AUDITED BASIC FINANCIAL STATEMENTS

OF THE

MORROW METROPOLITAN HOUSING AUTHORITY

OCTOBER 1, 2005 – SEPTEMBER 30, 2006

Mary Taylor, CPA
Auditor of State

Board of Directors
Morrow Metropolitan Housing Authority
81 North Rich Street
Mt. Gilead, Ohio 43338

We have reviewed the *Independent Auditors' Report* of the Morrow Metropolitan Housing Authority, Morrow County, prepared by Wilson, Shannon & Snow, Inc., for the audit period October 1, 2005 through September 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 Morrow Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 25, 2007

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Board of Directors
Morrow Metropolitan Housing Authority
81 North Rich Street
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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) as of and for the fiscal year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 Standard*s 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 financial statements referred to above present fairly, in all material respects, the financial position of the Morrow Metropolitan Housing Authority, Morrow County as of September 30, 2006, and the changes in its financial position and its cash flows, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 9, the Authority restated net assets for reclassification of certain accounts.

In accordance with *Government Auditing Standard*s, we have also issued a report dated February 23, 2007, on our consideration of the Authority's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Federal Awards Expenditures as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Supplementary Financial Data Schedules, as required by the U.S. Department of Housing and Urban Development, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules have been subjected to auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Newark, Ohio
February 23, 2007

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

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 13).

FINANCIAL HIGHLIGHTS

- During fiscal year 2006, the Authority's net assets decreased by $46,039 (or 69%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were $66,752 (as restated) and $20,713 for fiscal year 2005 and fiscal year 2006, respectively.

- The revenue increased by $28,574 (or 5%) during fiscal year 2006, and was $604,220 and $632,794 for fiscal year 2005 and fiscal year 2006, respectively.

- The total expenses of the Authority increased $98,445 (or 17%). Total expenses were $580,388 and $678,833for fiscal year 2005 (as restated) and fiscal year 2006, respectively.

USING THIS ANNUAL REPORT

The following is a graphic outlining the three major sections of the report.

MD&A ~ Management's Discussion and Analysis ~

Basic Financial Statements ~ Basic Financial Statements – pgs 13-15 ~ ~ Notes to Basic Financial Statements – pgs 16-23 ~

Other Required Supplementary Information ~ Required Supplementary Information - none~ (other than MD&A)

The primary focus of the Authority's financial statements is on both the Authority as a whole and its respective financial position. This perspective allows the user to address relevant questions, broaden a basis for comparison (year-to-year or Authority-to-Authority) and enhance the Authority's accountability.

Authority-Wide Financial Statements

The Authority-wide financial statements are designed to be corporate-like and present the results of operations.

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:

Net Assets, Invested in Capital Assets: This component of Net Assets consists of all Capital Assets, reduced by Accumulated Depreciation as of September 30, 2006. The Authority has no outstanding debt.

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. The Authority has no restricted assets.

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

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

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

Finally, Statement of Cash Flows 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 Funds

The Authority's financial statements include all programs that are considered to be within its administrative control. The Authority generally maintains separate accounting records for each grant program or annual contribution contract, as required by HUD. A list of more significant programs is as follows:

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

Other Programs - In addition to the major programs listed above, the Authority also maintains the following programs. The only other program the Authority is involved with is listed below:

> Home Investment Partnership Program – represents other HUD resources developed through a grant agreement with Morrow County.
>
> Business Activities – represents non-HUD resources developed from a variety of activities, including services to other entities.

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AUTHORITY-WIDE STATEMENT

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The following table reflects the condensed Statement of Net Assets compared to the prior year. The Authority is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	2006	(Restated) 2005
Current and Other Assets	$ 60,655	$ 114,657
Capital Assets	2,445	3,706
Total Assets	63,100	118,363
Other Liabilities	4,160	47,301
Non-Current Liabilities	38,227	4,310
Total Liabilities	42,387	51,611
Net Assets:		
Invested in Capital Assets	2,445	3,706
Unrestricted	18,268	63,046
Total Net Assets	$ 20,713	$ 66,752

For more detailed information see page 13 for the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current assets (primarily cash and investments) decreased by $54,002 and total liabilities also decreased by $9,224. For fiscal year 2005, the Authority reported $41,337 in accounts receivable from HUD; during fiscal year 2006, the Authority collected $35,766 of this receivable and absorbed the difference of $5,571 in unrestricted net assets (see Note 9 for prior period adjustment). The change to HUD's funding has given the Authority less cash in addition to no longer reporting accounts receivable from HUD at fiscal year end. The Authority ended fiscal year 2006 having overspent HAP funding.

Capital assets decreased by the current year's depreciation of $3,001 less acquisitions of $1,740 for a net decrease of $1,261. For more detail see "Capital Assets and Debt Administration" on page 10.

TABLE 2

CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets October 1, 2005 (Restated, see Note 9)		$ 63,046
Results of Operation	$(46,039)	
Adjustments:		
Depreciation (1)	3,001	
Adjusted Results from Operations		(43,038)
Capital Expenditures		(1,740)
Unrestricted Net Assets September 30, 2006		$ 18,268

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

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

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TABLE 3

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	2006	2005
Revenues		
HUD Grants	$ 618,536	$ 562,210
Interest	314	275
Service Revenue	13,259	41,705
Fraud Recovery	685	30
Total Revenue	632,794	604,220
Expenses		
Administrative	132,536	149,868
Material and Labor - Maintenance	3,654	2,541
General	5,925	5,738
Housing Assistance Payments	533,717	420,037
Depreciation	3,001	2,204
Total Expenses	678,833	580,388
Change in Net Assets	$ (46,039)	$ 23,832

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

HUD Grants increased $56,326 in fiscal year 2006 or 10%. This increase can be attributed to the increase in grant revenues from the Home Investment Partnership program.

Housing Assistance Payments increased in fiscal year 2006 by $113,680 or 27%. This again is attributed to the increase in the Home Investment Partnership program. The voucher program also has an increase in HAP expenses because of being slightly over-leased with 1,232 unit months for fiscal year 2006 or 101% while in fiscal year 2005 the Authority has 1,188 unit months leased for a 97% leasing rate.

Administrative expense decreased due to turnover and reduction in staff during fiscal year 2006.

Most other expenses fluctuated moderately due to inflation along with conservative efforts made by management of the Authority to limit expenses, where possible.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2006, the Authority had $2,445 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

TABLE 4

CAPITAL ASSETS AT FISCAL YEAR-END (NET OF DEPRECIATION)

	Business-Type Activities	
	2006	2005
Equipment – Administrative	$ 14,667	$ 12,927
Accumulated Depreciation	(12,222)	(9,221)
Total	$ 2,445	$ 3,706

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 20 of the notes.

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TABLE 5

CHANGE IN CAPITAL ASSETS

	Business-Type Activities
Beginning Balance	$ 3,706
Additions	1,740
Depreciation	(3,001)
Ending Balance	$ 2,445

This fiscal year's major addition is:

Telephone System	$ 1,740

Debt Outstanding

As of September 30, 2006, the Authority has no outstanding debt.

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

FINANCIAL CONTACT

The individual to be contacted regarding this report is Marsha K. Inscho, Finance Manager for the Morrow Metropolitan Housing Authority, at (419) 526-1622. Specific requests may be submitted to the Authority at 81 North Rich Street, Mt. Gilead, Ohio 43338.

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MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Assets		
Current Assets		
Cash and Cash Equivalents	$	21,154
Prepaid Items		1,504
Total Current Assets		22,658
Non-Current Assets		
Accounts Receivable - Fraud Recovery		1,142
Restricted Cash - Family Self-Sufficiency		36,855
Capital Assets:		
Furniture and Equipment		14,667
Accumulated Depreciation		(12,222)
Total Capital Assets		2,445
Total Non-Current Assets		40,442
Total Assets		63,100
Liabilities		
Current Liabilities		
Accounts Payable		1,069
Accrued Wages and Payroll Taxes		779
Accrued Compensated Absences		1,676
Deferred Revenue		636
Total Current Liabilities		4,160
Non-Current Liabilities		
Family Self-Sufficiency Deposits Payable		36,855
Accrued Compensated Absences		230
Other Non-Current Liabilities		1,142
Total Non-Current Liabilities		38,227
Total Liabilities		42,387
Net Assets		
Invested in Capital Assets		2,445
Unrestricted		18,268
Total Net Assets	$	20,713

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

MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues		
HUD Grants		$ 618,536
Other Revenue - Service Revenue		13,259
Other Revenue - Fraud Recovery		685
Total Operating Revenue		632,480
Operating Expenses		
Housing Assistance Payments	$ 533,717	
Administrative Salaries	55,072	
Employee Benefits	26,058	
Other Administrative	51,406	
Material and Labor - Maintenance	3,654	
Depreciation	3,001	
General	5,925	
Total Operating Expenses		678,833
Operating Loss		(46,353)
Non-Operating Revenues		
Interest		314
Change in Net Assets		(46,039)
Net Assets at October 1, 2005 (Restated - See Note 9)		66,752
Net Assets at September 30, 2006		$ 20,713

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

MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Cash flows from operating activities	
Cash received from HUD	$ 627,478
Cash received from other sources	13,944
Cash payments to employees for services	(81,516)
Cash payments for goods and services - HUD	(533,717)
Cash payments for goods and services	(42,437)
Net cash used in operating activities	(16,248)
Cash flows from capital and related financial activities:	
Acquisition of assets	(1,740)
Net cash used in capital and related financing activities	(1,740)
Cash flows from investing activities	
Interest	314
Net cash provided by investing activities	314
Net change in cash and cash equivalents	(17,674)
Cash and cash equivalents at October 1, 2005	75,683
Cash and cash equivalents at September 30, 2006	$ 58,009
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (46,353)
Adjustments to reconcile operating loss to net cash used in operating activites	
Depreciation expense	3,001
Changes in assets and liabilities:	
Accounts receivable	35,288
Prepaid items	1,040
Accounts payable	(234)
Accrued wages and payroll taxes	(387)
Accrued compensated absences	(2,472)
Other liabilities	(6,131)
Net cash used in operating activities	$ (16,248)
Noncash operating activities:	$ (5,571)
Net effect of the prior period adjustments against surplus net assets	

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Morrow Metropolitan Housing Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

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 accompanying financial statements comply with the provisions of GASB Statement 39, *Determining Whether Organizations are Component Units*, in that the financial statements include all organizations, activities and functions for which the Authority is financially accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds over which the Authority is financially accountable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Excluded Entity

The following entity is excluded from the Reporting Entity; however, the entity does conduct activities for the benefit of the Authority:

Morrow Housing Development Association – In accordance with housing subsidy contracts, the Authority has designated this organization as a Section 8 non-profit corporation to serve as an instrumentality of the Authority to assist in the development and financing of housing projects. The Board of the Association is legally separate from the Morrow Metropolitan Housing Authority and is independently elected. This Section 8 non-profit corporation has no employees, performs no day-to-day functions, and the officers thereof serve in a non-paid status. There are no assets or liabilities in this corporation and there were no revenues or expenses incurred during 2006.

Fund Accounting

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

Proprietary Fund Types:

Proprietary funds are used to account for the Authority's ongoing activities which are similar to those found in the private sector. The following is the Authority's only proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Authority accounts for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Capital Assets

Capital assets are stated at cost and depreciation is computed using the straight line method over the 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 following are the useful lives used for depreciation purposes:

	Years
Furniture – dwelling	7
Furniture – non-dwelling	7
Equipment – dwelling	5
Equipment – non-dwelling	7
Computer hardware	3
Computer software	3

Cash and Cash Equivalents

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislature adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulation of other governments. The Authority had no net assets restricted by enabling legislation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Prepaid Items

Payments made to vendors for services that will benefit beyond the fiscal year-end are reported as prepaid items via the consumption method.

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The Authority had restricted assets for Family Self-Sufficiency Deposits and certain accounts receivable. See Note 5 for additional information concerning restricted assets.

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 for Housing and Urban Development Grants and other income. Operating expenses are necessary costs to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenues.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition.

Cash and cash equivalents included in the Authority's cash position at September 30, 2006 are as follows:

Demand deposits:

Bank balance - Checking	$12,197	Bank balance - Savings	$49,999
Items-in-transit	(4,212)	Items-in-transit	-
Carrying balance	$ 7,985	Carrying balance	$49,999

Of the fiscal year-end cash balance, $12,197 of the checking account and $49,999 of the savings account was covered by federal deposit insurance and $25 was maintained in petty cash funds.

Based on the Authority having only demand deposits at September 30, 2006, the Authority is not subject to interest rate, credit, concentration, or custodial credit risks.

3. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the Authority contracted with Cincinnati Insurance for general insurance, real property, building content, public employee liability, and lead-based paint insurance.

Property insurance carries a $250 deductible. Lead-based paint carries a $5,000 deductible.

Settled claims have not exceeded this coverage in any of the last three years. There has been no significant reduction in coverage from last year.

4. CAPITAL ASSETS

The following is a summary of capital assets at September 30, 2006:

	Balance October 1, 2005	Additions	Disposals	Balance September 30, 2006
Capital Assets - Cost				
Furniture, fixtures, and equipment	$12,927	$ 1,740	$ -	$ 14,667
Less: accumulated depreciation				
Furniture, fixture, and equipment	(9,221)	(3,001)	-	(12,222)
Capital assets, net	$ 3,706	$ (1,261)	$ -	$ 2,445

5. FSS ESCROW PAYABLE

The Authority is involved in the Family Self-Sufficiency program through the Housing Choice Vouchers Program. Each month contributions are deposited into the Authority's savings account on behalf of the program participants. Participants are limited to a five year contract at which time, they either meet their program goals and may withdraw their money earned from the savings account, or they fail to meet their goals and forfeit their money. If a forfeiture occurs the money earned is used by the Authority to reinvest into the Housing Choice Voucher Program.

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple employer public employee retirement system administered by the Public Employee Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by 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 800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Authority was required to contribute 13.55 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to OPERS for the fiscal years ended 2004, 2005 and 2006 were $6,755, $10,032, and $7,858, respectively, which were equal to the required contributions for each year. In fiscal year 2006, the Authority picked up the employees' share of OPERS which totaled $5,094.

7. POSTRETIREMENT EMPLOYEE BENEFITS

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit, and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available under OPERS. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB). A portion of each employer's OPERS contribution is set aside for the funding of postretirement health care. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS. The number of active contributing participants was 369,885 as of December 31, 2005 (most recent information available).

As required by state statute, a portion of each employer's contribution to OPERS is used for the funding of the postemployment health care. Based on the employer's contribution of 13.55% of covered payroll; 4.00% was used to fund health care for the year. Employer contributions are advance-funded on an actuarially determined basis and are determined by state statue.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2004 (latest actuarial review). 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 (actual gains and losses) becomes part of 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 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8 percent.

7. POSTRETIREMENT EMPLOYEE BENEFITS – (CONTINUED)

OPERS (assuming the number of active employees remains constant) assumes an annual increase of 4.00% compounded annually for the base portion of an individual's pay increase. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%.

As of December 31, 2004, the audited estimated net assets available for future OPEB payments were $10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were $29.5 billion and $18.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2005, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit.

The benefit recipients will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

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

8. RELATED PARTY TRANSACTIONS

During fiscal year 2006, the Authority disbursed $702 in housing assistance payments to related parties. The Authority has obtained permission from HUD to allow these related parties to receive housing assistance payments.

9. PRIOR PERIOD ADJUSTMENTS

At year end September 30, 2005, the Department of Housing and Urban Development had not yet settled the method for accounting for unused advances in grants to the Authority. The Authority recorded the advance as deferred revenue in accordance with guidance previously prescribed by HUD. Per Public and Indian Housing Notice 2006-03, all accounts receivable due from HUD or accounts payable due HUD should be recorded to an Undesignated HAP fund account which is a component of Unrestricted Net Assets. The following illustrates this effect:

Unrestricted Net Assets at October 1, 2005	$ 68,617
Adjustments to Reclassify Grants Excess Payments	(5,571)
Unrestricted Net Assets at October 1, 2005, as restated	63,046
Invested in Capital Assets at October 1, 2005	3,706
Net Assets at October 1, 2005, as restated	$ 66,752

10. CONTINGENT LIABILITIES

A. Grants

Amounts grantor agencies pay to the Authority are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims could have a material adverse effect on the overall financial position of the Authority at September 30, 2006.

B. Litigation

The Authority is unaware of any outstanding lawsuits or other contingencies.

MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2006

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Investment Partnership Program	Total
	Current Assets			
111	Cash - Unrestricted	$ 20,518	$ 636	$ 21,154
113	Cash - Other Restricted	36,855	-	36,855
100	Total Cash	57,373	636	58,009
	Investements and Other Assets			
142	Prepaid Items and Other Assets	1,504	-	1,504
	Total Investments and Other Assets	1,504	-	1,504
150	Total Current Assets	58,877	636	59,513
	Noncurrent assets			
128	Accounts Receivable - Fraud Recovery	1,142	-	1,142
	Capital Assets			
164	Furniture and Equipment - Administration	14,667	-	14,667
166	Accumulated Depreciation	(12,222)	-	(12,222)
160	Total Capital Assets, net of accumulated depreciation	2,445	-	2,445
180	Total Non-Current Assets	3,587	-	3,587
190	Total Assets	$ 62,464	$ 636	$ 63,100

MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
SEPTEMBER 30, 2006

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Investment Partnership Program	Total
	Current Liabilities			
312	Accounts Payable	$ 1,069	$ -	$ 1,069
321	Accrued Wages and Payroll Taxes	779	-	779
322	Accrued Compensated Absences	1,676	-	1,676
342	Deferred Revenue	-	636	636
310	Total Current Liabilities	3,524	636	4,160
353	Non-Current Liabilities - Other:			
	Fraud Recovery	1,142	-	1,142
	Family Self-Sufficiency	36,855	-	36,855
353	Total Non-Current Liabilities - Other	37,997	-	37,997
354	Accrued Compensated Absences-Non Current	230	-	230
350	Total Non-Current Liabilities	38,227	-	38,227
300	Total Liabilities	41,751	636	42,387
	Net Assets			
508.1	Invested in Capital Assets, Net of Related Debt	2,445	-	2,445
512.1	Unrestricted	18,268	-	18,268
513	Total Net Assets	20,713	-	20,713
600	Total Liabilities and Net Assets	$ 62,464	$ 636	$ 63,100

MORROW METROPOLITAN HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FDS SCHEDULE SUBMITTED TO HUD
YEAR ENDED SEPTEMBER 30, 2006

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Investment Partnership Program	Business Activities	Total
	Revenue				
706	HUD Grants	$ 413,042	$ 205,494	$ -	$ 618,536
711	Interest Income - Unrestricted	314	-	-	314
714	Fraud Recovery	685	-	-	685
715	Other Revenue	-	-	13,259	13,259
	Total Revenue	414,041	205,494	13,259	632,794
	Expenses				
911	Administrative Salaries	24,677	22,440	7,955	55,072
912	Auditing Fees	6,359	-	-	6,359
915	Employee Benefit Contribution - Administrative	15,722	7,630	2,706	26,058
916	Other Operating - Administrative	35,119	7,330	2,598	45,047
942	Ordinary Maintenance and Operation - Materials	3,654	-	-	3,654
961	Insurance Premiums	5,925	-	-	5,925
969	Total Operating Expenses	91,456	37,400	13,259	142,115
970	Excess Operating Revenue Over Operating Expenses	322,585	168,094	-	490,679
	Other Expenses				
973	Housing Assistance Payments	365,623	168,094	-	533,717
974	Depreciation	3,001	-	-	3,001
	Total Other Expenses	368,624	168,094	-	536,718
900	Total Expenses	460,080	205,494	13,259	678,833
1000	Excess of Revenues over Expenses	(46,039)	-	-	(46,039)
1103	Net Assets at Beginning of Year	72,323	-	-	72,323
1104	Prior Period Adjustment	(5,571)	-	-	(5,571)
	Net Assets at End of Year	$ 20,713	$ -	$ -	$ 20,713

MORROW METROPOLITAN HOUSING AUTHORITY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Pass-Through Number	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers Program	N/A	14.871	$ 460,080
Passed through Morrow County			
Home Investment Partnership Program	N/A	14.239	205,494
Total Federal Award Expenditures			$ 665,574

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

The Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the Authority's federal award programs. The Schedule has been prepared on the accrual basis of accounting.

<u>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*</u>

Board of Directors
Morrow Metropolitan Housing Authority
81 North Rich Street
Mt. Gilead, Ohio 43338

We have audited the financial statements of the Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated February 23, 2007. As disclosed within Note 9, the Authority restated net assets. 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.

<u>Internal Control over Financial Reporting</u>

In planning and performing our audit, we considered the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
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This report is intended solely for the information and use of management, Board of Directors, the Auditor of State, 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.

Wilson, Shannon & Snow, Inc.

Newark, Ohio
February 23, 2007

Report on Compliance with Requirements Applicable to Its Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*

Board of Directors
Morrow Metropolitan Housing Authority
81 North Rich Street
Mt. Gilead, Ohio 43338

Compliance

We have audited the compliance of the Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended September 30, 2006. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended September 30, 2006.

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Internal Control Over Compliance

The management of the 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 the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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 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 and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Shannon & Snow, Inc.

Newark, Ohio
February 23, 2007

MORROW METROPOLITAN HOUSING AUTHORITY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for a major federal program?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for a major federal program?**	No
(d)(1)(v)	**Type of Major Program's Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Program (list):**	Housing Choice Vouchers/14.871
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	Yes

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted

MORROW METROPOLITAN HOUSING AUTHORITY

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007