BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

of the

MORGAN METROPOLITAN HOUSING AUTHORITY

for the

Year Ended June 30, 2004

Auditor of State
Betty Montgomery

Board of Directors
Morgan Metropolitan Housing Authority
4580 SR 376 NW
McConnelsville, Ohio 43756

We have reviewed the Independent Auditor's Report of the Morgan Metropolitan Housing Authority, Morgan County, prepared by Jones, Cochenour & Co., for the audit period July 1, 2003 to June 30, 2004. 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 Morgan Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 18, 2005

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MORGAN METROPOLITAN HOUSING AUTHORITY
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Jones, Cochenour & Co.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the accompanying basic financial statements of Morgan Metropolitan Housing Authority, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Morgan Metropolitan Housing 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 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. 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 Morgan Metropolitan Housing Authority, as of June 30, 2004, and the results of its operations and the cash flows of its proprietary fund type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the basic financial statement the authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2004 on our consideration of Morgan Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplemental data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Morgan Metropolitan Housing Authority. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Jones, Cochenour & Co.

Jones, Cochenour & Co.
October 22, 2004

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Unaudited

It is a privilege to present for you the financial picture of Morgan Metropolitan Housing Authority. The Morgan Metropolitan Housing Authority's ("the Authority") *Management 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 year challenges)
(d) Identify the single enterprise fund issues or concerns.

This *Management Discussion and Analysis (MD & A)* is new and will now be presented at the front of each year's financial statements.

Since the *M D & A* is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements which follow.

FINANCIAL HIGHLIGHTS

- **In 2003, the Housing Authority implemented GASB 34.**

- **Total revenues: FYE 6/30/04: $925,339**
  FYE 6/30/03: $842,176 Increase of $83,163 (9.9%) in 2004

- **Total expenses: FYE 6/30/04: $927,570**
  FYE 6/30/03: $909,782 Increase of $17,788 (2%) in 2004

USING THIS ANNUAL REPORT

The following graphic outlines the format of this report:

MD&A **~ Management Discussion and Analysis (new) ~**
Basic Financial Statements **~ Statement of Net Assets ~** **~ Statement of Revenues, Expenses and Changes in Net Assets ~** **~ Statement of Cash Flows ~** **~ Notes to Financial Statements ~**

The new and clearly preferable focus is on the Authority as a single enterprise fund. This new format will allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the Authority's accountability.

BASIC FINANCIAL STATEMENTS

The basic financial statements, are designed to be corporate-like in that all business type programs are consolidated into one single enterprise fund for the 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 to 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 (as applicable):

> **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". This account resembles the old operating reserves account.**

The basic 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, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

The Authority's programs that are consolidated into a single enterprise fund are as follows:

Conventional Public Housing (PH) – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority's physical and management improvements. Funds are allocated by a formula allocation and based on size and age of the authority's units.

Housing Choice Voucher Program (HCVP) – Under the Housing Choice Voucher Program, the Authority subsidizes rents to independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides funding to enable the Authority to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30%, and the Housing Authority subsidizes the balance.

Unaudited

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
The following table reflects the condensed Statement of Net Assets compared to prior year.

TABLE 1
STATEMENT OF NET ASSETS

	FYE 6/30/04	FYE 6/30/03
Current and Other Assets	$ 241,972	$ 191,446
Capital Assets	$2,275,725	$2,316,277
TOTAL ASSETS	$2,517,697	$2,507,723
Other Liabilities	$ 116,021	$ 88,489
Long-Term Liabilities	$ 14,912	$ 30,239
TOTAL LIABILITIES	$ 130,933	$ 118,728
Net Assets:		
Invested in Capital Assets, net of Related Debt	$2,275,725	$2,316,277
Unrestricted	$ 111,039	$ 72,718
TOTAL NET ASSETS	$2,386,764	$2,388,995

NOTE: For more detailed information, see the *Statement of Net Assets.*

Major factors affecting the *Statement of Net Assets:* Current Assets increased by $9,974 and liabilities increased by $12,205. Capital Assets decreased by $43,791 and unrestricted net assets increased by $38,321.

TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule compares the revenues and expenses for the current and previous fiscal year:

	FYE 6/30/04	FYE 6/30/03
Revenue:		
Tenant Revenue (Rent and Other)	$ 55,277	$ 86,387
Operating Subsidies and Grants	$ 758,285	$ 668,486
Capital Grants	$ 96,355	$ 84,938
Investment Income	$ 1,332	$ 1,131
Other Revenues	$ 14,090	$ 1,234
TOTAL REVENUE	$ 925,339	$ 842,176
Expenses:		
Administration	$ 213,082	$ 222,106
Tenant Services	$ -	$ 69
Utilities	$ 49,015	$ 49,194
Maintenance	$ 68,067	$ 102,301
Bad debts	$ 2,992	$ (3,597)
General Expenses	$ 24,657	$ 21,779
Housing Assistance Payments	$ 429,611	$ 374,615
Depreciation	$ 140,146	$ 143,315
TOTAL EXPENSES	$ 927,570	$ 909,782

Unaudited

Major factors affecting the *Statement of Revenue, Expenses, and Changes in Net Asset:* Total revenue increased as total expenses remained unchanged compared to the previous year.

CAPITAL ASSETS

As of year end, the Authority had $96,355 invested in a variety of leasehold improvements as reflected in the following schedule which represents a net decrease (addition, deductions and depreciation) of $43,791 from the end of last year after the restatement of capital assets.

TABLE 3

CAPITAL ASSETS AT YEAR-END
(Net of Depreciation)

	FYE 6/30/04	FYE 6/30/03
Land and Land Rights	$ 251,650	$ 251,650
Buildings	$3,268,556	$3,268,556
Equipment-Administrative	$ 134,784	$ 134,784
Equipment-Dwellings	$ 118,864	$ 115,625
Accumulated Depreciation	($1,641,514)	($1,501,368)
Leasehold Improvements	$ 143,385	$ 47,030
TOTAL	$2,275,725	$2,316,277

TABLE 4

CHANGE IN CAPITAL ASSETS

The following reconciliation summarizes the change in Capital Assets.

Beginning Balance	$2,316,277
Additions	$ 99,594
Depreciation	$ (140,146)
Ending Balance:	$2,275,725

Additions relate to *Capital Fund Program* grant improvements and public housing operations.

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, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income**
- **Inflationary pressure on utility rates, supplies and other costs**

IN CONCLUSION

Morgan Metropolitan Housing Authority takes great pride in its financial management and is pleased to report on the consistent and sound financial condition of the Authority.

FINANCIAL CONTACT

If you have any questions regarding this report, you may contact Kelly Hardman, Executive Director of the Morgan Metropolitan Housing Authority at (740) 962-4930.

Respectfully submitted,

Kelly Hardman, Executive Director

Morgan Metropolitan Housing Authority
Statement of Net Assets
June 30, 2004

ASSETS		
Cash and cash equivalents		$ 101,501
Receivables - net of allowance		29,501
Due from other programs		69,619
Inventories - net of allowance		10,854
Tenant security deposits		19,713
Prepaid expenses and other assets		10,784
	TOTAL CURRENT ASSETS	241,972
Land		251,650
Other capital assets - net		2,024,075
	TOTAL CAPITAL ASSETS	2,275,725
	TOTAL ASSETS	2,517,697
LIABILITIES		
Accounts payable		16,486
Due to other programs		69,619
Intergovernmental payables		416
Accrued wages/payroll taxes		3,843
Accrued compensated absences - current		6,475
Tenant security deposits		19,182
	TOTAL CURRENT LIABILITIES	116,021
Accrued compensated absences		3,879
FSS liability		11,033
	TOTAL LIABILITIES	130,933
NET ASSETS		
Invested in capital assets - net of related debt		2,275,725
Unrestricted net assets		111,039
	NET ASSETS	$ 2,386,764

See accompanying notes to the basic financial statements

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

OPERATING REVENUE		
Tenant revenue		$ 55,277
HUD operating grants		758,285
Other revenue		14,090
	TOTAL OPERATING REVENUE	827,652
OPERATING EXPENSES		
Administrative		213,082
Utilities		49,015
Maintenance		68,067
General		24,657
Bad debts		2,992
Housing assistance payments		429,611
Depreciation		140,146
	TOTAL OPERATING EXPENSES	927,570
	OPERATING LOSS	(99,918)
NON-OPERATING REVENUE		
Interest income - unrestricted		1,332
HUD capital grants		96,355
	CHANGE IN NET ASSETS	(2,231)
	NET ASSETS BEGINNING OF YEAR - RESTATED	2,388,995
	NET ASSETS END OF YEAR	$ 2,386,764

See accompanying notes to the basic financial statements

Morgan Metropolitan Housing Authority
Statement of Cash Flows
Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tenants	$	48,345
Cash received from HUD		764,287
Cash payments for administrative		(206,340)
Cash payments for other operating expenses		(127,642)
Cash payments for housing assistance payments		(429,611)
NET CASH PROVIDED BY OPERATING ACTIVITIES		49,039
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of capital assets		(99,594)
Capital grants received for capital assets		96,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity		1,332
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of debt		(13,885)
INCREASE IN CASH AND CASH EQUIVALENTS		33,247
CASH AND CASH EQUIVALENTS, BEGINNING		68,254
CASH AND CASH EQUIVALENTS, ENDING	$	101,501
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES		
Operating (loss)	$	(99,918)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		140,146
(Increase) decrease in:		
Receivables - net of allowance		6,932
Due from other programs		(22,809)
Inventories - net of allowance		(41)
Prepaid expenses and other assets		113
Increase (decrease) in:		
Accounts payable		3,538
Accrued compensated absences		3,844
Due to other programs		22,809
Intergovernmental payables		(2,958)
Accrued wages/payroll taxes		3,843
Deferred credits and other liabilities		(6,460)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	49,039

See accompanying notes to the basic financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Morgan Metropolitan Housing Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, to its business-type activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

- **The financial statements include:**
    - **A Management Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operations.**

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority elected to implement the provisions of the Statement for the year ended June 30, 2004.

Reporting Entity

The Authority was created under the Ohio Revised Code, Section 3735.27. The Authority contracts with the United States Department of Housing and Urban Development (HUD) to provide low and moderate income persons with safe and sanitary housing through subsidies provided by HUD. The Authority depends on the subsidies from HUD to operate.

Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Authority uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

Enterprise Fund

The Authority uses the proprietary fund to report on its financial position and the results of its operations for the Section 8 and public housing programs. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Authority uses the proprietary category for its programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following are the various programs which are included in the single enterprise fund:

Conventional Public Housing (PH) – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy to enable the PHA to provide the housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) – This is the current primary funding source for the Authority's physical and management improvements. While the formula funding methodology used for the CGP was revised for the CFP, funds are still provided by formula allocation and based on the size and age of the units.

Housing Choice Voucher Program (HCVP) – Under the Housing Choice Voucher Program, the Authority subsidizes rents to independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. The program is administered under an ACC with HUD. HUD provides funding to enable the Authority to structure a lease that requires the participant to pay a rent based on a percentage of their adjusted gross household income, typically 30%, and the Housing Authority subsidizes the balance.

Accounting and Reporting for Nonexchange Transactions
The Authority adopted GASB 33 effective for the year ended June 30, 2002. Nonexchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

- **Derived tax revenues: result from assessments imposed on exchange transactions (i.e., income taxes, sales taxes and other assessments on earnings or consumption).**
- **Imposed nonexchange revenues: result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (i.e. property taxes and fines).**
- **Government-mandated nonexchange transactions: occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (i.e., federal programs that state or local governments are mandated to perform).**
- **Voluntary nonexchange transactions: result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (i.e., certain grants and private donations).**

PHA grants and subsidies will be defined as a government-mandated or voluntary nonexchange transactions.

GASB 33 establishes two distinct standards depending upon the kind of stipulation imposed by the provider.

- **Time requirements specify (a) the period when resources are required to be used or when use may begin (for example, operating or capital grants for a specific period) or (b) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.**
- **Purpose restrictions specify the purpose for which resources are required to be used. (i.e. capital grants used for the purchase of capital assets). Purpose restrictions do not affect when a nonexchange transaction is recognized. However, PHAs that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted.**

The PHA will recognize assets (liabilities) when all applicable eligibility requirements are met or resources received whichever is first. Eligibility requirements established by the provider may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The PHA will recognize revenues (expenses) when all applicable eligibility requirements are met. For transactions that have a time requirement for the beginning of the following period, PHAs should record resources received prior to that period as deferred revenue and the provider of those resources would record an advance.

The PHA receives government-mandated or voluntary nonexchange transactions, which do not specify time requirements. Upon award, the entire subsidy should be recognized as a receivable and revenue in the period when applicable eligibility requirements have been met.

Investments

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value. Interest income earned in fiscal year 2004 for both programs totaled $1,332. The interest income earned on the general fund investments in the Section 8 Program is required to be returned to HUD, and this amount was $0 for the year ended June 30, 2004.

Prepaid expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the purchase and expense is reported in the year in which the services are consumed.

Capital Assets

Fixed assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized. The Authority's capitalization policy is $500. The following are the useful lives used for depreciation purposes:

Buildings – residential	27.5
Buildings – non residential	40
Building improvements	15
Furniture – dwelling	7
Furniture – non-dwelling	7
Equipment – dwelling	5
Equipment – non-dwelling	7
Autos and trucks	5
Computer hardware	3
Computer software	3
Leasehold improvements	15
Land improvements	15

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Due From/To Other Programs

On the basic financial statements, receivables and payables resulting from the short-term interprogram loans are classified as due to/due from other programs.

Accrued Liabilities

All payables and accrued liabilities are reported in the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

The Authority accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee, 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

In the proprietary fund, the compensated absences are expensed when earned with the amount reported as a fund liability.

Budgetary Accounting

The Authority annually prepares its budget as prescribed by the Department of Housing and Urban Development. This budget is submitted to the Department of Housing and Urban Development and once approved is adopted by the Board of the Housing Authority.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Receivables – net of allowance

Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding tenant receivable balances at the end of the year. The allowance for uncollectable tenant receivables was $500 at June 30, 2004.

Inventories

Inventories are stated at cost. The allowance for obsolete inventory was $1,100 at June 30, 2004.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. There was no related debt as of June 30, 2004. Net assets are recorded as restricted when there are limitations imposed on their use either by internal or external restrictions.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Authority, these revenues are tenant revenues, operating grants from HUD and other miscellaneous revenue.

Operating expenses are those expenses that are expended directly for the primary activity of the proprietary fund. For the Authority, these expenses are administrative, utilities, maintenance, PILOT, insurance, depreciation, bad debt and housing assistance payments.

2. CASH AND INVESTMENTS

Cash

State statutes classify monies held by the Authority into three categories.

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.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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, but 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.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name. Category 3 includes uninsured and uncollateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

Deposits: The carrying amount of the Authority's deposits totaled $121,214 (includes security deposits). The corresponding bank balances totaled $124,660.

The following show the Authority's deposits (bank balances) in each category:

Category 1: $124,660 was covered by federal depository insurance

3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal award programs. The schedule has been prepared on the accrual basis of accounting.

4. RISK MANAGEMENT

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. There was no significant reduction in coverages and no settlements exceeded insurance coverage during the past three years.

5. CAPITAL ASSETS

The following is a summary:

	Balance 6/30/03	Net Additions / Deletions	Balance 6/30/04
CAPITAL ASSETS, NOT BEING DEPRECIATED			
Land	$ 251,650	$ -	$ 251,650
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	$ 251,650	$ -	$ 251,650
CAPITAL ASSETS, BEING DEPRECIATED			
Buildings and Improvements	$ 3,315,586	$ 96,355	$ 3,411,941
Furniture and equipment	250,409	3,239	253,648
Totals at Historical Costs	3,565,995	99,594	3,665,589
Less: Accumulated Depreciation	(1,501,368)	(140,146)	(1,641,514)
TOTAL CAPITAL ASSETS, NET BEING DEPRECIATED	$ 2,064,627	$ (40,552)	$ 2,024,075

The depreciation expense for the year then ended June 30, 2004 was $140,146.

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

a. **The Traditional Pension Plan (TP) – cost-sharing multiple-employer defined benefit pension plan.**
b. **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% 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 thereon.**
c. **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 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.**

OPERS provides basic retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by statement statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtaining by writing to the Public Employee Retirement system, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, 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 payroll to fund pension obligations and the Authority was required to contribute 13.55 percent of covered payroll during 2003. The Authority's required contributions, including the pick up portion for certain employees for the years ended June 30, 2004, 2003 and 2002 were $20,380, $22,048 and $38,365, respectively. All required payments of contributions have been made through June 30, 2004.

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional - a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan

OPERS provides retirement, disability, survivor and post retirement health benefits to qualifying members of both the Traditional and the Combined Plans; 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. In order to qualify for post-retirement health care coverage, age and services retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by the Ohio Revised Code. The 2003 employer contribution rate was 13.55 percent of covered payroll, and 5.0 percent was used to fund health care for the year.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2002.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfounded actuarial accrued liability. All investments are carried as market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2002 was 8.00 percent. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

OPEBs are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The Authority's actual contributions for 2004 that were used to fund post-employment benefits were $6,100. The actuarial value of the Retirement System's net assets available for OPED at December 31, 2002 were $10 billion. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used were $18.7 billion and $8.7 billion, respectively.

8. CHANGES IN ACCOUNTING PRINCIPLES, RECLASSIFICATION AND RESTATEMENT OF PRIOR YEAR'S FUND EQUITY:

	Total	Net HUD PHA Contributions	Undesignated Retained Earnings	Invested in Capital Assets - Net of Debt	Unrestricted Net Assets
Net Assets, Beginning of Year	$ 2,387,677	$ 2,284,057	$ 103,620	$ 2,316,277	$ 71,400
Reclassification - GASB 34	1,318	(2,284,057)	(103,620)	-	1,318
Net Assets, Beginning of Year, Restated	2,388,995	-	-	2,316,277	72,718
Fixed asset additions	99,594 *	-	-	99,594	-
Current loss/Depreciation expense	(101,825) *	-	-	(140,146)	38,321
Net Assets, End of Year	$ 2,386,764	$ -	$ -	$ 2,275,725	$ 111,039

* = $(2,231)

9. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended June 30, 2004, the Authority electronically submitted an unaudited version of the combining balance sheet, statement of revenues, expenses and changes in retained earnings and other data to HUD as required on the GAAP basis. The audited version of the FDS schedules are on pages 18 - 21. The schedules are presented in the manner prescribed by Housing and Urban Development. These schedules can be used to tie the total assets and liabilities into the combined statements.

Morgan Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
June 30, 2004

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	State & Local	TOTAL
	ASSETS					
111	Cash - unrestricted	$ 4,211	$ 1,154	$ -	$ -	$ 5,365
112	Cash - Restricted Modernization & Development	-	2,000	-	-	2,000
113	Cash - other restricted	12,227	2,587	-	-	14,814
114	Cash - tenant security deposits	-	19,713	-	-	19,713
115	Cash - restricted for payment of current liabilities	53,696	25,626	-	-	79,322
100	TOTAL CASH	70,134	51,080	-	-	121,214
122	Accounts receivable - HUD other proj	7,232	-	17,517	-	24,749
125	Accounts receivable - miscellaneous	-	38,175	-		38,175
126	A/R Tenants - dwelling rents	-	946	-	-	946
126.1	Allowance for doubtful accts	-	(500)	-	-	(500)
126.2	Allowance for doubtful accts - other	-	(33,869)	-	-	(33,869)
120	TOTAL ACCOUNTS RECEIVABLE	7,232	4,752	17,517	-	29,501
142	Prepaid expenses and other assets	28	10,756	-	-	10,784
143	Inventories	-	11,954	-	-	11,954
143.1	Allowance for obsolete inventory	-	(1,100)	-	-	(1,100)
144	Interprogram due from	-	69,619	-	-	69,619
150	TOTAL CURRENT ASSETS	77,394	147,061	17,517	-	241,972
161	Land	-	251,650	-	-	251,650
162	Buildings	-	3,268,556	-	-	3,268,556
163	Furniture and equipment - dwellings	-	118,864	-	-	118,864
164	Furniture and equipment - admin	24,177	110,607	-	-	134,784
165	Leasehold improvements	-	47,030	96,355	-	143,385
166	Accumulated depreciation	(19,948)	(1,618,354)	(3,212)	-	(1,641,514)
160	TOTAL FIXED ASSETS, NET	4,229	2,178,353	93,143	-	2,275,725
180	TOTAL NON-CURRENT ASSETS	4,229	2,178,353	93,143	-	2,275,725
190	TOTAL ASSETS	$ 81,623	$ 2,325,414	$ 110,660	$ -	$ 2,517,697

See independent auditors' report

Morgan Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
June 30, 2004

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	State & Local	TOTAL
	LIABILITIES					
312	Accounts payable <=90 days	$ 619	$ 15,867	$ -	$ -	$ 16,486
321	Accrued wages/payroll taxes	-	3,843	-	-	3,843
322	Accrued compensated absences	975	5,500	-	-	6,475
333	Accounts payable - other govt	-	416	-	-	416
341	Tenant security deposits	-	19,182	-	-	19,182
347	Interprogram due to	52,102	-	17,517	-	69,619
310	TOTAL CURRENT LIABILITIES	53,696	44,808	17,517	-	116,021
354	Accrued Compensated Absences - Noncurrent	1,393	2,486	-	-	3,879
353	Noncurrent liabilities - other	8,910	2,123	-		11,033
350	TOTAL NONCURRENT LIABILITIES	10,303	4,609	-	-	14,912
300	TOTAL LIABILITIES	63,999	49,417	17,517	-	130,933
513	TOTAL EQUITY	17,624	2,275,997	93,143	-	2,386,764
600	TOTAL LIABILITIES AND EQUITY	$ 81,623	$ 2,325,414	$ 110,660	$ -	$ 2,517,697

See independent auditors' report

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2004

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	State/Local	TOTAL
	REVENUE					
703	Net tenant revenue	$ -	$ 51,328	$ -	$ -	$ 51,328
704	Tenant revenue - other	-	3,949	-	-	3,949
705	TOTAL TENANT REVENUE	-	55,277	-	-	55,277
706	PHA HUD grants	544,191	190,444	23,650	-	758,285
706.1	Capital contributions	-	-	96,355	-	96,355
708	Other Government Grants	-	-	-	14,090	14,090
711	Investment income - unrestricted	830	502	-	-	1,332
714	Fraud Recovery	-	-	-		-
715	Other revenue	-	-	-	-	-
720	Investment income - restricted	-	-	-	-	-
700	TOTAL REVENUE	545,021	246,223	120,005	14,090	925,339
	EXPENSES					
911	Administrative salaries	53,871	55,204	-	10,000	119,075
912	Auditing fees	3,927	7,121	-	-	11,048
913	Outside management fees	-	-	-	-	-
914	Compensated absenses	1,430	(1,587)	-	-	(157)
915	Employee benefit contribution - admin	14,170	-	-	4,090	18,260
916	Other operating - administrative	13,938	20,687	-	-	34,625
921	Tenant services - salaries	-	-	-	-	-
922	Relocation costs	-	-	-	-	-
924	Tenant services - other	-	-	-	-	-
931	Water	254	39,152	-	-	39,406
932	Electricity	1,220	5,637	-	-	6,857
933	Gas	369	2,383	-	-	2,752
938	Other utilities	-	-	-	-	-
941	Ord maintenance/op - labor	-	36,292	-	-	36,292
942	Ord maintenance/op - materials	-	9,811	-	-	9,852
943	Ord maintenance/op - cont costs	5,818	16,146	-	-	21,964
945	Emp benefit contrib - ord main	-	30,231	-	-	30,231
952	Protective services - other cont costs	-	-	3,650	-	3,650
961	Insurance premiums	535	19,858	-	-	20,393
962	Other general expenses	-	40	-	-	40
963	PILOT	-	416	-	-	416
964	Bad debts - tenant rents	-	2,992	-	-	2,992
966	Bad debt - other	-	-	-	-	-
967	Interest expense	-	158	-	-	158
969	TOTAL OPERATING EXPENSES	95,532	244,541	3,650	14,090	357,813
970	EXCESS OPERATING REVENUE OVER EXPENSES	449,489	1,682	116,355	-	567,526
973	Housing Assistance Payments	429,611	-	-	-	429,611
974	Depreciation expense	1,447	135,487	3,212	-	140,146
900	TOTAL EXPENSES	526,590	380,028	6,862	14,090	927,570

See independent auditors' report

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2004

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	State & Local	TOTAL
1001	Operating transfers in	-	20,000	-	-	20,000
1002	Operating transfers out	-	-	(20,000)	-	(20,000)
	TOTAL OTHER FINANCING SOURCES (USES)	-	20,000	(20,000)	-	-
	EXCESS OF REVENUE					
1000	OVER EXPENSES	18,431	(113,805)	93,143	-	(2,231)
1103	Beginning equity	(968)	2,350,003	38,642	-	2,387,677
1104	Prior period adj/equity transfers	161	39,799	(38,642)	-	1,318
	ENDING EQUITY	$ 17,624	$ 2,275,997	$ 93,143	$ -	$ 2,386,764

See independent auditors' report

Morgan Metropolitan Housing Authority
Cost Certification of Modernization Project
June 30, 2004

CFP 501-02:		
Operations	**$**	**22,000**
Administration		**30,000**
Fees and costs		**10,000**
Dwelling structures		**47,791**
TOTAL EXPENDED	**$**	**109,791**
TOTAL RECEIVED	**$**	**109,791**

1. **The actual cost certificate was signed on May 26, 2004.**
2. **All costs have been paid through June 30, 2004 and there are no outstanding liabilities.**
3. **The final costs on the certificate agree to the Authority's records.**

See independent auditors' report

Morgan Metropolitan Housing Authority
Schedule of Federal Awards Expenditures
June 30, 2004

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
<u>FROM U.S. DEPARTMENT OF HUD</u>		
<u>DIRECT PROGRAMS</u>		
PHA Owned Housing:		
Public and Indian Housing	**14.850A**	**$ 190,444**
Public Housing Capital Fund	**14.872**	**120,005**
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	**14.871**	**544,191**
Total - All Programs		**$ 854,640**

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Jones, Cochenour & Co.
Certified Public Accountants

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

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the basic financial statements of Morgan Metropolitan Housing Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. As described in Note 1 of the basic financial statement the authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* as of July 1, 2003. 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.

Compliance
As part of obtaining reasonable assurance about whether Morgan Metropolitan Housing Authority's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Morgan Metropolitan Housing Authority's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Morgan Metropolitan Housing Authority's ability to record process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2004-2424-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We did not consider the reportable condition above to be a material weakness.

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

Jones, Cochenour & Co.

Jones, Cochenour & Co.
October 22, 2004

Jones, Cochenour & Co.
Certified Public Accountants

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

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

Compliance

We have audited the compliance of Morgan Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended June 30, 2004. Morgan Metropolitan Housing Authority's major federal programs are identified in the summary of auditors' 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 Morgan Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Morgan Metropolitan Housing 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; 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 Morgan Metropolitan Housing 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 Morgan Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Morgan 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 June 30, 2004.

Internal Control Over Compliance

The management of Morgan 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 our audit, we considered Morgan 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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Jones, Cochenour & Co.

Jones, Cochenour & Co.
October 22, 2004

Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505

Morgan Metropolitan Housing Authority
June 30, 2004

1. SUMMARY OF AUDITORS' RESULTS

Type of Financial Statement Opinion	**Unqualified**
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	**No**
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	**Yes**
Was there any reported material non-compliance at the financial statement level (GAGAS)?	**No**
Were there any material internal control weakness conditions reported for major federal programs?	**No**
Were there any other reportable internal control weakness conditions reported for major federal programs?	**No**
Type of Major Programs' Compliance Opinion	**Unqualified**
Are there any reportable findings under § .510?	**No**
Major Programs (list):	**Section 8 Vouchers CFDA #14.871** **Public Housing Capital Fund CFDA#14.872**
Dollar Threshold: Type A/B Programs	**$300,000**
Low Risk Auditee?	**Yes**

Morgan Metropolitan Housing Authority
June 30, 2004

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding Number	2004-2424-001

REPORTABLE CONDITION – LACK OF SEGREGATION OF DUTIES:

During our audit of the Authority, it has been noted that the procedures used to complete a transaction are under the control of one person. Considering the small size of the staff, total segregation may not be cost effective. However, segregation of duties should be implemented when possible as well as practical. We recommend continuous monitoring, the following procedures are suggested:

Recommendation: In general, the following rules are specially beneficial:

- **Do not allow a single employee to handle a cash transaction from beginning to end.**
- **The cash handling function should be separated from the function of recording cash transactions in the books of account.**
- **The receipt of cash should be centralized**
- **Customers should obtain a receipt at the conclusion of each sale.**
- **Cash receipts should be deposited to the bank intact on a daily basis.**
- **All cash disbursements should be made by check.**
- **Employees not involved with cash processing should prepare bank reconciliations.**
- **Bank reconciliations should be performed on a timely basis at the end of each month.**

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended June 30, 2004.

STATUS OF PRIOR FINDINGS

Finding 2003-2424-001 – Complete – N/A

Finding 2003-2424-002 – Partially Complete – Due to a small staff, it was difficult to completely segregate.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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MORGAN METROPOLITAN HOUSING AUTHORITY

MORGAN 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
FEBRUARY 10, 2005