BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT

of the

MORGAN METROPOLITAN
HOUSING AUTHORITY

for the

Year Ended June 30, 2006

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Morgan Metropolitan Housing Authority, Morgan County, prepared by Jones, Cochenour & Co., for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2007

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MORGAN METROPOLITAN HOUSING AUTHORITY
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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, 2006, 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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006 on our consideration of Morgan Metropolitan Housing 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 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in The United State of America. 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 on it.

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 9, 2006

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.

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

- **Total revenues: FYE 6/30/06: $953,872**
  FYE 6/30/05: $855,457 Increase of $98,415 (11.5%) in 2006

- **Total expenses: FYE 6/30/06: $952,188**
  FYE 6/30/05: $908,231 Increase of $43,957 (4.8%) in 2006

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 focus is on the Authority as a single enterprise fund. This 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, beginning on page 3 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.

Resident Opportunities and Self Sufficiency (ROSS) – A grant program that provides funds for job training and supportive services to help residents of public housing transition from welfare to work. ROSS also provides funding to link elderly/disabled residents to critical services which can help them continue to live independently.

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 6/30/06	RESTATED FYE 6/30/05
Current and Other Assets	$ 291,163	$ 287,659
Capital Assets	$ 2,132,659	$ 2,169,753
TOTAL ASSETS	$ 2,423,822	$ 2,457,412
Other Liabilities	$ 56,087	$ 93,766
Long-Term Liabilities	$ 20,127	$ 17,722
TOTAL LIABILITIES	$ 76,214	$ 111,488
Net Assets:		
Invested in Capital Assets, net of Related Debt	$ 2,132,659	$ 2,169,753
Unrestricted	$ 214,949	$ 176,171
TOTAL NET ASSETS	$ 2,347,608	$ 2,345,924

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

Major factors affecting the *Statement of Net Assets:* Current Assets increased by $3,504 and Liabilities decreased by $37,679. Capital Assets decreased by $37,094 and unrestricted net assets increased by $38,778.

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 6/30/06	Restated FYE 6/30/05
Revenue:		
Tenant Revenue (Rent and Other)	$ 69,930	$ 55,814
Operating Subsidies and Grants	$ 774,497	$ 751,901
Capital Grants	$ 96,150	$ 32,064
Fraud Recovery	$ 3,000	$ 5,790
Investment Income	$ 1,895	$ 1,488
Other Revenues	$ 8,400	$ 8,400
TOTAL REVENUE	$ 953,872	$ 855,457
Expenses:		
Administration	$ 181,088	$ 180,153
Utilities	$ 65,764	$ 51,414
Maintenance	$ 108,631	$ 114,939
General Expenses	$ 22,176	$ 20,578
Housing Assistance Payments	$ 439,976	$ 403,112
Depreciation	$ 133,243	$ 138,035
Bad Debt	$ 1,310	$ -
TOTAL EXPENSES	$ 952,188	$ 908,231

Major factors affecting the *Statement of Revenue, Expenses, and Changes in Net Asset:* Total revenue and total expenses increased from the previous year. The increase of income was due to an increase in Operating Subsidy, Capital Fund and Tenant Rent Revenue. The higher cost of HAP and utilities caused the increase in expenses.

Unaudited

CAPITAL ASSETS

As of year end, the Authority had $96,150 invested in leasehold improvements as reflected in the following schedule which represents a net decrease (addition, deductions and depreciation) of $37,094 from the end of last year.

TABLE 3

CAPITAL ASSETS AT YEAR-END
(Net of Depreciation)

	FYE 6/30/06	FYE 6/30/05
Land and Land Rights	$ 251,650	$ 251,650
Buildings	$ 3,292,531	$ 3,292,531
Equipment-Administrative	$ 134,784	$ 134,784
Equipment-Dwellings	$ 118,864	$ 118,864
Accumulated Depreciation	($ 1,912,793)	($ 1,779,549)
Leasehold Improvements	$ 247,623	$ 151,473
TOTAL	$ 2,132,659	$ 2,169,753

TABLE 4

CHANGE IN CAPITAL ASSETS

The following reconciliation summarizes the change in Capital Assets.

Beginning Balance	$ 2,169,753
Additions	$ 96,150
Depreciation	$ (133,244)
Ending Balance:	$ 2,132,659

Additions relate to *Capital Fund Program* grant improvements.

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, 2006

ASSETS			
Cash and cash equivalents		$	235,384
Security deposits			22,386
Receivables - net of allowance			6,949
Inventories - net of allowance			13,161
Prepaid expenses and other assets			13,283
	TOTAL CURRENT ASSETS		291,163
Land			251,650
Capital assets - net			1,881,009
	TOTAL CAPITAL ASSETS		2,132,659
	TOTAL ASSETS		2,423,822
LIABILITIES			
Accounts payable			19,966
Accrued liabilities			5,022
Intergovernmental payables			495
Tenant security deposits			22,275
Accrued compensated absences			8,329
	TOTAL CURRENT LIABILITIES		56,087
Accrued compensated absences			7,108
FSS liability			13,019
	TOTAL LONG TERM LIABILITIES		20,127
	TOTAL LIABILITIES		76,214
NET ASSETS			
Invested in capital assets - net of related debt			2,132,659
Unrestricted net assets			214,949
	NET ASSETS	$	2,347,608

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, 2006

OPERATING REVENUE		
Tenant revenue	$	69,930
HUD operating grants		774,497
Other revenue		11,400
TOTAL OPERATING REVENUE		855,827
OPERATING EXPENSES		
Administrative		181,088
Utilities		65,764
Maintenance		108,631
General		22,176
Housing assistance payments		439,976
Depreciation		133,243
Bad debts		1,310
TOTAL OPERATING EXPENSES		952,188
OPERATING LOSS		(96,361)
NON-OPERATING REVENUE		
Interest income - unrestricted		1,895
HUD capital grants		96,150
CHANGE IN NET ASSETS		1,684
NET ASSETS BEGINNING OF YEAR - RESTATED		2,345,924
NET ASSETS END OF YEAR	$	2,347,608

See accompanying notes to the basic financial statements

Morgan Metropolitan Housing Authority
Statement of Cash Flows
Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tenants	$	82,274
Cash received from HUD		802,354
Cash payments for administrative		(367,863)
Cash payments for housing assistance payments		(439,976)
NET CASH PROVIDED BY OPERATING ACTIVITIES		76,789
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of capital assets		(96,150)
Capital grants received for capital assets		96,150
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity		1,895
INCREASE IN CASH AND CASH EQUIVALENTS		78,684
CASH AND CASH EQUIVALENTS, BEGINNING		156,700
CASH AND CASH EQUIVALENTS, ENDING	$	235,384
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES		
Operating (loss)	$	(96,361)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		133,243
Prior period adjustment		(10,602)
(Increase) decrease in:		
Receivables - net of allowance		37,592
Inventories - net of allowance		(1,169)
Prepaid expenses and other assets		(707)
Increase (decrease) in:		
Accounts payable		6,617
Accrued compensated absences		3,368
Intergovernmental payables		(63)
Accrued wages/payroll taxes		2,762
Other liabilities		2,109
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	76,789

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.

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.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability are the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The Authority is not a component unit of any larger entity.

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.

Ross Program (ROSS) – A grant program that provides funds for job training and supportive services to help residents of public housing transition from welfare to work. ROSS also provides funding to link elderly/disabled residents to critical services which can help them continue to live independently.

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 2006 for both programs totaled $1,895.

Prepaid expenses
Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 estimated 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 eliminated.

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 $889 at June 30, 2006.

Inventories

Inventories are stated at cost, (first-in, first-out method). The allowance for obsolete inventory was $1,500 at June 30, 2006.

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, 2006. Net assets are recorded as restricted when there are limitations imposed on their use either by internal or external restrictions.

Operating/Nonoperating 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.

Nonoperating revenues are HUD capital grants and interest income. HUD capital grants are the amounts received by the Authority for capital improvements and administration of the public housing programs.

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 account is 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.

At fiscal year end June 30, 2006, the carrying amount of the Authority's deposits totaled $257,770 and its bank balance was $214,619. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, $0 was exposed to custodial risk as discussed below, while $106,194 was covered by the Federal Depository Insurance Corporation and the remaining $108,425 was covered by specific collateral pledged by the financial institution in the name of the Authority.

Custodial credit risk is the risk that in the event of bank failure, the Authority will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

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 6/30/05	Net Additions / Deletions	Balance 6/30/06
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	$ 3,444,004	$ 96,150	$ 3,540,154
Furniture and equipment	253,648	-	253,648
Totals at Historical Costs	3,697,652	96,150	3,793,802
Less: Accumulated Depreciation	(1,779,549)	(133,244)	(1,912,793)
TOTAL CAPITAL ASSETS, NET BEING DEPRECIATED	$ 1,918,103	$ (37,094)	$ 1,881,009

The depreciation expense for the year then ended June 30, 2006 was $133,244.

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 obtained 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 2006, 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 2006.

The Authority's required contributions, including the pick up portion of certain employees for the years ended June 30, 2006, 2005 and 2004 were $21,495, $18,316, and $20,380 respectively. All required payments of contributions have been made through June 30, 2006.

7. POST RETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - 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 care benefits to qualifying members of both the Traditional and the Combined Plans. 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 service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of 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 2005 employer contribution rate was 13.55 percent of covered payroll, and 4.00 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, 2004.

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 unfunded actuarial accrued liability. All investments are carried at 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 2004 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 at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was $355,287. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 were $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were, $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Prevention Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

8. RESTATEMENT OF PRIOR YEAR'S FUND EQUITY:

	Total	Invested in Capital Assets - Net of Debt	Unrestricted Net Assets
Net Assets, Beginning of Year	$ 2,335,322	$ 2,169,753	$ 165,569
Correction of deferred revenue	13,886	-	13,886
Write off of HUD A/R	(7,541)	-	(7,541)
Correction of forfeiture from previous year	4,257	-	4,257
Net Assets, Beginning of Year, Restated	$ 2,345,924	$ 2,169,753	$ 176,171

9. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended June 30, 2006, 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 in the supplemental data. 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, 2006

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	Other Business Activity	TOTAL
	ASSETS					
111	Cash - unrestricted	$ 11,626	$ 26,895	$ -	$ 16,800	$ 55,321
113	Cash - Restricted prepaid health	-	6,194	-	-	6,194
113	Cash - other restricted	12,424	691	-	-	13,115
114	Cash - tenant security deposits	-	22,386	-	-	22,386
100	TOTAL CASH	24,050	56,166	-	16,800	97,016
122	Accounts receivable - HUD other proj	-	-	1,546	-	1,546
125	Accounts receivable - miscellaneous	-	933	-	-	933
126	A/R Tenants - dwelling rents	-	2,699	-	-	2,699
126.1	Allowance for doubtful accts	-	(499)	-	-	(499)
126.2	Allowance for doubtful accts - other	2,660	-	-	-	2,660
128.1	Allowance for doubtful accts	(390)	-	-	-	(390)
129	Accrued interest receivable	-	-	-	-	-
128	Fraud recovery	-	-	-	-	-
120	TOTAL ACCOUNTS RECEIVABLE	2,270	3,133	1,546	-	6,949
131	Investments - unrestricted	72,777	33,144	-	-	105,921
135	Investments - restricted for current liabilities	-	27,233	-	-	27,233
142	Prepaid expenses and other assets	27,600	13,283	-	-	40,883
143	Inventories	-	14,661	-	-	14,661
143.1	Allowance for obsolete inventory	-	(1,500)	-	-	(1,500)
144	Interprogram due from	-	22,678	-	-	22,678
150	TOTAL CURRENT ASSETS	126,697	168,798	1,546	16,800	313,841
161	Land	-	251,650	-	-	251,650
162	Buildings	-	3,292,531	-	-	3,292,531
163	Furniture and equipment - dwellings	-	118,864	-	-	118,864
164	Furniture and equipment - admin	24,177	110,607	-	-	134,784
165	Leasehold improvements	-	143,384	104,239	-	247,623
166	Accumulated depreciation	(22,633)	(1,886,146)	(4,014)	-	(1,912,793)
160	TOTAL FIXED ASSETS, NET	1,544	2,030,890	100,225	-	2,132,659
180	TOTAL NON-CURRENT ASSETS	1,544	2,030,890	100,225	-	2,132,659
190	TOTAL ASSETS	$ 128,241	$ 2,199,688	$ 101,771	$ 16,800	$ 2,446,500

See independent auditors' report

Morgan Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
June 30, 2006

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	Other Business Activity	TOTAL
	LIABILITIES					
312	Accounts payable <=90 days	$ 457	$ 18,359	$ 1,150	$ -	$ 19,966
321	Accrued wages/payroll taxes	2,052	2,970	-	-	5,022
322	Accrued compensated absences	2,809	5,520	-	-	8,329
333	Accounts payable - other govt	-	495	-	-	495
341	Tenant security deposits	-	22,275	-	-	22,275
342	Deferred revenue	-	-	-	-	-
347	Interprogram due to	22,282	-	396	-	22,678
310	TOTAL CURRENT LIABILITIES	27,600	49,619	1,546	-	78,765
354	Accrued Compensated Absences - Noncurrent	2,281	4,827	-	-	7,108
353	Noncurrent liabilities - other	12,319	700	-		13,019
350	TOTAL NONCURRENT LIABILITIES	14,600	5,527	-	-	20,127
300	TOTAL LIABILITIES	42,200	55,146	1,546	-	98,892
513	TOTAL EQUITY	86,041	2,144,542	100,225	16,800	2,347,608
600	TOTAL LIABILITIES AND EQUITY	$ 128,241	$ 2,199,688	$ 101,771	$ 16,800	$ 2,446,500

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, 2006

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.870 Ross	Other Business Activity	TOTAL
	REVENUE						
703	Net tenant revenue	$ -	$ 68,773	$ -	$ -	$ -	$ 68,773
704	Tenant revenue - other	-	1,157	-	-	-	1,157
705	TOTAL TENANT REVENUE	-	69,930	-	-	-	69,930
706	PHA HUD grants	550,219	187,971	21,543	14,764	-	774,497
706.1	Capital contributions	-	-	96,150	-	-	96,150
711	Investment income - unrestricted	992	803	-	-	-	1,795
714	Fraud Recovery	3,000	-	-	-		3,000
715	Other revenue	-	-	-	-	8,400	8,400
720	Investment income - restricted	-	100	-	-	-	100
700	TOTAL REVENUE	554,211	258,804	117,693	14,764	8,400	953,872
	EXPENSES						
911	Administrative salaries	61,151	38,120	-	9,428	-	108,699
912	Auditing fees	2,940	1,260	-	-	-	4,200
913	Outside management fees	-	-	-	-	-	-
914	Compensated absenses	2,178	1,190	-	-	-	3,368
915	Employee benefit contribution - admin	20,041	6,540	-	5,336	-	31,917
916	Other operating - administrative	16,534	16,370	-	-	-	32,904
921	Tenant services - salaries	-	-	-	-	-	-
922	Relocation costs	-	-	-	-	-	-
924	Tenant services - other	-	-	-	-	-	-
931	Water	258	54,984	-	-	-	55,242
932	Electricity	1,164	5,534	-	-	-	6,698
933	Gas	424	3,400	-	-	-	3,824
938	Other utilities	-	-	-	-	-	-
941	Ord maintenance/op - labor	-	47,657	-	-	-	47,657
942	Ord maintenance/op - materials	-	14,607	-	-	-	14,607
943	Ord maintenance/op - cont costs	12,063	17,188	1,543	-	-	30,794
945	Emp benefit contrib - ord main	-	15,573	-	-	-	15,573
952	Protective services - other cont costs	-	-	-	-	-	-
961	Insurance premiums	1,857	19,824	-	-	-	21,681
962	Other general expenses	-	-	-	-	-	-
963	PILOT	-	495	-	-	-	495
964	Bad debts - tenant rents	392	918	-	-	-	1,310
966	Bad debt - other	-	-	-	-	-	-
967	Interest expense	-	-	-	-	-	-
969	TOTAL OPERATING EXPENSES	119,002	243,660	1,543	14,764	-	378,969
970	EXCESS OPERATING REVENUE OVER EXPENSES	435,209	15,144	116,150	-	8,400	574,903
973	Housing Assistance Payments	439,976	-	-	-	-	439,976
974	Depreciation expense	1,238	128,261	3,744	-	-	133,243
900	TOTAL EXPENSES	560,216	371,921	5,287	14,764	-	952,188

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, 2006

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.870 Ross	Other Business Activity	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	(6,005)	(93,117)	92,406	-	8,400	1,684
1103	Beginning equity	81,444	2,166,984	78,494	-	8,400	2,335,322
1104	Prior period adj/equity transfers	10,602	70,675	(70,675)	-	-	10,602
	ENDING EQUITY	$ 86,041	$ 2,144,542	$ 100,225	$ -	$ 16,800	$ 2,347,608

See independent auditors' report

Morgan Metropolitan Housing Authority
Cost Certifications

CFP	501-00	501-04
Operations	$ 10,000	$ 20,000
Administration	40,000	-
Fees and costs	18,361	3,200
Dwelling structures	45,000	81,417
TOTAL EXPENDED	$ 113,361	$ 104,617
TOTAL RECEIVED	$ 113,361	$ 104,617

1. **The actual cost certificate was signed on May 17, 2006 (501-00) and May 17, 2006 (501-04).**
2. **All costs have been paid through June 30, 2006 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
Year Ended June 30, 2006

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
FROM U.S. DEPARTMENT OF HUD		
DIRECT PROGRAMS		
PHA Owned Housing:		
Public and Indian Housing	14.850A	$ 187,971
Public Housing Capital Fund	14.872	117,693
Resident Opportunities and Self Sufficiency	14.870	14,764
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	550,219
Total - All Programs		$ 870,647

See independent auditors' report

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

Board of Directors
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, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard 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 Morgan Metropolitan Housing Authority's internal 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 2006-2424-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 weakness. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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*.

This report is intended solely for the information and use of management 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.

Jones, Cochenour & Co.

Jones, Cochenour & Co.
October 9, 2006

Jones, Cochenour & Co.
Certified Public Accountants

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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

<u>Compliance</u>

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, 2006. 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, 2006.

<u>Internal Control Over Compliance</u>

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 9, 2006

Schedule of Findings
OMB Circular A-133 § .505

Morgan Metropolitan Housing Authority
Year Ended June 30, 2006

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):	Public Housing CFDA #14.850 Capital Fund CFDA #14.872
Dollar Threshold: Type A/B Programs	$300,000
Low Risk Auditee?	Yes

Morgan Metropolitan Housing Authority

Schedule of Findings
OMB Circular A-133 § .505 - Continued

Morgan Metropolitan Housing Authority
Year Ended June 30, 2006

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding Number	2006-2424-001

REPORTABLE CONDITION – LACK OF SEGREGATION OF DUTIES:

During our audit of the Authority, it was noted that the procedures have been segregated as much as feasibly possible. 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 especially 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, 2006.

STATUS OF PRIOR YEAR FINDINGS

Finding 2004/2005-2424-001 – Partially Complete – Due to a small staff, it was difficult to completely segregate.

Mary Taylor, CPA
Auditor of State

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.

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 1, 2007

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