

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL DATA FOR THE
TWELVE MONTHS ENDED DECEMBER 31, 2012**

CYNTHIA L WARREN CPA, P.C.

Eufaula, Oklahoma 74432

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
DECEMBER 31, 2012**

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CYNTHIA L WARREN CPA, P.C.

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P.O. Box 189
Eufaula, OK 74432

(918) 452-2116
Fax (918) 452-3509

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Muskogee
Muskogee, Oklahoma

Report on the Financial Statements

I have audited the accompanying basic financial statements of the Housing Authority of the City of Muskogee and the Muskogee Housing Assistance Corporation (a discretely presented component unit) as of December 31, 2012, and for the year then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organizations' preparation and fair presentation of the financial statements in order to design audit procedures that appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Muskogee as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. I have applied certain limited procedures on the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information, the Financial Data Schedule, is presented for purposes of additional analysis as required by the by the U.S. Department of Housing and Urban Development, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Government, and Non-Profit Organizations* and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated September 5, 2013 on my consideration of the Housing Authority of the City of Muskogee's internal control over financial reporting and my 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 my 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control over financial reporting and compliance.

Cynthia L Warren CPA, P.C.
Eufaula, Oklahoma
September 5, 2013

MUSKOGEE HOUSING AUTHORITY

Management's Discussion and Analysis

The following discussion and analysis of the Muskogee Housing Authority's financial performance provides an overview to the Authority's financial activities for the fiscal year ended December 31, 2012. The information contained in this MD&A should be considered in conjunction with the Authority's basic financial statements.

Financial Highlights

The Muskogee Housing Authority's net assets totaled \$10,223,666 during the year ended December 31, 2012. This represents a 5.2% decrease from the previous fiscal year.

Liabilities for the same period decreased by 33.3% from the previous year for a total of \$174,716.

Total revenues, including capital grants, decreased from \$6,800,707 to \$6,036,283 or -11.2%.

Expenses increased from \$6,189,382 for the prior year to \$6,586,913 in the current year, an increase of 6.4%.

Using this Annual Report

This annual report consists of Management's Discussion and Analysis, the basic financial statements, and notes to the financial statements. Management's Discussion and Analysis provides a narrative of the Authority's financial performance and activities for the year ended December 31, 2012. The basic statements provide readers with a broad overview of the Authority's finances. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements, as follow:

The Statement of Net Position presents information on all the Authority's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial situation of the Authority is improving. To the extent applicable, net position is comprised of three individual components:

- Investment in Capital Assets consists of capital asset balances net of accumulated depreciation.
- Restricted Net Position consists of assets that are restricted by limitations placed on these assets by an external source or part
- Unrestricted Net Position consists of net assets that do not meet the definition of the above categories. Unrestricted net position is basically the amount of funds available for future year operations.

The Statement of Revenues, Expenses, and Change in Net Position presents information showing the Authority's net assets during the most recent fiscal year. All Change in Net Position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Certain revenues and expenses are reported in this statement that will result in cash flows in future periods.

The Statement of Cash Flows reports cash activities for the fiscal year resulting from operating activities, investing activities, non-capital financing activities, and capital and related financing activities. The net result of these activities represents the increase or decrease of the cash and cash equivalent account balance for the year ended December 31, 2012.

Supplemental Information contains Schedule of Expenditures of Federal Awards and the HUD required Financial Data Schedule (FDS). HUD has established Uniform Financial Reporting Standards that require the Housing Authority to submit financial information electronically to HUD using the FDS format. This financial information has been electronically transmitted to the Real Estate Assessment Center (REAC) for

the year ended December 31, 2012.

Housing Authority Activities & Highlights

The Muskogee Housing Authority continued to operate high performing public housing and housing choice voucher programs during the period ending December 31, 2012. Also included in the financial statements is the discretely presented component unit, Muskogee Housing Assistance Corporation.

Financial Operations Highlights

The following chart details key income and expense categories:

	2012	2011	
	Current	Current	
	<u>Year</u>	<u>Year</u>	<u>% Change</u>
Dwelling Rent	698,453	647,007	7.95%
HUD Operating Grants	4,058,536	4,257,924	-4.68%
Capital Grants	659,081	1,415,436	-53.44%
Other Income	605,911	455,933	32.89%
Investment Income	<u>14,302</u>	<u>24,407</u>	-41.40%
	<u>6,036,283</u>	<u>6,800,707</u>	-11.24%
Housing Assistance Payments	3,147,024	2,899,551	8.53%
Administration	1,108,195	1,214,496	-8.75%
Tenant Services	71,320	109,020	-34.58%
Utilities	287,022	293,772	-2.30%
Maintenance	929,616	712,885	30.40%
Protective Services	17,025	15,483	9.96%
General Expense	271,830	289,552	-6.12%
Depreciation	<u>754,881</u>	<u>654,623</u>	15.32%
	<u>6,586,913</u>	<u>6,189,382</u>	6.42%
Change in Net Position	(550,630)	611,325	-190.07%
Prior Period Adjustments and Transfers	(10,652)	0	
Net Position, Beginning	<u>10,784,948</u>	<u>10,173,623</u>	6.01%
Net Position, Ending	<u>10,223,666</u>	<u>10,784,948</u>	-5.20%

Explanation of significant increases and decreases:

- Capital Grants: Decrease due to decreased number of capital activities.
- Other Governmental Grants: NSP Grant funded in prior year.
- Investment Income: Market conditions and reduced funds held in investments.
- Fraud Recovery: Fewer fraud cases.
- Other Revenue: Increased income from non-federal sources.
- Tenant Services: Reduced expenditures in services due to funding reductions
- Ordinary Maintenance: Pest control expense increase.

A condensed summary of the Authority's assets and liabilities for December 31, 2012 is shown below:

	2012	2011	
	Current	Current	
	<u>Year</u>	<u>Year</u>	<u>% Change</u>
Current Assets	2,566,863	3,318,095	-22.64%
Capital Assets	<u>7,831,519</u>	<u>7,728,801</u>	1.33%
Total Assets	<u>10,398,382</u>	<u>11,046,896</u>	-5.87%
Liabilities	<u>174,716</u>	<u>261,948</u>	-33.30%
Net Position	<u>10,223,666</u>	<u>10,784,948</u>	-5.20%

Explanation of significant increases and decreases

- Current Assets: Decreased due to the required use of program reserves.

Capital Asset Activity

	2012	2011		
	Current	Current		
	<u>Year</u>	<u>Year</u>	<u>Change</u>	<u>% Change</u>
Land	234,773	231,028	3,745	1.62%
Buildings	18,377,565	17,740,156	637,409	3.59%
Equipment	673,448	586,244	87,204	14.88%
Construction in Progress	420,941	291,700	129,241	44.31%
Accumulated Depreciation	<u>(11,875,208)</u>	<u>(11,120,327)</u>	<u>(754,881)</u>	6.79%
Total Net Capital Assets	<u>7,831,519</u>	<u>7,728,801</u>	<u>102,718</u>	1.33%

The Muskogee Housing Authority started and/or completed the following capital improvements to its housing stock during Fiscal Year ending December 31, 2012:

- Asbestos abatement
- Replacement of unit equipment (refrigerators, stoves, water heaters)
- Replacement of HVAC equipment
- Replacement of shower pans
- Installation of roof ventilation
- Replacement of fire pump system

See Note 5 for additional information concerning Capital Assets.

Long-term Liabilities

The Housing Authority classifies a portion of the employee's leave as a long-term liability as the Authority will not pay out the total amount in the upcoming year. Also included is the long-term portion of the FSS Escrow accounts. The total amount of long-term liability is \$13,880. At the current time, the Housing Authority has no long-term notes or bonds which are payable. For additional information, see Note 6.

Economic Facts and Conditions

The Housing Authority's assets held in operating reserves were depleted during 2012 due to a mandatory reserve recapture authorized by Congress.

Request for Information

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Muskogee Housing Authority
Attn: Executive Director
220 North 40th Street
Muskogee, OK 74401

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government - Muskogee Housing Authority	Component Unit - Muskogee Housing Assistance Corporation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 425,998	\$ 455,159
Cash and Cash Equivalents, Restricted for Security Deposits	50,177	1,400
Cash and Cash Equivalents, Restricted for Housing Assistance	186,982	-
Tenant Accounts Receivable, Net	5,191	-
Due from Other Governments	24,644	-
Accounts Receivable, Miscellaneous	206	3,295
Accrued Interest Receivable	499	-
Investments	1,305,603	-
Prepaid Expenses	75,680	1,701
Inventory	<u>30,096</u>	<u>232</u>
Total Current Assets	<u>2,105,076</u>	<u>461,787</u>
Noncurrent Assets:		
Capital Assets, Non-depreciable	505,817	149,897
Capital Assets, Net of Depreciation	<u>6,684,441</u>	<u>491,364</u>
Total Capital Assets	<u>7,190,258</u>	<u>641,261</u>
Total Assets	<u><u>9,295,334</u></u>	<u><u>1,103,048</u></u>

The accompanying notes to the financial statements are an integral part hereof.

HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government - Muskogee Housing Authority	Component Unit - Muskogee Housing Assistance Corporation
LIABILITIES		
Current Liabilities:		
Accounts Payable, Vendors	15,707	-
Due to Other Government - PILOT Taxes	11,573	-
Accrued Wages and Payroll Taxes Payable	30,937	2,639
Accrued Compensated Absences	21,434	1,470
Unearned Revenues	11,127	29
Other Current Liabilities	3,142	34
Tenant Security Deposits	<u>50,177</u>	<u>1,400</u>
Total Current Liabilities	<u>144,097</u>	<u>5,572</u>
Long-term Liabilities:		
Accrued Compensated Absences	10,126	1,041
Other Non-Current Liabilities	<u>13,880</u>	<u>-</u>
Total Liabilities	<u>168,103</u>	<u>6,613</u>
NET POSITION		
Invested in Capital Assets	7,190,258	641,261
Restricted - Housing Assistance Payments	171,560	-
Unrestricted	<u>1,765,413</u>	<u>455,174</u>
Total Net Position	<u>9,127,231</u>	<u>1,096,435</u>
 Total Liabilities and Net Position	 <u>\$ 9,295,334</u>	 <u>\$ 1,103,048</u>

The accompanying notes to the financial statements are an integral part hereof.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012**

	Primary Government - Muskogee Housing Authority	Component Unit - Muskogee Housing Assistance Corporation
Operating Revenue:		
Tenant Revenue	\$ 672,241	\$ 26,212
Operating Grants and Subsidies	4,058,536	-
Other Income	<u>305,886</u>	<u>300,025</u>
Total Operating Revenue	<u>5,036,663</u>	<u>326,237</u>
Operating Expenses:		
Housing Assistance Payments	3,147,024	-
Administration	1,063,047	45,148
Tenant Services	70,223	1,097
Utilities	286,209	813
Maintenance	844,709	84,907
Protective Services	17,025	-
General Expense	256,913	14,917
Depreciation	<u>727,014</u>	<u>27,867</u>
Total Operating Expenses	<u>6,412,164</u>	<u>174,749</u>
Operating Income (Loss)	(1,375,501)	151,488
Nonoperating Revenue (Expense)		
Investment Income	<u>14,297</u>	<u>5</u>
Net Income (Loss) Before Capital Grants	(1,361,204)	151,493
Capital Grants	<u>659,081</u>	<u>-</u>
Change in Net Position	(702,123)	151,493
Total Net Position - Beginning	10,137,206	647,742
Transfer from Primary Government	11,573	-
Transfers to Other Programs	<u>(319,425)</u>	<u>297,200</u>
Total Net Position, Ending	<u>\$ 9,127,231</u>	<u>\$ 1,096,435</u>

The accompanying notes to the financial statements are an integral part hereof.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012**

	Primary Government - Muskogee Housing Authority	Component Unit - Muskogee Housing Assistance Corporation
Cash Flows from Operating Activities:		
Receipts from Tenants	\$ 664,725	\$ 25,596
Receipts from Operating Grants	4,107,622	-
Receipts from Other Operating Activities	310,608	300,025
Payments to Employees	(847,016)	(38,112)
Payments to Suppliers and Vendors	(1,768,347)	(103,232)
Payments for Housing Assistance	(3,147,024)	-
Payments for PILOT Taxes	<u>(23,838)</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>(703,270)</u>	<u>184,277</u>
Cash Flows from Capital and Related Financing Activities:		
Transfer to Other Government Entities	(319,425)	297,200
Receipts from Capital Grants	670,655	-
Purchases of Land, Structures and Equipment	<u>(753,832)</u>	<u>(103,768)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(402,602)</u>	<u>193,432</u>
Cash Flows from Investing Activities:		
Receipts of Interest Income	15,041	5
Purchase of Investments	<u>605,396</u>	<u>-</u>
Net Cash Provided (Used) from Investing Activities	<u>620,437</u>	<u>5</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(485,435)</u>	<u>377,714</u>
Cash and Cash Equivalents, Beginning	<u>1,148,592</u>	<u>78,845</u>
Cash and Cash Equivalents, Ending	<u>\$ 663,157</u>	<u>\$ 456,559</u>
 Reconciliation to Statement of Net Position:		
Cash and Cash Equivalents	\$ 425,998	\$ 456,559
Cash and Cash Equivalents, Restricted	<u>237,159</u>	<u>-</u>
	<u>\$ 663,157</u>	<u>\$ 456,559</u>

The accompanying notes to the financial statements are an integral part hereof.

HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	Primary Government - Muskogee Housing <u>Authority</u>	Component Unit - Muskogee Housing Assistance <u>Corporation</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	<u>\$ (1,375,501)</u>	<u>\$ 151,488</u>
Adjustments to reconcile Operating Income (Loss) to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation	727,014	27,867
Change in Assets and Liabilities:		
Accounts Receivable and Due from Other Governments	57,542	-
Prepaid Expenses	(22,472)	3,901
Inventory	(1,437)	(163)
Accounts Payable	(41,263)	(89)
Tenant Security Deposits	(14,773)	(350)
Accrued Liabilities	(35,483)	1,855
Deferred Revenues	<u>3,103</u>	<u>(232)</u>
Total Adjustments	<u>672,231</u>	<u>32,789</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (703,270)</u>	<u>\$ 184,277</u>

The accompanying notes to the financial statements are an integral part hereof.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 - REPORTING ENTITY

The agency was created under the provisions of the laws of the State of Oklahoma. The purpose of the agency is to administer Public Housing Programs authorized by the United States Housing Act. The governing board is appointed by the Mayor of the City of Muskogee. The governing board employs executives; authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development (Annual Contributions Contract) pursuant to that agency's regulations and statutory authorizations; and causes the agency to construct, own, and operate public housing facilities.

The Housing Authority's basic financial statements include all organizations, activities, and functions that comprise the Housing Authority. Component units are legally separate entities for which the Housing Authority is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Housing Authority's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Housing Authority. As of December 31, 2012, and for the fiscal year then ended, the Housing Authority has one component unit discretely presented, which is presented in a separate column in the financial statements, Muskogee Housing Assistance Corporation.

Muskogee Housing Assistance Corporation

The corporation has significantly the same governing board as the Housing Authority and employees are also employees of the Housing Authority. The corporation is organized exclusively for charitable, education and scientific purposes. The corporation is currently providing a variety of services for other housing authorities and tenant services.

Programs Administered by the Authority

The Housing Authority administers an annual contributions contract to provide low-income housing with primary financial support from the U.S. Department of Housing and Urban Development (HUD). Contracts administered by the Housing Authority are as follow:

Public Housing - The Housing Authority owns, operates and maintains 400 units of Public Housing. The properties were acquired through bonds and notes guaranteed by HUD and through grants, subject to the terms of an Annual Contributions Contract with HUD. Revenues consist primarily of rents and other fees collected from tenants, and an Operating Subsidy from HUD.

Capital Fund Program - Funds from the Capital Fund Program provided by HUD are used to maintain and improve the Housing Authority. Substantially all additions to land, structures and equipment of the Housing Authority are accomplished through these capital fund grants.

Housing Choice Vouchers - The Housing Authority administers Housing Choice Vouchers to assist low-income families, elderly and disabled to afford decent, safe and sanitary housing in the private market. Revenues consist primarily of Annual Contribution for Housing Assistance Payments from HUD.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The Housing Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and become measurable and expenses are recognized when incurred, if measurable.

The Housing Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures unless those pronouncements conflict with or contradict GASB pronouncements.

The Housing Authority has adopted GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The adoption of GASB 63 has had no material effect on the Authority's basic financial statements.

For accounting and financial reporting purposes, the Housing Authority of the City of Muskogee is considered a special purpose government engaged solely in business-type activities. As such, the accounting and financial reporting treatment is similar to enterprise funds of a general purpose government. Enterprise funds are accounted for on the economic resources measurement focus and report all assets and liabilities, both current and noncurrent, in the Statement of Net Position. Net Position is segregated into Investment in Capital Assets, Restricted and Unrestricted components, to the extent applicable.

Use of 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 the 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 revenues and expenses during the accounting period. Actual results could differ from those estimates.

Budgetary Process

The Housing Authority adopts an operating budget for each fiscal year which is approved by the Board of Commissioners with revisions being prepared as needed. However, the budget does not establish legal spending limits and is instead designed to serve as a financial plan.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of amounts deposited in checking, money market and investments accounts with an original maturity of three months or less. Cash equivalents, if any, are carried at fair value.

Investments

Investments consist of certificates of deposit, which are considered money market type investments as defined by the Governmental Accounting Standards Board. The investments are reported at cost, which approximates fair market value.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted Cash and Cash Equivalents

Restricted Cash and Cash Equivalents consist of amounts deposited in a checking account for the restricted purpose of Housing Choice Voucher payments. These funds were obtained from excess funding of Housing Choice Voucher payments.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future periods. These payments are recorded as prepaid expenses.

Inventory

Inventory balances consist of expendable supplies held for consumption. The inventory is valued at cost. The Housing Authority uses the first-in, first-out basis in determination of cost.

Capital Assets

Capital assets acquired are valued at historical cost. It is the policy of the Housing Authority to capitalize all assets with a cost of \$500 or greater. Donated capital assets are valued at the estimated fair value at the date of the donation. Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the statement of Net Position. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follow:

Buildings and Improvements	15 - 40 years
Equipment	3 - 5 years

Compensated Absences

It is the Housing Authority's policy to allow employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. These amounts accrued, for which the employee is vested that would be paid upon termination, are charged to expense and a corresponding liability is established when earned. The portion of the liability that is anticipated to be paid within the next fiscal year is reported as a current liability, while the remainder is reported as a long-term liability.

Operating and Non-operating Revenues and Expenses

The statement of revenues, expenses, and changes in Net Position distinguishes operating revenues and expenses from non-operating. Operating revenues and expenses generally include revenues resulting from the providing of housing services to tenants, including housing assistance grants and subsidies, and the costs associated with providing those services, including depreciation of capital assets. These activities are consistent with those classified as "operating activities" in the statement of cash flows. All other revenues and expenses are classified as either non-operating revenues and expenses or separately reported activities, such as capital grants, that are reported following operating income or loss.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

It is the Housing Authority's policy to invest in those securities which are authorized by HUD. Such investments generally consist of obligation of the U.S. government and its agencies and instrumentalities, collateralized or insured certificates of deposit, or other bank deposits, and certain other commercial instruments. The deposits and investments held at December 31, 2012, and reported at fair value, are as follows:

<u>TYPE</u>	<u>Muskogee Housing Authority Carrying Value</u>	<u>Muskogee Housing Assistance Corporation Carrying Value</u>
Deposits:		
Demand Deposits	\$ 605,385	\$ 456,559
Cash on Hand	<u>200</u>	<u>-</u>
Total Deposit Accounts	605,585	456,559
Investments:		
Certificates of Deposit	<u>1,363,175</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 1,968,760</u>	<u>\$ 456,559</u>
Reconciliation to Statement of Net Position:		
Cash and Cash Equivalents	\$ 425,998	\$ 455,159
Cash and Cash Equivalents, Restricted	237,159	1,400
Investments	<u>1,305,603</u>	<u>-</u>
	<u>\$ 1,968,760</u>	<u>\$ 456,559</u>

Custodial Credit Risk - HUD regulations and State law governs the requirements for managing custodial credit risk. Such regulations and law require uninsured deposits to be secured with collateral having market value at least equal to the amount of uninsured deposits. Deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had a bank balance of \$2,475,767 at December 31, 2012, which was fully insured by depository insurance or secured with collateral held by the Housing Authority's agent in its name.

Investment Interest Rate Risk - The Housing Authority's investment policy mandates that investing be performed in accordance with HUD regulations and State Statutes. The investment policy has no formal limitation of investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Nonnegotiable certificates of deposit are not subject to interest rate risk, therefore their maturity dates are not provided.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS, Continued

Investment Credit Risk - The Housing Authority's investment policy limits its investment choices to those allowed by HUD regulations and state laws as follows:

- A. U.S. Treasury Bills
- B. U.S. Treasury Notes and Bonds
- C. Obligations of Federal Government Agencies
- D. Securities of Federal Government Agencies
- E. Insured Money Market Deposit Accounts
- F. Municipal Depository Fund
- G. Super NOW Accounts
- H. Certificates of Deposit
- I. Repurchase Agreements
- J. Sweep Accounts
- K. Separate Trading of Registered Interest and Principal of Securities
- L. Mutual Funds that meet the HUD criteria.

Concentration of Investment Credit Risk - The Housing Authority places no limit on the amount it may invest in any one issuer. At December 31, 2012, the Housing Authority had limited concentration of credit risk because the investments consist of Certificates of Deposit.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable from tenants is for rentals and service charges. Also included are charges from participants for fraud recovery from the Housing Choice Vouchers program. These receivables are shown net of an allowance for uncollectible amounts. The total accounts receivable balance is \$127,134 less an allowance of \$121,943 for a net accounts receivable of \$5,191 at December 31, 2012.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5 - CAPITAL ASSETS

A summary of Capital Assets as presented in the Statement of Net Position is as follows:

Primary Government	Balance			Balance
<i>Muskogee Housing Authority</i>	<u>12/31/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2012</u>
Non-depreciable Capital Assets:				
Land	\$ 151,937	\$ -	\$ -	\$ 151,937
Construction in Progress	<u>291,700</u>	<u>76,090</u>	<u>(13,910)</u>	<u>353,880</u>
	<u>443,637</u>	<u>76,090</u>	<u>(13,910)</u>	<u>505,817</u>
Depreciable Capital Assets:				
Buildings and Improvements	17,308,185	636,748	-	17,944,933
Furniture & Equipment	<u>509,125</u>	<u>54,904</u>	<u>-</u>	<u>564,029</u>
	<u>17,817,310</u>	<u>691,652</u>	<u>-</u>	<u>18,508,962</u>
Less Accumulated Depreciation:				
Buildings and Improvements	10,723,529	683,540	-	11,407,069
Furniture & Equipment	<u>373,978</u>	<u>43,474</u>	<u>-</u>	<u>417,452</u>
	<u>11,097,507</u>	<u>727,014</u>	<u>-</u>	<u>11,824,521</u>
Net Depreciable Capital Assets	<u>6,719,803</u>	<u>(35,362)</u>	<u>-</u>	<u>6,684,441</u>
Total	<u>\$ 7,163,440</u>	<u>\$ 40,728</u>	<u>\$ (13,910)</u>	<u>\$ 7,190,258</u>
Component Unit	Balance			Balance
<i>Muskogee Housing Assistance Corp</i>	<u>12/31/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2012</u>
Non-depreciable Capital Assets:				
Land	\$ 79,091	\$ 3,745	\$ -	\$ 82,836
Construction in Progress	<u>-</u>	<u>67,061</u>	<u>-</u>	<u>67,061</u>
	<u>79,091</u>	<u>70,806</u>	<u>-</u>	<u>149,897</u>
Depreciable Capital Assets:				
Buildings and Improvements	431,970	662	-	432,632
Furniture and Equipment	<u>77,119</u>	<u>32,300</u>	<u>-</u>	<u>109,419</u>
Depreciation Capital Assets	<u>509,089</u>	<u>32,962</u>	<u>-</u>	<u>542,051</u>
Less Accumulated Depreciation:				
Buildings and Improvements	14,399	10,828	-	25,227
Furniture and Equipment	<u>8,421</u>	<u>17,039</u>	<u>-</u>	<u>25,460</u>
Accumulated Depreciation	<u>22,820</u>	<u>27,867</u>	<u>-</u>	<u>50,687</u>
Net Depreciable Capital Assets	<u>486,269</u>	<u>5,095</u>	<u>-</u>	<u>491,364</u>
Total	<u>\$ 565,360</u>	<u>\$ 75,901</u>	<u>\$ -</u>	<u>\$ 641,261</u>

Depreciation expense for the year ending December 31, 2012 is \$727,014 and \$27,867 for the Housing Authority and the Component Unit, respectively.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 6 - ACCRUED COMPENSATED ABSENCES

Accrued Compensated Absences consists of employee vacation and sick pay benefits which have been earned but not used. These benefits total \$75,149 of which \$22,904 is current and \$11,167 is long-term. The current portion is anticipated to be used in the next twelve months with the long-term portion anticipated to be used after the next twelve months. The following is a summary of the long-term portion.

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>12/31/2011</u>	<u>12/31/2011</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Accrued Compensated Absences	<u>\$ 43,945</u>	<u>\$ 65,275</u>	<u>\$ 75,149</u>	<u>\$ 34,071</u>

NOTE 7 - INTER-PROGRAM TRANSFERS

During the year ending December 31, 2012, the Capital Fund Program transferred \$27,507 to the Low Rent Program for operations. For presentation of financial statements, this transfer has been eliminated.

During the course of the year, the Housing Authority business activities transferred \$297,200 to the component unit and \$22,225 to other programs.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Housing Authority has an active construction project as of December 31, 2012. This capital project is a modernization of the housing units. This project is being funded by the Capital Fund Program. As of December 31, 2012, \$353,880 has been expended on this project. The component unit has an active construction project as of December 31, 2012 in the amount of \$67,061 which is modernization, also.

The activities of the Housing Authority are currently funded in large part by the Federal Government and future operations of the Authority are reliant on continuation of this funding from the Federal Government. The entity is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries. Although these amounts cannot be determined at this time, the Housing Authority expects such amounts to be immaterial.

NOTE 9 - RISK MANAGEMENT

The Housing 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 for which the Housing Authority purchases commercial insurance.

Management believes this coverage is sufficient to preclude any significant uninsured losses to the Housing Authority. Settled claims have not exceeded coverage in any of the past three fiscal years.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 10 - RETIREMENT

The Housing Authority participates in a defined contribution plan administered by the Housing Renewal and Local Agency Retirement Plan. The plan consists of employees of various local and regional housing authorities, urban renewal agencies, and other similar organizations. Through this plan, the Housing Authority provides pension benefits for all of its full-time employees. Plan provisions and changes to plan contributions are determined by the Board of Commissioners of the Housing Authority.

Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Housing Authority is required to contribute a percentage of covered payrolls based upon the percentage contributed by employees. The employees may contribute a maximum of 6% which required the Housing Authority to contribute a maximum of 9%. Employees may voluntarily make additional contributions.

The annual contribution requirement for the year ending December 31, 2012 for the Housing Authority and the participants are \$55,991 and \$36,705, respectively or a total of \$92,696. Annual Contributions for the year ending December 31, 2011 total \$104,411.

NOTE 11 - ECONOMIC DEPENDENCY

The Housing Authority receives a significant portion of its revenue from funds provided through federal grants. The grant amounts are appropriated each year at the federal level. If significant budget cuts occur at the federal level, the amount of funds the Housing Authority receives could be reduced substantially and have an adverse effect on its operations. Although management expects decreases in funding, significant adverse changes in services provided are not expected to occur by the Housing Authority.

NOTE 12 – TRANSFER FROM PRIMARY GOVERNMENT

The City of Muskogee transferred \$11,573 to the Housing Authority of the City of Muskogee for capital expenditures.

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
<u><i>Muskogee Housing Authority</i></u>		
Direct Program:		
U.S. Department of Housing and Urban Development		
Public & Indian Housing	*	\$ 708,069
Resident Opportunity and Supportive Services	14.870	45,460
Housing Choice Vouchers	*	3,209,104
Housing Counseling Assistance Program	14.169	19,729
Capital Fund Program	14.872	<u>654,698</u>
Total		4,637,060
Pass-through Programs:		
Community Development Block Grant	14.228	<u>80,557</u>
Total		<u>\$ 4,717,617</u>

* Major Program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal contract and grant activity of the Housing Authority of the City of Muskogee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
FINANCIAL DATA SCHEDULE
DECEMBER 31, 2012**

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
FINANCIAL DATA SCHEDULE
DECEMBER 31, 2012**

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DECEMBER 31, 2012**

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
FINANCIAL DATA SCHEDULE
DECEMBER 31, 2012**

CYNTHIA L WARREN CPA, P.C.

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P.O. Box 189
Eufaula, OK 74432

(918) 452-2116
Fax (918) 452-3509

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Muskogee
Muskogee, Oklahoma

I have audited, 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, the financial statements of the Housing Authority of the City of Muskogee, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued my report thereon dated September 5, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Authority of the City of Muskogee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material deficiencies or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of 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 statements amounts. However providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the housing authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cynthia L Warren CPA, P.C.
Eufaula, Oklahoma
September 5, 2013

CYNTHIA L WARREN CPA, P.C.

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P.O. Box 189
Eufaula, OK 74432

(918) 452-2116
Fax (918) 452-3509

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Housing Authority of the City of Muskogee
Muskogee, Oklahoma

Report on Compliance for Each Major Federal Program

I have audited the compliance of the Housing Authority of the City of Muskogee with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the City of Muskogee's major federal programs for the year ended December 31, 2012. The Housing Authority of the City of Muskogee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Housing Authority of the City of Muskogee's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 Housing Authority of the City of Muskogee's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion for each major federal program. However, my audit does not provide a legal determination on the Housing Authority of the City of Muskogee's compliance.

Opinion on Each Major Federal Program

In my opinion, the Housing Authority of the City of Muskogee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Housing Authority of the City of Muskogee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing my audit of compliance, I considered the Housing Authority of the City of Muskogee's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal award on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charge with governance.

My consideration of internal control was for the limited purpose as described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of my testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cynthia L Warren CPA, P.C.
Eufaula, Oklahoma
September 5, 2013

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified:	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified:	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

#14.850	Public and Indian Housing
#14.871	Housing Choice Vouchers
#14.872	Capital Fund Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee?	Yes
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SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**HOUSING AUTHORITY OF THE CITY OF MUSKOGEE
MUSKOGEE, OKLAHOMA
SCHEDULE OF SUMMARY STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

The prior report on the audit of the financial statements as of and for the twelve months ended December 31, 2011, contained no findings.