

BASIC FINANCIAL STATEMENTS
of the
Morrow Metropolitan Housing Authority
September 30, 2004



**Auditor of State
Betty Montgomery**

Board of Directors
Morrow Metropolitan Housing Authority
298 East Center Street, Suite B
Marion, Ohio 43302

We have reviewed the Independent Auditor's Report of the Morrow Metropolitan Housing Authority, Morrow County, prepared by Wilson, Shannon & Snow, Inc., for the audit period October 1, 2003 to September 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 16, 2005

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) as of and for the year ended September 30, 2004 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2004 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 3, 2005 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, 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.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Ten West Locust Street

Newark, Ohio 43055

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting 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 financial statements that collectively compose 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 supplemental 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 in relation to the basic financial statements taken as a whole.

Wilson, Shannon & Snow, Inc.

Newark, Ohio
February 3, 2005

**Morrow Metropolitan Housing Authority
Management's Discussion and Analysis
September 30, 2004**

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 12).

FINANCIAL HIGHLIGHTS

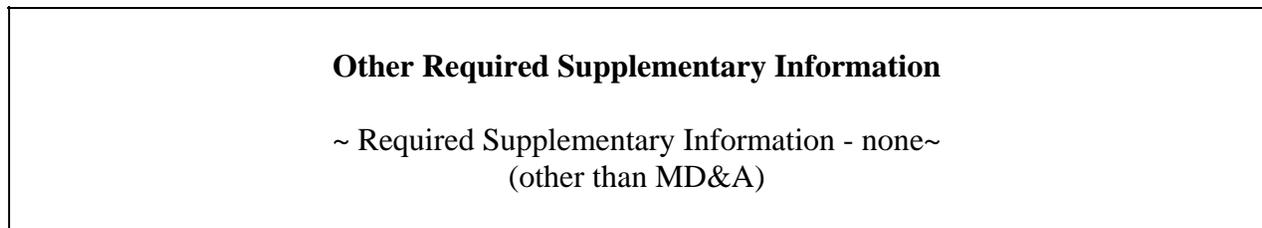
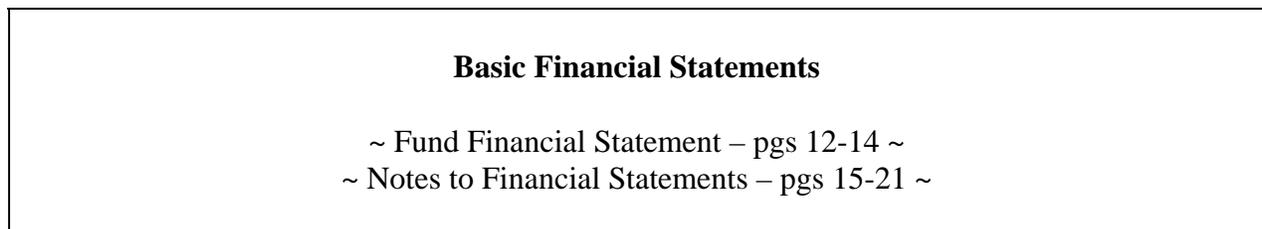
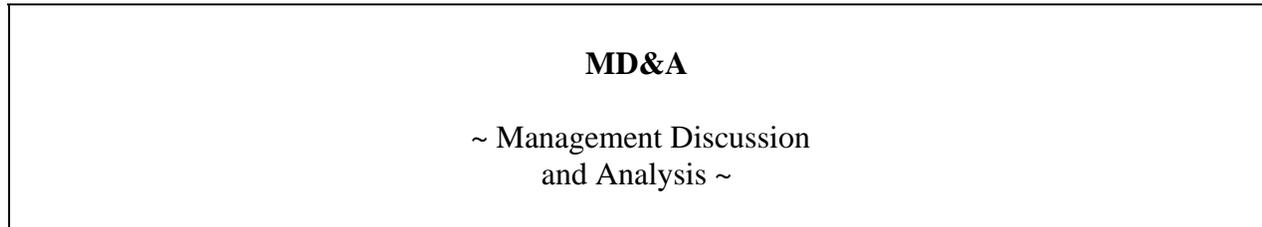
- During fiscal year 2004, the Authority's net assets decreased by \$1,394 (or 2.75%). Of that amount, \$1,349 was a prior period adjustment initiated by the U.S. Department of Housing and Urban Development to reduce administrative fees earned and \$45 was a result of current year operations. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were \$50,600 and \$49,206 for fiscal year 2003 and fiscal year 2004, respectively.

- The revenue decreased by \$56,559 (or 9.71%) during fiscal year 2004, and was \$582,292 and \$638,851 for fiscal year 2003 and fiscal year 2004, respectively.

- The total expenses of the Authority decreased \$49,446 (or 8.39%). Total expenses were \$589,450 and \$638,896 for fiscal year 2003 and fiscal year 2004, respectively.

USING THIS ANNUAL REPORT

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



The primary focus of the Authority's financial statement is on the Authority as a whole (Authority-wide) and the major individual fund. Both perspectives (Authority-wide and major fund) 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.

Authority-Wide Financial Statements

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

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

The focus of the Statement of Net Assets (the “Unrestricted Net Assets”) is designed 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, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

Finally, Statement of Cash Flows 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:

State/Local Activities – represents non-HUD resources developed from a variety of activities.

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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

	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$119,643	\$ 70,651
Capital Assets	<u>5,413</u>	<u>2,958</u>
Total Assets	<u>125,056</u>	<u>73,609</u>
Other Liabilities	51,387	19,923
Non-Current Liabilities	<u>24,463</u>	<u>3,086</u>
Total Liabilities	<u>75,850</u>	<u>23,009</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,413	2,958
Unrestricted	<u>43,793</u>	<u>47,642</u>
Total Net Assets	\$ <u>49,206</u>	\$ <u>50,600</u>

For more detailed information see page 12 for the Statement of Net Assets.

Major Factors Affecting the Statement of Net Assets

Current and Other Assets were increased by \$48,992 in fiscal year 2004 which offsets the increase to total liabilities of \$52,841. \$20,587 of cash is restricted for Family Self-Sufficiency program participants (see Note 8 for further detail regarding the FSS program.) In addition, HUD and other Governmental Payables totaled \$47,213 at September 30, 2004 which indicates the Authority received more monies for housing assistance payments than it paid out; as a result, the excess monies will be paid back to HUD.

The December 15, 2003 purchase of the Gateway computer system for \$4,006 was the significant acquisition made during the year. For more detail see “Capital Assets and Debt Administration” below.

TABLE 2
CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets September 30, 2003		\$ 47,642
Results of Operation	\$ (45)	
Adjustments:		
Depreciation (1)	1,551	
Prior Period Adjustments (2)	<u>(1,349)</u>	
Adjusted Results from Operations		157
Capital Expenditures		<u>(4,006)</u>
Unrestricted Net Assets September 30, 2004		<u>\$ 43,793</u>

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

(2) HUD adjusted fiscal year 2003 year-end reports reducing administrative fees earned thereby increasing the payable made to HUD for fiscal year 2003.

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.

	<u>2004</u>	<u>2003</u>
Revenues		
HUD PHA Operating Grants	\$ 601,914	\$544,558
Investment Income	207	190
Other Revenues - Service Income	<u>36,730</u>	<u>37,544</u>
Total Revenue	<u>638,851</u>	<u>582,292</u>
Expenses		
Administrative	156,199	151,480
Maintenance	3,426	4,557
General	6,183	4,028
Housing Assistance Payments	471,537	428,044
Depreciation	<u>1,551</u>	<u>1,341</u>
Total Expenses	<u>638,896</u>	<u>589,450</u>
Net Increase (Decrease)	\$ <u><u>(45)</u></u>	\$ <u><u>(7,158)</u></u>

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

The Housing Choice Program leasing rate was 103% for fiscal year 2003 and 98% for fiscal year 2004. During fiscal year 2003 HUD imposed a penalty for over leasing, see Prior Period Adjustment. Leasing for fiscal year 2004 was lower but within the maximum allowed.

Most other expenses increased moderately due to inflation.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2004, the Authority had \$5,413 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation).

TABLE 4

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

	Business-Type Activities	
	<u>2004</u>	<u>2003</u>
Equipment – Administrative	\$12,430	\$ 8,424
Accumulated Depreciation	<u>(7,017)</u>	<u>(5,466)</u>
Total	\$ <u>5,413</u>	\$ <u>2,958</u>

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

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TABLE 5

CHANGE IN CAPITAL ASSETS

	<u>Business-Type Activities</u>
Beginning Balance	\$ 2,958
Additions	4,006
Depreciation	<u>(1,551)</u>
Ending Balance	\$ <u>5,413</u>

This year's major addition is:

Gateway computer System	\$ 4,006
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Debt Outstanding

As of September 30, 2004, 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 298 East Center St, Marion, OH 43302.

Morrow Metropolitan Housing Authority
Statement of Net Assets
September 30, 2004

Assets

Current Assets

Cash and Cash Equivalents	\$ 88,012
Accounts Receivable - Other	7,238
Prepaid Items	3,806
Restricted Cash	20,587
	119,643

Total Current Assets 119,643

Non-Current Assets

Furniture and Equipment	12,430
Accumulated Depreciation	(7,017)
	5,413

Total Non-Current Assets 5,413

Total Assets \$ 125,056

Liabilities

Current Liabilities

Accounts Payable	\$ 1,755
Accounts Payable - HUD	35,263
Accounts Payable - Other Government	11,950
Accrued Wages and Payroll Taxes	1,185
Accrued Compensated Absences	1,234
	51,387

Total Current Liabilities 51,387

Non-Current Liabilities

Family Self-Sufficiency Deposits	20,587
Accrued Compensated Absences	3,876
	24,463

Total Non-Current Liabilities 24,463

Total Liabilities 75,850

Net Assets

Invested in Capital Assets, Net of Related Debt	5,413
Unrestricted	43,793
	49,206

Total Net Assets \$ 49,206

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

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

Operating Revenues		
HUD Grants		\$ 601,914
Other Income		<u>36,730</u>
Total Operating Revenue		638,644
Operating Expenses		
Housing Assistance Payments	\$ 471,537	
Administrative Salaries	79,475	
Employee Benefits	29,938	
Other Administrative	46,786	
Material and Labor - Maintenance	3,426	
Depreciation	1,551	
General	<u>6,183</u>	
Total Operating Expenses		<u>638,896</u>
Operating Deficit		(252)
Non-Operating Revenues		
Interest		<u>207</u>
Change in Net Assets		(45)
Net Assets at October 1, 2003		50,600
Prior Period Adjustment (See Note 9)		<u>(1,349)</u>
Net Assets at September 30, 2004		<u><u>\$ 49,206</u></u>

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

Morrow Metropolitan Housing Authority
Statement of Cash Flows
Year Ended September 30, 2004

<u>Cash flows from operating activities</u>	
Cash received from HUD	\$ 641,834
Cash received from other sources	36,730
Cash payments to employees for services	(108,179)
Cash payments for goods and services - HUD	(471,537)
Cash payments for goods and services	<u>(53,866)</u>
Net cash provided by operating activities	44,982
<u>Cash flows from capital and related financial activities:</u>	
Acquisition of assets	<u>(4,006)</u>
Net cash used in capital and related financing activities	(4,006)
<u>Cash flows from investing activities</u>	
Receipt of interest	<u>207</u>
Net cash provided by investing activities	<u>207</u>
Net change in cash and cash equivalents	41,183
Cash and cash equivalents at October 1, 2003	<u>67,416</u>
Cash and cash equivalents at September 30, 2004	<u><u>\$ 108,599</u></u>
<u>Cash flows from operating activities:</u>	
Operating deficit	\$ (252)
Adjustments to reconcile operating income to net cash used in operating activities	
Depreciation expense	1,551
Prior period adjustment	(1,349)
Changes in assets and liabilities:	
Accounts receivable	(6,340)
Prepaid expenses	(1,469)
Accounts payable	41,614
Accrued wages and payroll taxes	190
Accrued compensated absences	1,234
Other liabilities	<u>9,803</u>
Net cash provided by operating activities	<u><u>\$ 44,982</u></u>

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

Morrow Metropolitan Housing Authority
Notes to the Financial Statements
September 30, 2004

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.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

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 2004.

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 program. 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 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.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fixed Assets

Fixed 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:

	<u>Years</u>
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.

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.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. 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.

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.

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, 2004 are as follows:

Demand deposits:

Bank balance - Checking	\$ 76,807	Bank balance - Savings	\$ 35,187
Items-in-transit	<u>(3,420)</u>	Items-in-transit	<u> -</u>
Carrying balance	<u>\$ 73,387</u>	Carrying balance	<u>\$ 35,187</u>

Of the year-end cash balance, \$76,807 of the checking account and \$35,187 of the savings account was covered by federal depository insurance and \$25 was maintained in petty cash funds.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

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 2004, 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. FIXED ASSETS

The following is a summary of fixed assets at September 30, 2004:

Furniture and Equipment	\$ 12,430
Accumulated Depreciation	<u>(7,017)</u>
Net Fixed Assets	\$ <u>5,413</u>

5. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple employer public employee retirement system administered by the Public Employee Retirement Board. PERS 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. PERS 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-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 PERS for the years ended 2002, 2003 and 2004 were \$8,021, \$10,885, and \$6,755, respectively, which were equal to the required contributions for each year. In fiscal year 2004, the Authority resolved to pick up the employees' share of PERS which totaled \$6,158.

6. POSTRETIREMENT EMPLOYEE BENEFITS

PERS 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 PERS. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB). A portion of each employer's PERS 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 PERS. The number of active contributing participants was 368,996 as of December 31, 2003.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

As required by state statute, a portion of each employer's contribution to PERS is used for the funding of the postemployment health care. Based on the employer's contribution of 13.55% of covered payroll; 5.00% was used to fund health care for the year. Employer contributions are advance-funded on an actuarially determined basis and are determined by state statute.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (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 2002 was 8 percent.

PERS (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, 2002, the audited estimated net assets available for future OPEB payments were \$10.0 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$18.7 billion and \$8.7 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 PERS after January 1, 2004, 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.

7. RELATED PARTY TRANSACTIONS

During fiscal year 2004, the Authority disbursed \$5,728 in housing assistance payments to related parties. The Authority has acquired permission from HUD to allow these related parties to receive housing assistance payments.

8. 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 Voucher Program.

Morrow Metropolitan Housing Authority
Notes to the Financial Statements - Continued
September 30, 2004

9. PRIOR PERIOD ADJUSTMENT

The beginning balance has been decreased by \$1,349 to reflect the adjustment to the fiscal year 2003 HUD payable as the result of an adjustment made by HUD to the Authority's fiscal year 2003 annual report, whereas the Authority's payable to HUD increased by this amount. For tracking and reporting purposes, the Authority posted this adjustment through beginning balance rather than current year transactions.

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Morrow Metropolitan Housing Authority
Statement of Net Assets
FDS Schedule Submitted to HUD
September 30, 2004

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
Current Assets				
111	Cash - Unrestricted	\$ 76,062	\$ 11,950	\$ 88,012
113	Cash - Other Restricted	20,587	-	20,587
100	Total Cash	<u>96,649</u>	<u>11,950</u>	<u>108,599</u>
Accounts Receivable				
125	Accounts receivable - Miscellaneous	7,238	-	7,238
120	Total Accounts Receivable	<u>7,238</u>	<u>-</u>	<u>7,238</u>
Investments and Other Assets				
142	Prepaid Expenses and Other Assets	3,806	-	3,806
	Total Investments and Other Assets	<u>3,806</u>	<u>-</u>	<u>3,806</u>
150	Total Current Assets	<u>107,693</u>	<u>11,950</u>	<u>119,643</u>
Noncurrent assets				
Fixed Assets				
164	Furniture and Equipment - Administration	12,430	-	12,430
166	Accumulated Depreciation	(7,017)	-	(7,017)
160	Total Fixed Assets, net of accumulated depreciation	<u>5,413</u>	<u>-</u>	<u>5,413</u>
180	Total Non-Current Assets	<u>5,413</u>	<u>-</u>	<u>5,413</u>
190	Total Assets	<u>\$ 113,106</u>	<u>\$ 11,950</u>	<u>\$ 125,056</u>

Morrow Metropolitan Housing Authority
Statement of Net Assets
FDS Schedule Submitted to HUD
September 30, 2004

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
Current Liabilities				
312	Accounts Payable	\$ 1,755	\$ -	\$ 1,755
321	Accrued Wages and Payroll Taxes	1,185	-	1,185
322	Accrued Compensated Absences	1,234	-	1,234
331	Accounts Payable - HUD	35,263		35,263
333	Accounts Payable - Other Government	-	11,950	11,950
310	Total Current Liabilities	<u>39,437</u>	<u>11,950</u>	<u>51,387</u>
353	Non-Current Liabilities - Other	20,587	-	20,587
354	Accrued Compensated Absences-Non Current	3,876	-	3,876
350	Total Non-Current Liabilities	<u>24,463</u>	<u>-</u>	<u>24,463</u>
300	Total Liabilities	<u>63,900</u>	<u>11,950</u>	<u>75,850</u>
Net Assets				
508.1	Invested in Capital Assets, Net of Related Debt	5,413	-	5,413
512	Unrestricted	43,793	-	43,793
	Total Net Assets	<u>49,206</u>	<u>-</u>	<u>49,206</u>
600	Total Liabilities and Net Assets	<u>\$ 113,106</u>	<u>\$ 11,950</u>	<u>\$ 125,056</u>

Morrow Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Net Assets
FDS Schedule Submitted to HUD
Year ended September 30, 2004

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
Revenue				
706	HUD Grants	\$ 433,313	\$ 168,601	\$ 601,914
711	Investment Income - Unrestricted	207	-	207
715	Other Revenue	-	36,730	36,730
	Total Revenue	<u>433,520</u>	<u>205,331</u>	<u>638,851</u>
Expenses				
911	Administrative Salaries	31,528	47,947	79,475
912	Auditing Fees	5,683	-	5,683
914	Compensated Absences	1,234	-	1,234
915	Employee Benefit Contribution - Administrative	12,155	16,549	28,704
916	Other Operating - Administrative	28,069	13,034	41,103
942	Ordinary Maintenance and Operation - Materials	3,426	-	3,426
962	Insurance Premiums	6,183	-	6,183
	Total Operating Expenses	<u>88,278</u>	<u>77,530</u>	<u>165,808</u>
970	Excess Operating Revenue Over Operating Expenses	<u>345,242</u>	<u>127,801</u>	<u>473,043</u>
Other Expenses				
973	Housing Assistance Payments	343,736	127,801	471,537
974	Depreciation	1,551	-	1,551
	Total Other Expenses	<u>345,287</u>	<u>127,801</u>	<u>473,088</u>
900	Total Expenses	<u>433,565</u>	<u>205,331</u>	<u>638,896</u>
1000	Excess of Revenues over Expenses	(45)	-	(45)
1103	Net Assets at Beginning of Year	50,600	-	50,600
1104	Prior Period Adjustment	(1,349)	-	(1,349)
	Net Assets at End of Year	<u>\$ 49,206</u>	<u>\$ -</u>	<u>\$ 49,206</u>

**Morrow Metropolitan Housing Authority
 Schedule of Federal Awards Expenditures
 Year Ended September 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Expenditures For The Year Ended
<u>U.S. Department of Housing and Urban Development</u>		
Housing Choice Vouchers	14.871	\$ 433,565
Passed through Morrow County		
Home Program	14.239	<u>205,331</u>
Total Federal Award Expenditures		<u><u>\$ 638,896</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

Morrow Metropolitan Housing Authority
Notes to the Schedule of Federal Awards Expenditures
September 30, 2004

1. 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.



Report On Compliance And On Internal Control Required By Government Auditing Standards

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

We have audited the basic financial statements of Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) as of and for the year ended September 30, 2004 and have issued our report thereon dated February 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting 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.

Compliance and Other Matters

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
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

This report is intended solely for the information and use of the Board of Directors, management, the Auditor of State, 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, Shanna & Snow, Inc.

Newark, Ohio
February 3, 2005



Report On Compliance With Requirements Applicable To Each 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 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 each of its major federal programs for the year ended September 30, 2004. 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 year ended September 30, 2004.

Wilson, Shannon & Snow, Inc.

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FAX (740) 345-5635

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 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, 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, Shuman & Snow, Inc.

Newark, Ohio
February 3, 2005

Morrow Metropolitan Housing Authority

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

September 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

**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



**Auditor of State
Betty Montgomery**

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**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
MARCH 29, 2005**