

Village of Morrow
Warren County, Ohio
Regular Audit
For the Years Ended December 31, 2013 and 2012



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Dave Yost • Auditor of State

Village Council
Village of Morrow
150 Pike Street
Morrow, Ohio 45152

We have reviewed the *Independent Auditor's Report* of the Village of Morrow, Warren County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2012 through December 31, 2013. 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 Village of Morrow is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2014

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Village of Morrow
Warren County, Ohio
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Independent Auditor's Report

Village Council
Village of Morrow
150 Pike Street
Morrow, Ohio 45152

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Morrow, Warren County, (the Village) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Morrow, Warren County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.

June 20, 2014

Village of Morrow
Warren County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2013

	General Fund	Special Revenue Funds	Capital Projects Fund	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$35,589	\$6,424	\$0	\$42,013
Municipal Income Tax	270,793	0	0	270,793
Intergovernmental	49,851	57,465	135,387	242,703
Charges for Services	141,341	958	0	142,299
Fines, Licenses and Permits	105,207	7,362	0	112,569
Earnings on Investments	3,602	389	0	3,991
Miscellaneous	4,251	4,103	0	8,354
Total Cash Receipts	610,634	76,701	135,387	822,722
Cash Disbursements:				
Current:				
Security of Persons and Property	185,251	5,174	0	190,425
Public Health Services	751	0	0	751
Leisure Time Activities	3,470	145	0	3,615
Community Environment	5,443	0	0	5,443
Basic Utility Services	114,068	0	0	114,068
Transportation	7,220	64,676	0	71,896
General Government	278,115	1,505	33,134	312,754
Capital Outlay	13,760	4,042	102,253	120,055
Debt Service:				
Principal Payment	21,515	7,000	0	28,515
Interest and Fiscal Charges	4,759	333	0	5,092
Total Cash Disbursements	634,352	82,875	135,387	852,614
Total Receipts Under Disbursements	(23,718)	(6,174)	0	(29,892)
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds	13,760	0	0	13,760
Advances - In	45,000	0	(45,000)	0
Advances - Out	(45,000)	0	45,000	0
Other Financing Uses	(15)	0	0	(15)
Total Other Financing Receipts/(Disbursements)	13,745	0	0	13,745
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements and Other Financing Disbursements	(9,973)	(6,174)	0	(16,147)
Fund Cash Balances, January 1	279,974	137,475	0	417,449
Fund Cash Balances, December 31				
Restricted for:				
Capital Improvement	0	41,502	0	41,502
Drug and Alcohol Education	0	2,812	0	2,812
Fire Operations	0	2,479	0	2,479
Mayor's Court	0	6,373	0	6,373
Parks and Recreation	0	1,546	0	1,546
Police Equipment	0	6,689	0	6,689
Police Training	0	1,261	0	1,261
Road Maintenance and Repair	0	68,639	0	68,639
Unassigned	270,001	0	0	270,001
Fund Cash Balances, December 31	\$270,001	\$131,301	\$0	\$401,302

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

Village of Morrow
Warren County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2013

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$279,165	\$0	\$0	\$279,165
Earnings on Investments	0	1,058	0	1,058
Miscellaneous	849	0	0	849
Total Cash Receipts	280,014	1,058	0	281,072
Operating Cash Disbursements:				
Personal Services	89,823	0	0	89,823
Employee Fringe Benefits	37,157	0	0	37,157
Contractual Services	114,319	0	0	114,319
Supplies and Materials	16,013	0	0	16,013
Total Cash Disbursements	257,312	0	0	257,312
Operating Income	22,702	1,058	0	23,760
Non-Operating Cash Receipts:				
Special Assessments	1,230	0	0	1,230
Other Non-Operating Receipts	0	0	127,896	127,896
Total Non-Operating Cash Receipts	1,230	0	127,896	129,126
Non-Operating Cash Disbursements:				
Redemption of Principal	40,820	0	0	40,820
Interest and Other Fiscal Charges	1,805	0	0	1,805
Capital Outlay	85,649	0	0	85,649
Other Non-Operating Disbursements	0	3,227	125,799	129,026
Total Non-Operating Cash Disbursements	128,274	3,227	125,799	257,300
Net Receipts Over/(Under) Disbursements	(104,342)	(2,169)	2,097	(104,414)
Fund Cash Balances, January 1	638,033	103,598	7,995	749,626
Fund Cash Balances, December 31	\$533,691	\$101,429	\$10,092	\$645,212

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

Village of Morrow
Warren County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2012

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$34,949	\$5,931	\$40,880
Municipal Income Tax	248,371	0	248,371
Intergovernmental	13,431	58,315	71,746
Charges for Services	140,575	1,000	141,575
Fines, Licenses and Permits	111,873	11,015	122,888
Earnings on Investments	7,510	363	7,873
Miscellaneous	16,082	4,482	20,564
Total Cash Receipts	572,791	81,106	653,897
Cash Disbursements:			
Current:			
Security of Persons and Property	186,536	6,685	193,221
Public Health Services	716	0	716
Leisure Time Activities	7,872	2,952	10,824
Community Environment	4,139	760	4,899
Basic Utility Services	116,991	0	116,991
Transportation	0	48,256	48,256
General Government	219,038	18,163	237,201
Capital Outlay	19,685	0	19,685
Debt Service:			
Principal Payment	16,053	7,000	23,053
Interest and Fiscal Charges	4,613	665	5,278
Total Cash Disbursements	575,643	84,481	660,124
Total Receipts Under Disbursements	(2,852)	(3,375)	(6,227)
Other Financing Receipts:			
Other Debt Proceeds	19,685	0	19,685
Sale of Capital Assets	100,825	0	100,825
Total Other Financing Receipts	120,510	0	120,510
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	117,658	(3,375)	114,283
Fund Cash Balances, January 1	162,316	140,850	303,166
Fund Cash Balances, December 31			
Restricted for:			
Drug and Alcohol Education and Enforcement	0	2,126	2,126
Fire Operations	0	2,708	2,708
Infrastructure Improvements	0	37,801	37,801
Mayor's Court	0	4,839	4,839
Park Maintenance	0	633	633
Police Equipment	0	8,993	8,993
Road Maintenance and Repair	0	80,375	80,375
Unassigned	279,974	0	279,974
Fund Cash Balances, December 31	\$279,974	\$137,475	\$417,449

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

Village of Morrow
Warren County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2012

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$299,814	\$0	\$0	\$299,814
Earnings on Investments	0	803	0	803
Miscellaneous	363	0	0	363
Total Cash Receipts	300,177	803	0	300,980
Operating Cash Disbursements:				
Personal Services	71,021	0	0	71,021
Employee Fringe Benefits	24,552	0	0	24,552
Contractual Services	73,893	0	0	73,893
Supplies and Materials	20,570	0	0	20,570
Total Cash Disbursements	190,036	0	0	190,036
Operating Income	110,141	803	0	110,944
Non-Operating Cash Receipts:				
Special Assessments	1,275	0	0	1,275
Miscellaneous Receipts	54	100	0	154
Other Non-Operating Receipts	0	0	137,973	137,973
Total Non-Operating Cash Receipts	1,329	100	137,973	139,402
Non-Operating Cash Disbursements:				
Redemption of Principal	35,820	0	0	35,820
Interest and Other Fiscal Charges	3,373	0	0	3,373
Other Non-Operating Cash Disbursements	0	974	140,606	141,580
Total Non-Operating Cash Disbursements	39,193	974	140,606	180,773
Net Receipts Over/(Under) Disbursements	72,277	(71)	(2,633)	69,573
Fund Cash Balances, January 1	565,756	103,669	10,628	680,053
Fund Cash Balances, December 31	<u>\$638,033</u>	<u>\$103,598</u>	<u>\$7,995</u>	<u>\$749,626</u>

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

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Morrow, Warren County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and refuse utilities, park operations, street maintenance and police services. The Village contracts with Salem Township for fire protection services.

The Village participates in the Public Entities Pool of Ohio, a risk-sharing pool available to Ohio local governments. Note 8 to the financial statements provide additional information for this entity. This organization is a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Basis of Accounting

These financial statements follow the accounting basis the Auditor of State of Ohio prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report. Common stock is recorded at its donated value.

Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

These funds account for proceeds from specific sources (other than those from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax monies for constructing, maintaining, and repairing Village streets.

Capital Projects Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Projects Funds:

Grant Construction Fund – This fund is to account for OPWC funds. These funds were used for the Welch Road Rehabilitation Phase I project.

Other Capital Projects Fund – This fund is to account for demolition funds used to fund demolitions of nuisance homes within the Village limits.

Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Water Fund – This fund receives charges for services from residents to cover water service costs.

Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village had the following significant Fiduciary Funds:

Mayor's Court Fund (Agency Fund) – This fund accounts for monies that are received and disbursed with regard to the Mayor's Court operations.

Scheurer Trust Fund (Private Purpose Fund) – This fund holds the principal of a non-expendable trust fund. The interest is posted to the General Fund for street lighting, the Fire Fund and the Scheurer Poor Relief Fund to aid the needy in accordance with the trust agreement.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are carried over and need not be re-appropriated.

A summary of the 2013 and 2012 budgetary activity appears in Note 3.

Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave. The Village did not maintain accurate leave records.

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted – Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Committed – Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned – Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the General Fund report all fund balances as *assigned* unless they are restricted or committed. In the General Fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State statute.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 2 – Equity in Pooled Cash and Investments

The Village maintains a cash and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2013	2012
Demand Deposits	\$855,672	\$976,236
CDs	185,197	185,197
Total Deposits	1,040,869	1,161,433
STAR Ohio	5,645	5,642
Total Investments	5,645	5,642
Total Deposits and Investments	\$1,046,514	\$1,167,075

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 3 – Budgetary Activity

Budgetary activity, except for the agency fund, for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$617,940	\$624,394	\$6,454
Special Revenue	78,150	76,701	(1,449)
Capital Projects	259,109	135,387	(123,722)
Enterprise	280,295	281,244	949
Private Purpose Trust	1,036	1,058	22
Total	\$1,236,530	\$1,118,784	(\$117,746)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$617,187	\$637,928	(\$20,741)
Special Revenue	123,672	82,875	40,797
Capital Projects	0	135,387	(135,387)
Enterprise	347,440	397,694	(50,254)
Private Purpose Trust	2,000	3,227	(1,227)
Total	\$1,090,299	\$1,257,111	(\$166,812)

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$688,943	\$693,301	\$4,358
Special Revenue	80,389	81,106	717
Enterprise	301,260	301,506	246
Private Purpose Trust	900	903	3
Total	\$1,071,492	\$1,076,816	\$5,324

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$599,134	\$589,403	\$9,731
Special Revenue	107,106	88,406	18,700
Enterprise	326,021	265,434	60,587
Private Purpose Trust	2,000	974	1,026
Total	\$1,034,261	\$944,217	\$90,044

Note 4 – Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 4 – Property Taxes (Continued)

Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

Note 5 – Local Income Tax

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Note 6 – Debt

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$8,460	0.00%
Pike Street Building Loan	65,918	2.375%
Tahoe Loan	8,336	3.0%
Dump Truck Loan	12,473	3.0%
Police Cruiser Loan	10,345	3.5%
Total	\$105,532	

The Ohio Public Works Commission (OPWC) loan relates to the water tower construction project. OPWC approved a \$56,410 loan for this project with semiannual payments of \$1,410 over 20 years. The last payment is due July 1, 2016.

The General Obligation Water System Bonds were issued for water system improvements, refunding the 1999 General Obligation Waterworks System Refunding and Improvement Bonds and related street improvements. These bonds are collateralized by the Village's taxing authority. These bonds were repaid in full in 2013.

The Pike Street Building Loan was issued to purchase real estate to be used by the Police and Salem Township Fire Departments. The building serves as collateral. The loan was issued for \$76,000 and is due in 40 semi-annual installments of \$2,964 with a final maturity date of January 1, 2030.

The Tahoe Loan was issued to purchase a vehicle to be used by the Police Department. The vehicle serves as collateral. The loan was issued for \$19,685 and is due in 5 semi-annual installments of \$4,116 with a final maturity date of December 1, 2014.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 6 – Debt (Continued)

The Dump Truck Loan was issued to purchase a vehicle to be used by the Township. The vehicle serves as collateral. The loan was issued for \$13,760 and is due in 10 semi-annual installments of \$2,984 with a final maturity date of February 13, 2018.

The Police Cruiser Loan was issued to purchase a police cruiser and related equipment. The cruiser and equipment serve as collateral. The loan was issued for \$30,000 and is due in 6 semi-annual installments of \$5,311 with a final maturity date of September 9, 2014.

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31:	OPWC Loan	Building Loan	Tahoe Loan	Dump Truck Loan	Police Cruiser Loan
2014	\$2,820	\$4,563	\$8,336	\$2,984	\$10,621
2015	2,820	5,929	0	2,984	0
2016	2,820	5,928	0	2,984	0
2017	0	5,928	0	2,984	0
2018	0	5,928	0	1,492	0
2017-2021	0	29,641	0	0	0
2022-2026	0	29,642	0	0	0
2027-2030	0	8,892	0	0	0
Total	\$8,460	\$96,451	\$8,336	\$13,428	\$10,621

Note 7 – Retirement Systems

The Village's certified full-time police officer belongs to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OP&F members contributed 10% of their gross salaries, with the Village contributing an amount equal to 19.5% of participants' gross salaries. For 2013 and 2012, OPERS members contributed 10% of their gross salaries, with the Village contributing an amount equal to 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

Note 8 – Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 8 – Risk Management (Continued)

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP’s primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available):

	2012	2011
Assets	\$34,389,569	\$33,362,404
Liabilities	(14,208,353)	(14,187,273)
Net Assets	\$20,181,216	\$19,175,131

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village’s share of these unpaid claims collectible in future years is approximately \$16,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP		
2013	2012	2011
\$18,521	\$17,502	\$8,247

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 9 – Compliance

- The Village did not properly encumber funds in accordance with Ohio Revised Code Section 5705.41(D).
- The Village had expenditures in excess of appropriations which in noncompliant with Ohio Revised Code Section 5705.41(B).

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

Village Council
Village of Morrow
150 Pike Street
Morrow, Ohio 45152

We 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 Village of Morrow, Warren County (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2014, wherein we noted the Village followed the accounting basis the Auditor of State prescribes or permits, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1 and 2013-4 to be material weaknesses.

Village of Morrow
Warren County, Ohio

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*

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-2 through 2013-3.

Village's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.

June 20, 2014

Village of Morrow
Warren County, Ohio
Schedule of Findings and Responses
For the Years Ended December 31, 2013 and 2012

Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

FINDING NUMBER 2013-1

Material Weakness – Financial Reporting

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. Statements on Auditing Standards (SAS) No. 112, as amended by SAS No. 115, establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the auditor to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

During 2013 and 2012, we identified various errors in the financial statements. Reclassifications and adjustments were required to properly present the activity of the Village.

We recommend the Village implement additional control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes.

Client Response:

Auditor explained errors to the Fiscal Officer and she will properly record transactions from here on.

FINDING NUMBER 2013-2

Noncompliance – Proper Certification of Funds

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The statute provides the following exception to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that she is completing her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 for political subdivisions other than counties may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Instances were noted where the Village did not properly encumber funds. The Village should implement budgetary monitoring procedures to ensure that funds are properly and timely encumbered prior to commitment. When prior certification is not possible, "then and now" certification should be used, when applicable.

Client Response:

The Village will use then and now certificates as needed.

Village of Morrow
Warren County, Ohio
Schedule of Findings and Responses
For the Years Ended December 31, 2013 and 2012

FINDING NUMBER 2013-3

Noncompliance Citation – Expenditures in Excess of Appropriations and Failure to File Budgetary Modifications with the County

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. As well, Ohio Revised Code Section 5705.40 states, “Any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriations. The Village had expenditures in excess of appropriations in 2013. As well, in 2013, the Village did not file amended appropriations with the County Auditor. The Village should implement additional budgetary procedures, such as periodic reviews of budget to actual information and review of tickler files, to ensure that expenditures do not exceed appropriations and to ensure that amended budgets are properly filed with the County.

Client Response:

The annual appropriation was approved by Council, but was not filed with the County.

FINDING NUMBER 2013-4

Material Weakness – Budgetary Information Within UAN

Accurate budgetary information within the Village’s accounting system is pertinent to ensure that the Village has accurate and complete information for decision-making processes. Variances were identified between the budget information within the accounting system and the formally approved budgetary documents in 2013 and 2012. Correct budgetary information within the accounting system is pertinent to ensure that management is relying of accurate and complete information for decision-making purposes and would also aid in ensuring compliance with applicable budgetary laws. The Village should implement the appropriate procedures, such as ensuring minutes include accurate information on budgetary amendments and reconciling budgetary information within the accounting system to formally approved budgets, to ensure that budgetary information is presented accurately and completely.

Client Response:

Changes due to supplemental appropriations.

Village of Morrow
Warren County, Ohio
Schedule of Prior Audit Findings
For the Years Ended December 31, 2013 and 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-1	Noncompliance – Proper Certification of Funds	No	Reissued as finding 2013-2
2011-2	Noncompliance – Appropriations in Excess of Available Revenue	Yes	
2011-3	Noncompliance – Appropriations in Excess of Estimated Resources	Yes	

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Dave Yost • Auditor of State

VILLAGE OF MORROW

WARREN 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
AUGUST 26, 2014**