10,350
Deferred revenue		7,338
Other accrued liabilities		68
Accrued pension liability		149,953

Total current liabilities		415,380
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Current liabilities payable from restricted assets

Resident security deposits		28,646
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Noncurrent liabilities

Accrued compensated absences		36,696
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Total liabilities

		480,722
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NET ASSETS

Invested in capital assets		2,262,096
Restricted		10,102
Unrestricted		(322,805)

Total net assets		\$ 1,949,393
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The accompanying notes are an integral part of these basic financial statements.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2009

Operating revenues	
Rental revenue	\$ 307,957
Other revenue	41,553
Total operating revenues	<u>349,510</u>
Operating expenses	
Administrative	787,719
Tenant services	2,322
Utilities	370,054
Ordinary maintenance & operation	420,039
Insurance	37,907
General expenses	39,753
Housing assistance payments	2,343,172
Depreciation	136,790
Total operating expenses	<u>4,137,756</u>
Operating loss	<u>(3,788,246)</u>
Nonoperating revenues (expenses)	
HUD grants	2,897,767
Interest revenue, unrestricted	912
Interest revenue, restricted	444
Fraud recovery	10,648
Other revenue	121
Other expense	(25,010)
Gain/(loss) on disposition of capital assets	(166,602)
Total nonoperating revenues	<u>2,718,280</u>
Loss before contributions	<u>(1,069,966)</u>
Capital contributions	<u>353,738</u>
Decrease in net assets	<u>(716,228)</u>
Net assets, beginning of year	<u>2,665,621</u>
Net assets, end of year	<u><u>\$ 1,949,393</u></u>

The accompanying notes are an integral part of these basic financial statements.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2009

Cash Flows From Operating Activities	
Receipts from dwelling rentals	\$ 365,951
Other receipts	59,660
Payments to employees and suppliers	(1,499,116)
Payments to landlords and residents	<u>(2,343,172)</u>
Net cash used by operating activities	<u>(3,416,677)</u>
Cash Flows From Noncapital Financing Activities	
Operating grants	<u>3,032,767</u>
Cash Flows From Capital and Related Financing Activities	
Capital contributions	353,738
Purchases of capital assets	<u>(353,933)</u>
Net cash used by capital and related financing activities	<u>(195)</u>
Cash Flows From Investing Activities	
Purchase/sale of investments	166,032
Interest	<u>1,356</u>
Net cash provided by investing activities	<u>167,388</u>
Net decrease in cash and cash equivalents	(216,717)
Balance - beginning of the year	<u>307,918</u>
Balance - end of the year	<u><u>\$ 91,201</u></u>
Reconciliation of Cash Flows to Statement of Net Assets	
Cash and cash equivalents, unrestricted	\$ 52,453
Cash and cash equivalents, restricted	<u>38,748</u>
	<u><u>\$ 91,201</u></u>

There are no non-cash transactions.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

Reconciliation of Net Operating Loss to
Net Cash Used By Operating Activities

Operating loss	\$ (3,788,246)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation elimination	136,790
Increase in accounts receivable	29,348
Increase in prepaid expenses	1,160
Decrease in security deposits	28,646
Decrease in accounts payable	114,049
Decrease in accrued wages	12,362
Decrease in compensated absences	(6,718)
Decrease in accrued liabilities	62,835
Decrease in deferred credits	7,338
Other items reported as nonoperating	(14,241)
Net cash used by operating activities	<u>\$ (3,416,677)</u>

The accompanying notes are an integral part of these basic financial statements.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009

A - Summary of Significant Accounting Policies and Organization:

1. **Organization:** Knox County Housing Authority ("the Authority") is a public body corporate and politic pursuant to the Laws of the State of Tennessee which was organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other Federal Agencies.
2. **Reporting Entity:** In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Governmental Accounting and Financial Reporting Standards and Statement No. 14, (amended) of the Governmental Accounting Standards Board: The Financial Reporting Entity*. These criteria include manifestation of oversight responsibility including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the reporting entity has one blended component unit, the Homeplace Apartments L.P. (HALP).

In addition to the blended component unit, the basic financial statements of the Knox County Housing Authority consist primarily of Low Rent Public Housing and Capital Fund Program and Section 8 Housing Assistance Programs under annual contributions contracts with HUD.

3. **Summary of HUD and Other Authority Programs:** The accompanying basic financial statements consist of the activities of the housing programs subsidized by HUD. A summary of each of these programs and the related contracts with HUD is provided below.
 - a. **Low Rent Public Housing:** This type of housing consists of apartments and single-family dwellings owned and operated by the Authority. Funding is provided by tenant rent payments and subsidies provided by HUD.
 - b. **Modernization:** Substantially all additions to land, buildings, and equipment are accomplished through the Capital Fund Program. This program adds to, replaces or materially upgrades deteriorated portions of the Authority's housing units. Funding is provided through this program established by HUD.
 - c. **Housing Choice Vouchers:** This is a housing program wherein low-income individuals lease housing units directly from private landlords rather than through the Authority. The Authority contracts with private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by the low rent tenants.
 - d. **Component Unit:** Homeplace Apartments, LP (HALP) is a limited partnership in which the Authority is the general partner and the Executive director of the Authority is its only limited partner. The purpose of the partnership is to engage in the business of owning, developing and operating a low income housing tax credit apartment project in Knoxville, Tennessee. The authority and the partnership have common management, the Authority is in a position of being accountable for, and partially financed by, the Authority. The development plans of HALP did not come to fruition. The project has been abandoned and the land will be returned to Knox County.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

4. **Basis of Presentation and Accounting:** In accordance with uniform financial reporting standards for HUD housing programs, the basic financial statements are prepared in accordance with U. S. generally accepted accounting principles (GAAP).

Based upon compelling reasons offered by HUD, the Authority reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by *GASB Statement No. 20, Pronouncements of the Financial Accounting Standards Board (FASB)* pronouncements issued after November 30, 1989 are applied in the preparation of the basic financial statements, unless those pronouncements conflict with or contradicts GASB pronouncements.

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

Invested in Capital Assets, Net of Related Debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or the expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Authority Board or may otherwise be limited by contractual agreements with outside parties.

5. **Budgets:** Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a “project length” basis. Budgets are not, however, legally adopted nor legally required for basic financial statement presentation.
6. **Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no noncash investing, capital and financing activities during the year.
7. **Interprogram Receivables and Payables:** Interprogram receivables/payables, when present, are all current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of the Authority. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances is eliminated for the basic financial statement presentation.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

8. **Investments:** Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage are collateralized with securities held by the Authority's agent in the Authority's name. It is the Authority's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Tennessee.
9. **Inventories:** Inventories (consisting of materials and supplies) are valued at cost using the first in, first out (FIFO) method. If inventory falls below cost due to damage, deterioration or obsolescence, the Authority establishes an allowance for obsolete inventory. In accordance with the consumption method, inventory is expensed when items are actually placed in service.
10. **Prepaid Items:** Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.
11. **Use of Estimates:** The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
12. **Fair Value of Financial Instruments:** The carrying amount of the Authority's financial instruments at March 31, 2009 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.
13. **Capital Assets:**
 - a. **Book Value:** All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost.

Land values were derived from development closeout documentation.

Donated fixed assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.
 - b. **Depreciation:** The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

13. Capital Assets: (Continued)

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	5-30 years
Equipment	2-10 years

- c. **Maintenance and Repairs Expenditures:** Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$300 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.
14. **Compensated Absences:** Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASB Statement No. 16*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.
15. **Litigation Losses:** The Authority recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred, the loss is probable and the loss is reasonably estimable.
16. **Annual Contribution Contracts:** Annual Contribution contracts provide that HUD shall have the authority to audit and examine the records of public housing authorities. Accordingly, final determination of the Authority's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by the Authority.
17. **Insurance:** The primary technique used for risk financing is the purchase of insurance policies from commercial insurers that include a large deductible amount. The use of a large deductible clause reduces the cost of insurance, but, should losses occur, the portion of the uninsured loss is not expected to be significant with respect to the financial position of the Authority. The Authority secures required insurance coverage through the competitive bid process. As of the date of the fieldwork, the Authority had all policies required by HUD in force.
18. **Use of Restricted Assets:** It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.
19. **Operating Revenue and Expense:** The principal operating revenues of the Authority's enterprise fund are charges to customers for rents and services. Operating expenses for the Authority's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

B - Deposits and Cash and Cash Equivalents: For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no noncash investing, capital and financing activities during the year.

1. HUD Deposit and Investment Restrictions

HUD requires authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

2. Risk Disclosures

Custodial Credit Risk: This is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the Authority's investments in securities are held in the name of the Authority. The Authority's custodial agreement policy prohibits counterparties holding securities not in the Authority's name.

The carrying amounts of the Authority's cash deposits were \$29,353, net of an overdraft of \$61,848), at March 31, 2009. Bank balances before reconciling items were \$99,386. These balances were either insured or covered by the State of Tennessee Collateralization Pool.

3. Cash Restrictions

Tenant security deposits	\$ 28,646
Housing Assistance Payments	<u>10,102</u>
	<u>\$ 38,748</u>

C - Accounts Receivable:

Residents (net of allowance for doubtful accounts of \$57,422)	\$ 29,499
Fraud recovery (net of allowance for doubtful accounts of (\$5,329))	<u>7,622</u>
	<u>\$ 37,121</u>

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

D - Land, Buildings and Equipment:

	Balance March 31, 2008	Additions	Deletions	Balance March 31, 2009
Not being depreciated:				
Land	\$ 705,960	\$ -	\$ -	\$ 705,960
Construction in progress	366,920	353,933	(166,602)	554,251
Total not being depreciated	1,072,880	353,933	(166,602)	1,260,211
Depreciable:				
Buildings & improvements	8,267,825	-	-	8,267,825
Accumulated depreciation	(7,171,453)	(127,560)	-	(7,299,013)
Net buildings & improvements	1,096,372	(127,560)	-	968,812
Equipment	367,847	-	-	367,847
Accumulated depreciation	(325,544)	(9,230)	-	(334,774)
Net equipment	42,303	(9,230)	-	33,073
Net depreciable assets	1,138,675	(136,790)	-	1,001,885
TOTAL	\$ 2,211,555	\$ 217,143	\$ (166,602)	\$ 2,262,096

There was no capitalized interest expense.

E - Compensated Absences Payable: The cost of current leave privileges computed in accordance with *GASB Statement No. 16, "Compensated Absences"*, is recognized as a current year expenditure in the period in which it is earned, in accordance with U.S. generally accepted accounting principles.

Current liabilities	\$ 10,350
Noncurrent liabilities	36,696
	<u>\$ 47,046</u>

F - Schedule of Changes in Long Term Liabilities:

	March 31, 2008		Year Ended March 31, 2009		March 31, 2009	
	Long-term Portion	Current Portion	Additions	Payments	Current Portion	Long-term Portion
Accrued compensated absences	<u>\$ 45,280</u>	<u>\$ 8,484</u>	<u>\$ 2,705</u>	<u>\$ (9,423)</u>	<u>\$ 10,350</u>	<u>\$ 36,696</u>

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

G - Pension Benefits Payable: This represents pension benefits discovered to have been unpaid in prior years in the amount of \$85,675. Additional unpaid amounts plus the current year's accrual brings the balance as of March 31, 2009 to \$149,953.

H - Annual Contributions by Federal Agencies:

Low Rent Public Housing: Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy approved in the operating budget under the Annual Contributions Contract. HUD operating subsidy contributions for the year ended March 31, 2009 were \$635,443. HUD also contributed additional funds for modernization and operations in the amount of \$418,123

Housing Choice Voucher Program: Section 8 Programs provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by a participating family and related administrative expense. HUD contributions for Housing Choice Vouchers for year ended March 31, 2009 were \$2,197,939.

I - Defined Contribution Pension Plan: The Authority is a member of a retirement plan with the Principal Financial Group. This is a defined contribution plan established under section 401 of the Internal Revenue Code and may be amended by changes in federal law relating to such plans and by the Board of the Authority. The Authority is to make monthly contributions of 13% of the employee's basic compensation. Employees may contribute a voluntary contribution. Full vesting occurs after five full years of plan participation. The Authority's required contributions during the 2009 fiscal year are \$64,278. See Note G for further comments regarding the plan contributions and plan administration.

The Authority's total payroll in fiscal year 2009 was \$449,824. The Authority's and employees contributions were calculated using the base amount of \$449,824.

Other Post Employment Benefits (OPEB): In relation to its employee benefit programs, the Authority does not provide any Other Post Employment Benefits, as outlined under GASB 45.

J - Economic Dependency: The Authority receives approximately 90% of its revenues from HUD. If the amount of revenues received from HUD falls below critical levels, the Authority's reserves could be adversely affected.

K - Contingencies:

- The matters referred to in Notes G, N and O could give rise to disallowed costs by HUD.
- The Underpayment of the pension plan liability could raise issues with the plan qualifications.
- The unauthorized advances from Section 8 to Homeplace Apts., L.P., and from Low Rent Public Housing to Section 8 could result in punitive action by the various regulatory authorities.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2009
(Continued)

L - Conduit Type Debt: Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of the Authority. Accordingly, this debt has not been recorded in the basic financial statements of the Authority. Additionally, HUD no longer provides debt service information to the Authority.

M - Leasing Activities (as Lessor): The Authority is the lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions which impact personal income and local job availability.

N - Interprogram Transfers: The Authority will make cash transfers between its various programs as outlined in the Federal Regulations and authorized and approved by the Authority's Board of Commissioners. During the current year, the Authority made transfers which were not authorized by HUD.

O - Operating Deficit:

The Authority experienced operating deficits in the current year as follows:

- Section 8 HAP Payments exceeded HUD revenues by \$422,982.
- Section 8 administrative costs (net) exceeded administrative revenue by \$111,032.
- Component Unit abandoned project loss totaled \$166,602.
- Low Rent Public Housing experienced losses of \$15,612.

P - Subsequent Events:

- In the subsequent fiscal year, the land associated with Homeplace Apartments, L.P. was returned to Knox County. The component unit is now dormant.
- The Knox County Housing Authority has plans to merge with Knoxville's Community Development Corporation (KCDC). Currently KCDC has assumed management of the Authority, and it is believed that KCDC will absorb operations of Knox County Housing Authority effective April 1, 2010.

Q - Decrease in Net Assets: The decrease in net assets is expected to be absorbed through operations in subsequent fiscal years, assisted by transfers from various programs. No fund deficit is expected as a result of the current year loss.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

COMBINING SCHEDULE OF NET ASSETS
MARCH 31, 2009

	Public Housing Projects	Component Units	Housing Choice Vouchers	Total
ASSETS				
Current assets				
Cash and cash equivalents, unrestricted	\$ 8,579	\$ 112	\$ 43,762	\$ 52,453
Cash and cash equivalents, restricted	28,646	-	10,102	38,748
Accounts receivable, net of allowance	29,499	-	7,622	37,121
Due from/to other programs	126,007	(69,547)	(56,460)	-
Inventories, net of obsolescence	1,623	-	-	1,623
Prepaid insurance	30,166	-	7,908	38,074
Total current assets	224,520	(69,435)	12,934	168,019
Noncurrent assets				
Capital assets				
Not being depreciated	973,943	286,268	-	1,260,211
Depreciable, net	1,001,885	-	-	1,001,885
Total capital assets, net	1,975,828	286,268	-	2,262,096
Total assets	2,200,348	216,833	12,934	2,430,115
LIABILITIES				
Current liabilities				
Vendors and contractors payable	235,309	-	-	235,309
Accrued wages/taxes payable	12,362	-	-	12,362
Accrued compensated absences	5,224	-	5,126	10,350
Deferred revenue	7,338	-	-	7,338
Other accrued liabilities	68	-	-	68
Accrued pension liability	119,585	-	30,368	149,953
Total current liabilities	379,886	-	35,494	415,380
Current liabilities payable from restricted assets				
Resident security deposits	28,646	-	-	28,646
Noncurrent liabilities				
Accrued compensated absences	18,521	-	18,175	36,696
Total liabilities	427,053	-	53,669	480,722
NET ASSETS				
Invested in capital assets	1,975,828	286,268	-	2,262,096
Restricted	-	-	10,102	10,102
Unrestricted	(202,533)	(69,435)	(50,837)	(322,805)
Total net assets	\$ 1,773,295	\$ 216,833	\$ (40,735)	\$ 1,949,393

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2009

	Public Housing Projects	Component Units	Housing Choice Vouchers	Total
Operating revenues				
Rental revenue	\$ 307,957	\$ -	\$ -	\$ 307,957
Other revenue	41,553	-	-	41,553
Total operating revenues	349,510	-	-	349,510
Operating expenses				
Administrative	388,608	-	399,111	787,719
Tenant services	2,322	-	-	2,322
Utilities	370,054	-	-	370,054
Ordinary maintenance & operation	420,039	-	-	420,039
Insurance	37,907	-	-	37,907
General expenses	38,547	-	1,206	39,753
Housing assistance payments	-	-	2,343,172	2,343,172
Depreciation	136,790	-	-	136,790
Total operating expenses	1,394,267	-	2,743,489	4,137,756
Operating loss	(1,044,757)	-	(2,743,489)	(3,788,246)
Nonoperating revenues (expenses)				
HUD grants	699,828	-	2,197,939	2,897,767
Interest revenue, unrestricted	468	-	444	912
Interest revenue, restricted	-	-	444	444
Fraud recovery	-	-	10,648	10,648
Other revenue	121	-	-	121
Other expense	(25,010)	-	-	(25,010)
Gain/(loss) on disposition of capital assets	-	(166,602)	-	(166,602)
Total nonoperating revenues	675,407	(166,602)	2,209,475	2,718,280
Loss before contributions	(369,350)	(166,602)	(534,014)	(1,069,966)
Capital contributions	353,738	-	-	353,738
Decrease in net assets	(15,612)	(166,602)	(534,014)	(716,228)
Net assets, beginning of year	1,788,907	383,435	493,279	2,665,621
Net assets, end of year	\$ 1,773,295	\$ 216,833	\$ (40,735)	\$ 1,949,393

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

**SCHEDULE AND RECONCILIATION OF ACTUAL
CAPITAL FUND PROGRAMS COSTS AND ADVANCES
FOR THE YEAR ENDED MARCH 31, 2009**

PROGRAM	<u>501-06</u>	<u>501-07</u>	<u>501-08</u>	<u>502-06</u>	<u>Total</u>
BUDGET	\$ 264,114	\$ 278,335	\$ 272,501	\$ 7,803	\$ 822,753
ADVANCES:					
Cash receipts - prior years	\$ 243,995	\$ -	\$ -	\$ -	\$ 243,995
Cash receipts - current year	20,119	276,146	114,055	7,803	418,123
Cumulative as of March 31, 2009	<u>\$ 264,114</u>	<u>\$ 276,146</u>	<u>\$ 114,055</u>	<u>\$ 7,803</u>	<u>\$ 662,118</u>
COSTS:					
Prior years	\$ 243,995	\$ -	\$ -	\$ -	\$ 243,995
Current year	20,119	276,146	114,055	7,803	418,123
Cumulative as of March 31, 2009	<u>\$ 264,114</u>	<u>\$ 276,146</u>	<u>\$ 114,055</u>	<u>\$ 7,803</u>	<u>\$ 662,118</u>
Deficiency of advances due from HUD (net)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Modernization Cost Certificate issued?	<u>No</u>	<u>No</u>	<u>No</u>	<u>No</u>	
Soft costs					
Prior years	\$ 43,482	\$ -	\$ -	\$ -	\$ 43,482
Current year	6,582	50,000	-	7,803	64,385
Cumulative as of March 31, 2009	<u>\$ 50,064</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 7,803</u>	<u>\$ 107,867</u>
Hard costs					
Prior years	\$ 200,513	\$ -	\$ -	\$ -	\$ 200,513
Current year	13,537	226,146	114,055	-	353,738
Cumulative as of March 31, 2009	<u>\$ 214,050</u>	<u>\$ 226,146</u>	<u>\$ 114,055</u>	<u>\$ -</u>	<u>\$ 554,251</u>
Cumulative hard and soft costs	<u>\$ 264,114</u>	<u>\$ 276,146</u>	<u>\$ 114,055</u>	<u>\$ 7,803</u>	<u>\$ 662,118</u>

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2009**

Federal Grantor:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Pass Through Entity</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
14.850	Low Rent Public Housing	NA	\$ 635,443
	Capital Fund Cluster		
14.872	Capital Fund Program	NA	418,123
	Total Capital Fund Cluster		418,123
14.871	Housing Choice Vouchers	NA	2,197,939
	Total Federal Awards Expenditures		<u>\$ 3,251,505</u>

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Accounting

This schedule is prepared on the accrual basis of accounting.

B. 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".

C. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule

FDS line 706	HUD PHA Grants	\$ 2,897,767
FDS line 706.1	Capital Grants	353,738
		<u>\$ 3,251,505</u>

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
~ Material weakness(es) identified?	No
~ Significant deficiency(s) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
~ Material weakness(es) identified?	Yes
~ Significant deficiency(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

CFDA Number	Name of Federal Program
14.850a	Low Rent Public Housing
14.872/885	Capital Fund Cluster
14.871	Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

MALCOLM JOHNSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Knox County Housing Authority
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

We have audited the basic financial statements of the Knox County Housing Authority ("the Authority") as of and for the year ended March 31, 2009, and have issued our report thereon dated December 23, 2009, which included a disclaimer of opinion on Management's Discussion and Analysis. We conducted our 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 our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying Schedule of Finding and Questioned Costs to be significant deficiencies in internal control over financial reporting (see findings 2009-1, 2009-3 and 2009-7).

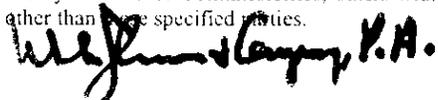
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Finding and Questioned Costs as items 2009-5 and 2009-7.

This report is intended solely for the information and use of the Authority's management, the Authority's Board of Commissioners, others within the entity, and the U.S. Department of HUD and is not intended to be and should not be used by anyone other than the specified parties.



Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 23, 2009

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Knox County Housing Authority
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

Compliance

We have audited the compliance of the Knox County Housing Authority ("the 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 its major federal programs for the year ended March 31, 2009. The 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 its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our 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 we 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 the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in items 2009-1, 2009-4, 2009-5, 2009-6 and 2009-7 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding: eligibility and allowable costs/costs principles that are applicable to its Low Rent Public Housing programs (CFDA #14.850a), eligibility, reporting, special tests and provisions, allowable costs/costs principles and other that are applicable to its Housing Choice Vouchers (CFDA #14.871), and procurement/suspension/debarment that are applicable to its Public Housing Capital Fund Program (CFDA#14.872). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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 March 31, 2009.

Internal Control Over Compliance

The management of the 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 our audit, we considered the 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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1, 2009-2, 2009-3, 2009-4, 2009-5, 2009-6 and 2009-7 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-1 and 2009-6 to be material weaknesses.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, the Board of Commissioners, others within the entity, the U.S. Department of HUD 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.



Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 23, 2009

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2009-1	Condition:	Ineligible Use of Federal Program Funds
		A. The Section 8 Housing Choice Voucher Program paid various expenses for the Homeplace Apartments, L.P. (L.P.), which is a blended component unit of the Authority. The development plans of the L.P. have been abandoned, and in August 2009 the associated land was returned to Knox County. The L.P. is engaged in no other business activities and has no means to repay the funds which were advanced from the Housing Choice Voucher Program.
		B. The Low-Rent Public Housing Program has advanced \$126,007 to the Housing Choice Voucher Program. The HCV Program does not currently have the reserves necessary to repay the LRPH Program.
	CFDA Number:	14.871
	Questioned Costs:	\$69,547 in HCVP \$126,007 in LRPH
	Criteria:	OMB A-87, Allowable Cost Principles
	Cause/Effect:	The Authority utilized Federal funds for activities not eligible under the Annual Contributions Contracts with HUD.
	Recommendation:	We recommend that the Authority seek alternate sources of revenue in order to pay back the HCV Program for ineligible advances which are due from the L.P. We further recommend that the HCV Program seek ways to conserve its administrative fee revenues in order to repay advances from the LRPH Program as quickly as possible.
	Reply:	All efforts are being made to decrease Administrative expenses and to eliminate over leasing of Voucher Program. Section 8 staff has applied and received \$177,000 in shortfall funding from HUD. These funds will be used as stop gap for over leasing. Vouchers are not being renewed through attrition and hopefully will get KCHA into appropriate levels of leasing in next few months. Homeplace Apartments LLC has been basically dissolved and A/R was written off. Funds are to be reimbursed to LRPH within this fiscal year for monies advanced to Voucher Program. As of 1/31/2010 HAP payments meet HAP Subsidy.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2009-3 **Condition:** **Deficiencies Noted in the Supporting Documentation for Cash Disbursements**

Supporting documentation for three out of thirty cash disbursements was unavailable for audit examination.

CFDA Number: 14.850a

Questioned Costs: None

Criteria: 24 CFR Regulations

Cause: The Authority did not have the documentary controls in place to support its cash disbursements or allow for easy retrieval upon request.

Effect: As stated in the condition.

Reply: All cash disbursements are being filed by month and in check order for periods April thru October 2009. All disbursements from November 2009 forward are being paid by KCDC and filed in check order with a control log. All voided checks are being recorded in a control log also. All documentation required for payment processing are attached to invoices and approved by Controller for account classifications and disbursement schedules.

2009-5 **Condition:** **Deficiencies Noted in Procurement and Contracting Activities**

During the review of the Authority's internal controls regarding procurement activities, it was noted that the Authority was not in complete compliance with its own procurement policy and HUD guidelines. The following specific deficiencies were noted:

1. There was no evidence of requests for proposals or invitation for bids.
2. There was no documentation of a cost analysis performed.
3. There was no bid tabulation on file.

CFDA Number: 14.872

Questioned Costs: None

Criteria: HUD rules and regulation require procurement to take place in accordance with Section 85 of 24 CFR. Documentation of compliance with procedures must be maintained.

KNOX COUNTY HOUSING AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2009-5 **Condition:** **Deficiencies Noted in Procurement and Contracting Activities
(Continued)**

Cause: The Authority did not have effective documentary controls in place.

Effect: As stated in the condition.

Reply: Current bids and proposals are now being handled per HUD guidelines. Bids are being advertised and solicitations are also made on the internet and other agencies. Bid tabulations, cost analysis, pricing and other purchasing methods are being handled per Federal and State guidelines.

2009-7 **Condition:** **Operating Deficits and Budget Overruns**

 The Authority experienced the following deficits in the current year:

- Section 8 HAP payments exceeded HUD revenues by \$422,982.
- Section 8 administrative costs (net) exceeded administrative revenue by \$111,032.
- Component unit abandoned project loss totaled \$166,602.
- Low rent Public Housing experienced losses of \$15,612.

CFDA Number: 14.850a, 14.871

Questioned Costs: None

Criteria: Annual Contributions Contracts with HUD.

Cause: The Authority did not prepare budget to actual comparisons, did not adequately monitor expenses and make necessary administrative corrections, and did not perform budget revisions.

Effect: Material budget overruns resulting in operating deficits.

Reply: Section 8 HAP payments are now on the same level as HUD subsidy or below. Section 8 administrative costs have been decreased to meet administrative fee levels and reserves. Low Rent Public Housing and Voucher program will be absorbed by KCDC with effective date of 4/1/09. Budgets will be prepared in accordance with HUD guidelines for both programs. Monthly profit and loss statements are being prepared by fee accountant for both programs. KCDC will fully integrate its software, policies, procedures and management expertise effective 4/1/2010 for both programs.

KNOX COUNTY HOUSING AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-1	Condition:	Ineligible Use of Federal Program Funds See Current finding 2009-1 under Financial Statement Findings.
2009-2	Condition:	Deficiencies Noted in the Supporting Documentation for Funds Drawn From HUD During our review of the Authority's Line of Credit Control System (LOCCS), it was noted that draw requests were not supported with adequate documentation to justify the funds draw down. Of the five LOCCS draw downs support requested, the Authority was able to provide supporting documentation for one draw down. CFDA Number: 14.872 Questioned Costs: None Criteria: HUD Capital Fund Program (CFP) regulations and over arching principle of accuracy in financial accounting. Cause: The Authority did not have the documentary controls in place to support its draw requests. Effect: As stated in the condition. Reply: All LOCCS draws are being supported with proper documentation attached to each draw request and kept in separate grant files.
2009-3	Condition:	Deficiencies Noted in the Supporting Documentation for Cash Disbursements See Current finding 2009-3 under Financial Statement Findings.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-4 **Condition:** **Deficiencies Noted in Maintenance of Low Income Public Housing and Housing Choice Voucher Program Participant Files.**

The Low Income Public Housing resident file sample consisted of eight files.

- 1 file lacked timely annual recertification
- 2 files lacked 3rd party income verifications for all members of the household over the age of 18
- 1 file lacked documentation of an annual inspection
- 2 files lacked documentation the resident was offered a flat rent option

The Housing Choice Voucher Program participant file sample consisted of ten files.

- 1 file could not be located
- 6 files did not have properly documented Rent Reasonableness
- 4 files lacked supporting documentation that the resident was properly selected from the waiting list
- 1 move out file lacked end of participation documentation

CFDA Number: 14.850a, 14.871

Questioned Costs: None

Criteria: 24 CFR regulations regarding Low Income Public Housing and Section 8 Programs and regulations issued by HUD.

Cause: The Authority's.

Effect: The Authority has not been in compliance with various HUD requirements.

Reply: All tenant files and voucher files have been reviewed and appropriate documentation is being inserted into files. New leases were instituted on November 1, 2009 and documentation needed was acquired and placed in files. KCHA is having quality assurance audits performed by KCDC.

2009-5 **Condition:** **Deficiencies Noted in Procurement and Contracting Activities**

See Current finding 2009-5 under Financial Statement Findings.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-6	Condition:	Deficiencies Noted in the FY 2009 SEMAP Submission
		During our review of the FY 2009 SEMAP submission the following deficiencies were noted:
		<ol style="list-style-type: none">1. There was no evidence the Waiting List quality control was performed by the Authority.2. There was no evidence that quality control was performed for the Rent Reasonableness indicator.3. There was no evidence documenting that a quality control review was performed for the HQS enforcement indicator.4. The Authority did not perform the number of Quality Control Inspections required for the Vouchers that were being administered by the Authority.
	CFDA Number:	14.871
	Questioned Costs:	None
	Criteria:	HUD rules and regulation require SEMAP submission to take place in accordance with 24 CFR guidelines. Additionally, documentation of compliance with procedures must be maintained.
	Cause:	The Authority did not have effective documentary controls in place.
	Effect:	As stated in the condition.
	Reply:	SEMAP guide lines are now being followed and tracked appropriately.
2009-7	Condition:	Operating Deficits and Budget Overruns
		See Current finding 2009-7 under Financial Statement Findings.

KNOX COUNTY HOUSING AUTHORITY
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2008-1	Condition:	Unauthorized Action By Employee
	Current Status:	The Authority has taken action to resolve this situation, and is seeking corrective action. Because of the sensitive nature of this finding, it will remain open until a final resolution has been attained.
2008-2	Condition:	External Financial Reporting
		The Authority did not prepare its unaudited financial statements in accordance with Generally Accepted Accounting Principles as of and for the year ended March 31, 2008.
	Current Status:	The unaudited financial statements as of and for the year ended March 31, 2009 required material adjustments in order for them to be in conformity with GAAP, therefore, this finding continues.