BASIC FINANCIAL STATEMENTS

of the

Morrow Metropolitan Housing Authority

September 30, 2003

Auditor of State
Betty Montgomery

Board of Directors
Morrow Metropolitan Housing Authority

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, 2002 through September 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 26, 2004

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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 financial statements of Morrow Metropolitan Housing Authority, Morrow County, Ohio (the Authority) as of and for the year ended September 30, 2003. 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.

As described in Note 1 to the basic financial statements, the Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis* and GASB Statement No. 37, *Basic Financial Statements for State and Local Governments* for the year ended September 30, 2003.

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, 2003 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 Standard*s, we have also issued a report dated January 21, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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CERTIFIED PUBLIC ACCOUNTANTS
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The 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. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental financial data schedules accompanying the financial statements are not necessary for fair presentation of the financial position, changes in financial position and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America. The supplemental schedules listed in the table of contents are presented only for purposes of additional analysis and are not a required part of the financial statements. Such schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects, in relation to the financial statements taken as a whole.

The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Wilson, Shannon & Snow, Inc.

Newark, Ohio
January 21, 2004

Morrow Metropolitan Housing Authority
Management's Discussion and Analysis
September 30, 2003

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.

This Management Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

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 2003, the Authority's net assets decreased by $7,158 (or 12.39%). Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net assets. Net Assets were $57,758 and $50,600 for fiscal year 2002 and fiscal year 2003, respectively.

- The revenue decreased by $35,017 (or 5.67%) during fiscal year 2003, and was $617,309 and $582,292 for fiscal year 2002 and fiscal year 2003, respectively.

- The total expenses of the Authority decreased $14,516 (or 2.4%). Total expenses were $603,966 and $589,450 for fiscal year 2002 and fiscal year 2003, respectively.

USING THIS ANNUAL REPORT

This is a very different presentation of the Authority's previous financial statements. The following graphic outlining these changes is provided for your review:

MD&A

~ Management Discussion
and Analysis (new) ~

Basic Financial Statements

~ Fund Financial Statement (refocused) – pgs 12-14 ~
~ Notes to Financial Statements (expanded/restructured) – pgs 15-21 ~

Other Required Supplementary Information

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

The primary focus of the Authority's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the Authority as a whole (Authority-wide) and the major individual funds. 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.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. Although the Authority does maintain different funds, each fund is used for the same enterprise activity. As a result, all financial activity of the Authority is presented at the entity-wide level.

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:

<u>Housing Choice Voucher Program</u> – 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.

<u>Other Programs</u> - In addition to the major programs listed above, the Authority also maintains the following non-major programs. Non-major programs are defined as funds that have assets, liabilities, revenues, or expenses of at least 5% or more of the Authority's total assets, liabilities, revenues or expenses.

> 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

	2003	2002
Current and Other Assets	$ 70,651	$ 73,816
Capital Assets	2,958	4,299
Total Assets	73,609	78,115
Other Liabilities	19,923	20,337
Non-Current Liabilities	3,086	20
Total Liabilities	23,009	20,357
Net Assets:		
Invested in Capital Assets, Net of Related Debt	2,958	4,299
Unrestricted	47,642	53,459
Total Net Assets	$50,600	$57,758

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 $2,835 in fiscal year 2003 which offsets the increase to total liabilities of $2,652.

Capital assets were decreased by the current year's depreciation of $1,341 and had no other changes. For more detail see "Capital Assets and Debt Administration" below.

TABLE 2

CHANGE OF UNRESTRICTED NET ASSETS

Unrestricted Net Assets September 30, 2002		$ 53,459
Results of Operations	$(7,158)	
Adjustments:		
Depreciation (1)	1,341	
Adjusted Results from Operations		(5,817)
Unrestricted Net Assets September 30, 2003		$ 47,642

(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.

	2003	2002
Revenues		
HUD PHA Operating Grants	$ 544,558	$ 600,040
Investment Income	190	335
Other Revenues - Service Income	37,544	16,934
Total Revenue	582,292	617,309
Expenses		
Administrative	151,480	114,889
Maintenance	4,557	5,368
General	4,028	3,079
Housing Assistance Payments	428,044	479,742
Depreciation	1,341	888
Total Expenses	589,450	603,966
Net Increase (Decrease)	$ (7,158)	$ 13,343

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

HUD PHA Grants decreased due to the Tenant Based Rental Assistance ("TBRA") - Home program not operating for the full year in fiscal year 2003. Housing Assistance Payments also decreased from the previous year because of TBRA not running the full 12 months as it did in fiscal 2002.

The Housing Choice Program leasing rate was 103% for fiscal year 2003 and 102% for fiscal year 2002. During fiscal year 2002 HUD did not impose a penalty for over leasing; however, the Authority is awaiting HUD's decision for fiscal year 2003 over leasing.

Other Revenues Service Income increased in fiscal year 2003 due to additional staff time being billed out to other Housing Authorities.

The Administrative Expenses increase reflected the hiring of an additional full time staff member coupled with the rise in the cost of health insurance.

Most other expenses increased moderately due to inflation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2003, the Authority had $2,958 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	
	2003	2002
Equipment – Administrative	$ 8,424	$ 8,424
Accumulated Depreciation	(5,466)	(4,125)
Total	$ 2,958	$ 4,299

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

	Business-Type Activities
Beginning Balance	$ 4,299
Depreciation	(1,341)
Ending Balance	$ 2,958

There were no additions during the fiscal year.

Debt Outstanding

As of September 30, 2003, 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, 2003

Assets		
Current Assets		
Cash and Cash Equivalents	$	56,632
Accounts Receivable - Fraud Recovery		20
Accounts Receivable - Other		878
Prepaid Items		2,337
Restricted Cash		10,784
Total Current Assets		70,651
Non-Current Assets		
Furniture and Equipment		8,424
Accumulated Depreciation		(5,466)
Total Non-Current Assets		2,958
Total Assets	$	73,609
Liabilities		
Current Liabilities		
Accounts Payable	$	1,165
Accounts Payable - HUD		5,789
Accounts Payable - Other Government		400
Accrued Wages and Payroll Taxes		975
Accrued Compensated Absences		3,876
Total Current Liabilities		12,205
Non-Current Liabilities		
Family Self-Sufficiency Deposits		10,784
Other Non-Current Liabilities		20
Total Non-Current Liabilities		10,804
Total Liabilities		23,009
Net Assets		
Invested in Capital Assets, Net of Related Debt		2,958
Unrestricted		47,642
Total Net Assets	$	50,600

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, 2003

Operating Revenues		
HUD Grants		$ 544,558
Other Income		37,544
Total Operating Revenue		582,102
Operating Expenses		
Housing Assistance Payments	$ 428,044	
Administrative Salaries	80,328	
Employee Benefits	27,584	
Other Administrative	43,568	
Material and Labor - Maintenance	4,557	
Depreciation	1,341	
General	4,028	
Total Operating Expenses		589,450
Operating Deficit		(7,348)
Non-Operating Revenues		
Interest		190
Change in Net Assets		(7,158)
Net Assets at October 1, 2002		57,758
Net Assets at September 30, 2003		$ 50,600

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, 2003

<u>Cash flows from operating activities</u>	
Cash received from HUD	$ 551,458
Cash received from other sources	37,544
Cash payments to employees for services	(107,102)
Cash payments for goods and services - HUD	(428,044)
Cash payments for goods and services	(58,132)
Net cash used for operating activities	(4,276)
<u>Cash flows from investing activities</u>	
Receipt of interest	190
Net cash provided by investing activities	190
Net change in cash and cash equivalents	(4,086)
Cash and cash equivalents at October 1, 2002	71,502
Cash and cash equivalents at September 30, 2003	$ 67,416
Cash flows from operating activities:	
Operating Deficit	$ (7,348)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation Expense	1,341
Changes in assets and liabilities:	
Accounts Receivable	(167)
Prepaid Expenses	(754)
Accounts Payable	5,604
Accrued Wages and Payroll Taxes	(994)
Accrued Compensated Absences	809
Other Liabilities	(2,767)
Net Cash Used For Operating Activities	$ (4,276)

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

Morrow Metropolitan Housing Authority
Notes to the Financial Statements
September 30, 2003

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 14, *The Financial Reporting Entity*, 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** - This organization was formed as an instrumentality of the Authority on March 7, 2003 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.

The responsibility of the Morrow Metropolitan Housing Authority was to make application to the State of Ohio, Ohio Department of Development pursuant to their Energy, Home Investment Partnership, and Section 403 planning grant programs, and the loan programs in order to obtain grants or deferred loans for the development of the Project. As of the date of this report the Real Estate Partnership to which the development funds will be loaned, upon approval of the Ohio Department of Development, has not yet been formed.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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:

	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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

New Accounting Pronouncements

The Authority implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments: Omnibus* for the current period. The implementation of these standards had no impact on beginning Net Assets.

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.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Cash and cash equivalents included in the Authority's cash position at September 30, 2003 are as follows:

Demand deposits:

Bank balance - Checking	$ 46,865	Bank balance - Savings	$ 27,638
Items-in-transit	(7,112)	Items-in-transit	-
Carrying balance	$ 39,753	Carrying balance	$ 27,638

Of the year-end cash balance, $74,503 was covered by federal depository insurance and $25 was maintained in petty cash funds.

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 2003, 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, 2003:

Furniture and Equipment	$ 8,424
Accumulated Depreciation	(5,466)
Net Fixed Assets	$ 2,958

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 1-880-222-PERS (7377).

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5. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

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 through September 30. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to PERS for the years ended 2001, 2002 and 2003 were $ 6,700, $8,021, and $10,885, respectively, which were equal to the required contributions for each year. In fiscal year 2003, the Authority resolved to pick up the employees' share of PERS which totaled $6,828

6. POSTRETIREMENT EMPLOYEE BENEFITS

Ohio Public School Employees Retirement System provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for state employers was 13.31% of covered payroll of which 5.00% was the portion used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll and 5.00% was the portion used to fund health care for the year. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% and 5.00% was used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of 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 annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

OPEBS are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. $11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively.

6. POSTRETIREMENT EMPLOYEE BENEFITS - CONTINUED

In December 2001, the Board adopted the Health Care “Choices” Plan in its contributing 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, 2003, 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. This in contrast to the ten-year “cliff” eligibility standard for the present Plan. The benefit recipient will be free to select the option that best fits their needs. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expense, much like a Medical Spending Account.

7. RELATED PARTY TRANSACTIONS

During fiscal year 2003, the Authority disbursed $4,420 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
Statement of Net Assets
FDS Schedule Submitted to HUD
September 30, 2003

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
	Current Assets			
111	Cash - Unrestricted	$ 56,632	$ -	$ 56,632
113	Cash - Other Restricted	10,784	-	10,784
100	Total Cash	67,416	-	67,416
	Accounts Receivable			
122	Accounts receivable - HUD	878	-	878
128	Fraud Recovery	20	-	20
120	Total Accounts Receivable	898	-	898
	Investements and Other Assets			
142	Prepaid Expenses and Other Assets	2,337	-	2,337
	Total Investments and Other Assets	2,337	-	2,337
150	Total Current Assets	70,651	-	70,651
	Noncurrent assets			
	Fixed Assets			
164	Furniture and Equipment - Administration	8,424	-	8,424
166	Accumulated Depreciation	(5,466)	-	(5,466)
160	Total Fixed Assets, net of accumulated depreciation	2,958	-	2,958
180	Total Non-Current Assets	2,958	-	2,958
190	Total Assets	$ 73,609	$ -	$ 73,609

Morrow Metropolitan Housing Authority
Statement of Net Assets
FDS Schedule Submitted to HUD
September 30, 2003

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
	Current Liabilities			
312	Accounts Payable	$ 1,165	$ -	$ 1,165
321	Accrued Wages and Payroll Taxes	975	-	975
322	Accrued Compensated Absences	3,876	-	3,876
331	Accounts Payable - HUD	6,189		-
310	Total Current Liabilities	12,205	-	12,205
353	Non-Current Liabilities - Other	10,804	-	10,804
350	Total Non-Current Liabilities	10,804	-	10,804
300	Total Liabilities	23,009	-	23,009
	Net Assets			
504	Net HUD PHA Contributions	2,958	-	2,958
512	Unrestricted	47,642	-	47,642
	Total Net Assets	50,600	-	50,600
600	Total Liabilities and Net Assets	$ 73,609	$ -	$ 73,609

Morrow Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Net Assets
FDS Schedule Submitted to HUD
Year ended September 30, 2003

FDS Line Item No.	Account Description	14.871 Housing Choice Vouchers Program	14.239 Home Program	Total
	Revenue			
706	HUD Grants	$ 436,324	$ 108,234	$ 544,558
711	Investment Income - Unrestricted	190	-	190
715	Other Revenue	-	37,544	37,544
	Total Revenue	436,514	145,778	582,292
	Expenses			
911	Administrative Salaries	40,376	39,952	80,328
912	Auditing Fees	5,285	-	5,285
914	Compensated Absences	810	-	810
915	Employee Benefit Contribution - Administrative	13,496	13,278	26,774
916	Other Operating - Administrative	31,749	6,534	38,283
942	Ordinary Maintenance and Operation - Materials	3,190	1,367	4,557
962	Insurance Premiums	4,028	-	4,028
	Total Operating Expenses	98,934	61,131	160,065
970	Excess Operating Revenue Over Operating Expenses	337,580	84,647	422,227
	Other Expenses			
973	Housing Assistance Payments	343,397	84,647	428,044
974	Depreciation	1,341	-	1,341
	Total Other Expenses	344,738	84,647	429,385
900	Total Expenses	443,672	145,778	589,450
1000	Excess of Revenues over Expenses	(7,158)	-	(7,158)
1103	Net Assets at Beginning of Year	57,758	-	57,758
	Net Assets at End of Year	$ 50,600	$ -	$ 50,600

Morrow Metropolitan Housing Authority
Schedule of Federal Awards Expenditures
Year Ended September 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Expenditures For The Year Ended
U.S. Department of Housing and Urban Development		
Housing Choice Vouchers	14.871	$ 443,672
Passed through Morrow County		
Home Program	14.239	145,778
Total Federal Award Expenditures		$ 589,450

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

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, 2003 and have issued our report thereon dated January 21, 2004 wherein we noted the Authority adopted GASB Statement No. 34 and GASB Statement No. 37. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 assurance 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 the board of directors, management, the Auditor of State, federal awarding agencies, 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
January 21, 2004

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, 2003. 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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, 2003.

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

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 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
January 21, 2004

Morrow Metropolitan Housing Authority

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

September 30, 2003

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 major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (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

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

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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 9, 2004