



**Auditor of State  
Betty Montgomery**



VILLAGE OF MORROW  
WARREN COUNTY

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Village of Morrow  
Warren County  
150 Pike Street  
Morrow, Ohio 45152

To the Village Council:

We have audited the accompanying financial statements of the Village of Morrow, Warren County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandates the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 31, 2004

**VILLAGE OF MORROW  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$21,836	\$2,890	\$0	\$24,726
Municipal Income Tax	222,077	0	0	222,077
Intergovernmental Receipts	39,030	55,280	0	94,310
Charges for Services	97,523	1,871	0	99,394
Fines, Licenses, and Permits	36,734	0	0	36,734
Earnings on Investments	8,199	0	0	8,199
Miscellaneous	27,881	2,264	0	30,145
	<u>453,280</u>	<u>62,305</u>	<u>0</u>	<u>515,585</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	182,364	0	0	182,364
Leisure Time Activities	0	1,505	0	1,505
Community Environment	4,050	0	0	4,050
Basic Utility Services	83,941	0	0	83,941
Transportation	0	69,553	0	69,553
General Government	196,452	908	0	197,360
	<u>466,807</u>	<u>71,966</u>	<u>0</u>	<u>538,773</u>
Total Receipts Under Disbursements	<u>(13,527)</u>	<u>(9,661)</u>	<u>0</u>	<u>(23,188)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Other Debt Proceeds	0	70,000	0	70,000
Transfers-In	819	819	0	1,638
Other Financing Sources	1,104	0	0	1,104
Transfers-Out	(1,314)	0	0	(1,314)
	<u>609</u>	<u>70,819</u>	<u>0</u>	<u>71,428</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(12,918)	61,158	0	48,240
Fund Cash Balances, January 1	<u>262,772</u>	<u>27,246</u>	<u>784</u>	<u>290,802</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$249,854</u></b>	<b><u>\$88,404</u></b>	<b><u>\$784</u></b>	<b><u>\$339,042</u></b>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$266,835	\$0	\$0	\$266,835
Fines, Licenses, and Permits	0	0	0	0
Earnings on Investments	0	5,318	0	5,318
Total Operating Cash Receipts	<u>266,835</u>	<u>5,318</u>	<u>0</u>	<u>272,153</u>
<b>Operating Cash Disbursements:</b>				
Personal Services	79,716	0	0	79,716
Fringe Benefits	20,365	0	0	20,365
Contractual Services	78,053	0	0	78,053
Supplies and Materials	105,895	0	0	105,895
Capital Outlay	118	0	0	118
Other	22,406	0	0	22,406
Total Operating Cash Disbursements	<u>306,553</u>	<u>0</u>	<u>0</u>	<u>306,553</u>
Operating Income/(Loss)	<u>(39,718)</u>	<u>5,318</u>	<u>0</u>	<u>(34,400)</u>
<b>Non-Operating Cash Receipts:</b>				
Proceeds from Notes and Bonds	280,000	0	0	280,000
Other Non-Operating Receipts	185	0	38,843	39,028
Total Non-Operating Cash Receipts	<u>280,185</u>	<u>0</u>	<u>38,843</u>	<u>319,028</u>
<b>Non-Operating Cash Disbursements:</b>				
Redemption of Principal	56,410	0	0	56,410
Interest and Other Fiscal Charges	2,587	0	0	2,587
Other Non-Operating Disbursements	0	1,110	40,486	41,596
Total Non-Operating Cash Disbursements	<u>58,997</u>	<u>1,110</u>	<u>40,486</u>	<u>100,593</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	181,470	4,208	(1,643)	184,035
Transfers-In	1,314	3,279	0	4,593
Transfers-Out	0	(4,917)	0	(4,917)
Net Receipts Over/(Under) Disbursements	182,784	2,570	(1,643)	183,711
Fund Cash Balances, January 1	161,378	99,401	2,771	263,550
<b>Fund Cash Balances, December 31</b>	<b><u>\$344,162</u></b>	<b><u>\$101,971</u></b>	<b><u>\$1,128</u></b>	<b><u>\$447,261</u></b>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$41,781	\$2,849	\$0	\$44,630
Municipal Income Tax	237,015	0	0	237,015
Intergovernmental Receipts	39,849	54,349	0	94,198
Charges for Services	98,997	2,264	0	101,261
Fines, Licenses, and Permits	39,012	0	0	39,012
Earnings on Investments	10,697	0	0	10,697
Miscellaneous	10,889	22,063	0	32,952
	<u>478,240</u>	<u>81,525</u>	<u>0</u>	<u>559,765</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	179,808	19,266	0	199,074
Public Health Services	344	0	0	344
Leisure Time Activities	0	867	0	867
Community Environment	3,475	0	0	3,475
Basic Utility Services	85,804	0	0	85,804
Transportation	3,000	49,852	0	52,852
General Government	186,529	18,749	0	205,278
	<u>458,960</u>	<u>88,734</u>	<u>0</u>	<u>547,694</u>
<b>Total Cash Disbursements</b>				
Total Receipts Over/(Under) Disbursements	<u>19,280</u>	<u>(7,209)</u>	<u>0</u>	<u>12,071</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Transfers-In	921	921	0	1,842
Other Financing Sources	868	0	0	868
Other Financing Uses	(2,350)	0	0	(2,350)
	<u>(561)</u>	<u>921</u>	<u>0</u>	<u>360</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	18,719	(6,288)	0	12,431
Fund Cash Balances, January 1	<u>244,053</u>	<u>33,534</u>	<u>784</u>	<u>278,371</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$262,772</b></u>	<u><b>\$27,246</b></u>	<u><b>\$784</b></u>	<u><b>\$290,802</b></u>
Reserves for Encumbrances, December 31	<u>\$14,700</u>	<u>\$1,547</u>	<u>\$0</u>	<u>\$16,247</u>

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$272,836	\$0	\$0	\$272,836
Fines, Licenses, and Permits	0	0	0	0
Earnings on Investment	0	5,525	0	5,525
Miscellaneous	3,016	0	0	3,016
Total Operating Cash Receipts	<u>275,852</u>	<u>5,525</u>	<u>0</u>	<u>281,377</u>
<b>Operating Cash Disbursements:</b>				
Personal Services	78,027	0	0	78,027
Fringe Benefits	20,383	0	0	20,383
Contractual Services	1,792	0	0	1,792
Supplies and Materials	95,029	0	0	95,029
Other	0	0	0	0
Total Operating Cash Disbursements	<u>195,231</u>	<u>0</u>	<u>0</u>	<u>195,231</u>
Operating Income/(Loss)	<u>80,621</u>	<u>5,525</u>	<u>0</u>	<u>86,146</u>
<b>Non-Operating Cash Receipts:</b>				
Intergovernmental Revenue	8,467	0	0	8,467
Other Non-Operating Receipts/Sale of Property	159,669	0	46,031	205,700
Total Non-Operating Cash Receipts	<u>168,136</u>	<u>0</u>	<u>46,031</u>	<u>214,167</u>
<b>Non-Operating Cash Disbursements:</b>				
Redemption of Principal	217,800	0	0	217,800
Interest and Other Fiscal Charges	19,260	0	0	19,260
Other Non-Operating Disbursements	0	1,542	45,518	47,060
Other Financing Uses	0	0	0	0
Total Non-Operating Cash Disbursements	<u>237,060</u>	<u>1,542</u>	<u>45,518</u>	<u>284,120</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	11,697	3,983	513	16,193
Transfers-In	0	3,683	0	3,683
Transfers-Out	0	(5,525)	0	(5,525)
Net Receipts Over Disbursements	11,697	2,141	513	14,351
Fund Cash Balances, January 1	149,681	97,260	2,258	249,199
<b>Fund Cash Balances, December 31</b>	<b><u>\$161,378</u></b>	<b><u>\$99,401</u></b>	<b><u>\$2,771</u></b>	<b><u>\$263,550</u></b>
Reserve for Encumbrances, December 31	<u>\$56,816</u>	<u>\$706</u>	<u>\$0</u>	<u>\$57,522</u>

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Morrow, Warren County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with Salem Township to provide fire protection services.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**D. 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:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Fund**

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

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Enterprise Funds**

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

*Water 1 Fund* - This fund receives charges for services from residents to cover the cost of providing this utility.

*Water 2 Improvement Fund* - This fund receives loan proceeds from the General Obligation Waterworks System Refunding and Improvement Bonds to improve the Village water system.

*Water System Debt Service Fund* – This fund is used to accumulate resources for the payment of the General Obligation Waterworks System Refunding and Improvement Bonds to improve the Village water system and to refund the outstanding Waterworks System General Obligation Bonds in 2003.

**4. Fiduciary Funds (Trust and Agency Funds)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

*Scheurer Trust Fund* – This fund receives interest and uses the interest for street lighting, fire and for needy citizens in the Village. Interest earned by this fund is transferred to the general fund, fire fund, and the Scheurer Poor Relief Trust Fund in accordance with the trust agreement.

*Mayor's Court Fund* – This fund receives fines from traffic violations and distributes those fines appropriately to the State and the Village.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The 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.

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. 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.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2003	2002
Demand deposits	\$450,609	\$276,813
Certificates of deposit	185,197	185,197
Total deposits	635,806	462,010
Money Market Mutual Fund	84,113	26,689
STAR Ohio	66,384	65,653
Total deposits and investments	\$786,303	\$554,352

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

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$383,672	\$455,203	\$71,531
Special Revenue	128,859	133,124	4,265
Enterprise	585,377	548,334	(37,043)
Non-Expendable Trust	4,273	8,597	4,324
Total	<u>\$1,102,181</u>	<u>\$1,145,258</u>	<u>\$43,077</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$669,772	\$468,121	\$201,651
Special Revenue	86,850	71,966	14,884
Enterprise	552,250	365,551	186,699
Non-Expendable Trust	18,706	6,027	12,679
Total	<u>\$1,327,578</u>	<u>\$911,665</u>	<u>\$415,913</u>

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$489,873	\$480,029	(\$9,844)
Special Revenue	97,660	82,446	(15,214)
Enterprise	453,137	443,988	(9,149)
Non-Expendable Trust	8,000	9,208	1,208
Total	<u>\$1,048,670</u>	<u>\$1,015,671</u>	<u>(\$32,999)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$738,744	\$461,310	\$277,434
Special Revenue	68,644	88,734	(20,090)
Enterprise	569,263	432,291	136,972
Non-Expendable Trust	12,200	7,067	5,133
Total	<u>\$1,388,851</u>	<u>\$989,402</u>	<u>\$399,449</u>

Contrary to Ohio law, at December 31, 2002 expenditures exceeded appropriations in the Fire Fund by \$38,128 and the Scheurer Trust Fund by \$5,525, and appropriation exceeded estimated revenues in the Scheurer Trust Fund by \$7,000.

Contrary to Ohio law, at December 31, 2003 expenditures exceeded appropriations in the Scheurer Trust Fund by \$5,006.

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by February 27. If the property owner elects to make semiannual payments, the first half is due February 27. The second half payment is due the following July 24.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**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.

**6. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission	\$38,070	0.00%
Various Purpose Refunding and Improvement General Obligation Bonds	<u>350,000</u>	3.50%
Total	<u><u>\$388,070</u></u>	

The Ohio Public Works Commission (OPWC) loan relates to the water tower construction project. The OPWC has approved a \$56,410 loan to the Village for this project. The loan will be repaid in semiannual installments of \$1,410, over 20 years.

The General Obligation Bonds were issued for water system improvements, refunding the 1999 General Obligation Waterworks System Refunding and Improvement Bonds, and street improvements. The General Obligation Bonds are collateralized by the Village's taxing authority.

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

**VILLAGE OF MORROW  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**6. DEBT (Continued)**

Year ending December 31:	<u>OWDA Loan</u>	<u>General Obligation Bonds</u>
2004	\$2,820	\$30,000
2005	2,820	30,000
2006	2,820	30,000
2007	2,820	30,000
2008	2,820	35,000
2009 – 2014	<u>23,970</u>	<u>195,000</u>
Total	<u><u>\$38,070</u></u>	<u><u>\$350,000</u></u>

**7. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

**8. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Morrow  
Warren County  
150 Pike Street  
Morrow, Ohio 45152

To the Village Council:

We have audited the accompanying financial statements of the Village of Morrow, Warren County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated August 31, 2004 wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-01 through 2003-009. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated August 31, 2004.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-007 through 2003-009.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted instances concerning the internal control over financial reporting and its operation that we consider to be material weaknesses. A material weakness is described in the accompanying schedule of findings as item 2003-007. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Village in a separate letter dated August 31, 2004.

This report is intended solely for the information and use of management and the Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 31, 2004

**VILLAGE OF MORROW  
WARREN COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Noncompliance Citation- Finding for Recovery Repaid Under Audit**

Ordinance 13-00 dated November 14, 2000, states that a resident who is in receipt of an extraordinarily high water bill may make a request to the Village Council for a reduction of his or her bill, if all of the following apply;

- A. The applicant is the owner of the property for which the extraordinarily high water bill was rendered.
- B. No previous reduction of a water bill for that property has ever been granted within the past six months.
- C. The bill exceeds 500% of the average of the last six month's water bills.
- D. The resident makes the request to the Village within 15 days following mailing of the extraordinarily high water bill.
- E. The extraordinarily high water bill is the result of a leak, breakage, or other foreseeable consumption of water, which the resident has remedied or is taking steps to repair the problem to a standard approved by the Village.
- F. The leak, breakage or other unforeseeable consumption of water occurred underground outside the residence on the property between the residence and the water meter.

Contrary to Ordinance 13-00, Mr. York Bryant, Village Council Member, was refunded 100% of his \$643.90 water bill from the Village and he did not meet requirements C, D, E & F of this ordinance. During the audit period, two other individuals were approved water bill reductions in accordance with this ordinance. They were not given full refunds.

When informed of these facts, Mr. York Bryant repaid the Village \$643.90 on May 27, 2004.

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code.

We could not locate supporting documentation for 27% of expenditures tested. We did perform alternative audit procedures reviewing that the expenditures were for a Village related purpose and we tracing the items to the canceled check. Failure to maintain the appropriate records could result in problems when documents are needed to support actions taken by the Village. We recommend the Village retain all pertinent information in accordance with their approved records retention policy.

**FINDING NUMBER 2003-003**

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.41 (D), states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same... has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances at the time the contract or order was made and at the time the certification was completed, Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one thousand dollars (three thousand dollars effective April 7, 2003); the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

The Village failed to properly encumber 23% of expenditures tested and neither of the two exceptions provided for were used. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by obtaining proper certification of the available funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the proper certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriate and authorized, prior to making a commitment.

**FINDING NUMBER 2003-004**

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.39, states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. At December 31, 2002, appropriations exceeded estimated resources in the Scheurer Poor Relief Fund by \$7,000.

We recommend that the Village monitor their appropriations and receipts and not appropriate any funds that the Village does not anticipate receiving.

**FINDING NUMBER 2003-005**

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. Disbursements at December 31, 2003 and 2002 exceeded appropriations in the following funds; Fire 2002 (\$33,128), Scheurer Trust 2002 (\$5,525) and Scheurer Trust 2003 (\$4,918).

We recommend that the Village monitor their appropriations and disbursements and appropriate any funds that the Village anticipates on expending.

### **FINDING NUMBER 2003-006**

#### **Noncompliance Citation**

Ohio Rev. Code, Section 5705.40, states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

In 2002, the Clerk amended the Village appropriations and submitted to the County Auditor without first obtaining Council approval. We recommend that any appropriation modifications be approved by Council ordinance.

### **FINDING NUMBER 2003-007**

#### **Noncompliance Citation- Material Weaknesses**

Ohio Rev. Code, Section 733.28, states that the Village Clerk shall keep the books of the Village; exhibit accurate statements of all monies received and expended, and maintain records of all property owned by the Village and income derived. In addition, the Ohio Admin. Code, Section 117-2-02 (A), states "All public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code."

- The Village did not maintain an accurate record of all moneys received. The accounting records of the Village contained posting errors, were not reconciled to the bank, lacked correct classifications of receipts and expenditures, and lacked accurate month-to-date and year-to-date totals. As a result, those records which were maintained by the Clerk were not an accurate reflection of all monies received and expended. All of these conditions exhibit a lack of control over the recording and reporting of Village financial activity and did result in inaccurate and untimely accounting records.
- The Clerk posted tax settlement sheets and intergovernmental revenue incorrectly between the General, State Highway and Street Funds. These errors resulted in adjustments to the financial statements as presented. We recommend the Clerk use due care when posting these receipts.
- The Clerk posted tax settlement sheets at net instead of gross. These errors resulted in adjustments to the financial statements as presented. To properly record the tax revenue, the full amount of revenue needs to be recognized and the fees should be reflected as an expenditure. Failure to record amounts in the proper fund or for the incorrect amount could cause the Village to spend amounts improperly. We recommend the Clerk post the tax settlement sheets at gross and then post the appropriate disbursements for auditor and treasurer fees.
- We noted that the Village's portion of Mayor's Court fines was posted as Charges for Services instead of Fines, Licenses and Permits in 2003 for \$1,320. The financial statements were not adjusted due to not affecting the General Fund Balance. We recommend the Village take due care in the posting of Village receipts to ensure proper posting.
- The Village did not properly reconcile its bank account during 2003 and 2002. Reconciliations were performed but outstanding checks listed were incorrect, voided checks cleared the bank, receipts were not always posted, there were various cash posting errors and check numbers used were not correct.

**FINDING NUMBER 2003-007**  
**(Continued)**

- A. Discrepancies in the outstanding check lists varied from \$324 to \$7,470.
- B. Over the audit period, there was \$21,983 in checks that were voided in the Village's system; however, they cleared the bank.
- C. Receipts totaling \$4,296 were not posted to the Village books.
- D. There was \$3,380 in cash posting errors.
- E. System check numbers did not match the preprinted check numbers and many were used twice.

Failure to accurately prepare and reconcile the accounting records reduces the accountability over Village funds, reduces the Council's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected and increases the likelihood that the Village's financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited with the financial institution.

We recommend the Village properly reconcile the account monthly. The Village Clerk should perform a reconciliation between the bank balance and computer system balance monthly. The reconciled checking account balance (bank balance less outstanding checks plus deposits in transit) plus each certificate of deposit balance should equal the total fund balance. Any variances should be immediately investigated and justified. We also recommend that a council member review and sign off on the reconciliation thereby indicating approval and ensuring timeliness of reconciliations.

- Vouchers were not maintained by check number or by date order. Also, the check number was not provided on the voucher. This made it difficult to locate items because the vouchers were not easily identifiable. We recommend that the Clerk keep vouchers in check number order and ensure that the check number is on the voucher package.
- We noted two instances that amounted to \$729 where the Clerk paid more than the invoice stated. We could not identify the reason for the overpayment. We recommend the Clerk keep track of amounts paid, so as to not pay for amounts not truly owed.
- 7 out of 30 or 23% of non payroll expenditures were not always properly classified. We recommend that the Clerk use due care when coding expenditures to appropriate account codes.
- Debt payments were not classified properly. In addition, the Village was unable to provide the debt issuance documents or bank statements for the General Obligation Waterworks System Refunding and Improvement Bonds. This resulted in additional time to obtain and analyze this documentation to determine the proper classification and presentation of the debt activity. The Village should maintain all documentation related to significant Village activity to assist in proper recording of Village operations.

**FINDING NUMBER 2003-007  
(Continued)**

- The official budgetary amounts as approved by council were not properly input into the Village's computer system. In 2003 and 2002 the following differences were noted in the following documents; 2003 Amended Certificate differed from the amounts input by \$306,903, 2002 Amended Certificate differed from the amounts input by \$99,313, 2003 Appropriation Resolution differed from the amounts input by \$221,255 and the 2002 Appropriation Resolution differed from the amounts input by \$466,960. Inputting these documents into the system properly helps the Village to accurately monitor the Village's activities. Without accurate data, the Village can not make sound business decisions. To provide accurate and complete financial information for management to use in the decision making process, we recommend the Village properly input their amended certificate and appropriation resolutions into their system.
- During receipt testing, we noted that supporting documentation was not kept to back up receipt amounts. We used confirmations to help assure that receipts were for the proper amount. We recommend that supporting documentation be kept with each receipt, so as to verify that the amount posted was the actual amount received.
- The Village transferred interest earnings of \$10,442 from the Nonexpendable Trust Fund to the General Fund and Fire Fund for the purpose of allocating CD interest. Interest should be posted directly to these funds instead of by transfer.
- An extra payroll was incorrectly entered into the computer system. It was removed from the payroll system; however, they were not voided from the general ledger system until January 2004.
- We noted during year end budgetary analysis that all funds had variances between estimated and actual receipts. When the Village realizes that the actual receipts are different than what they had previously anticipated, the Village should amend their amended certificate accordingly.

**FINDING NUMBER 2003-008**

**Noncompliance Citation - Reportable Condition**

The Scheurer Trust agreement states that trust income can be spent two thirds for the needy citizens in the Village, one sixth for street lighting and one sixth for the fire department. Contrary to the provisions of the trust agreement, \$675 in expenses, representing 45% of 2002 expenditures, were paid to the Village Solicitor from the trust fund. The financial statements and the Village's financial records were adjusted to correct this. We recommend that the Village follow the provisions set forth in the trust agreement.

**FINDING NUMBER 2003-009**

**Noncompliance Citation- Reportable Condition**

The Ohio Supreme Court has considered the extent of a non-charter municipality's authority to provide by ordinance for the compensation of its employee where such an ordinance is at variance with a statute concerning the same subject. Northern Ohio Patrolmen's Benevolent Assoc. v. City of Parma, 61 Ohio St. 2d 375 (1980). In short, the Court states that the Ohio Constitution art. XVIII, 3 is a direct grant of power to all municipalities to exercise local self government, and a non-charter municipality may enact an ordinance governing the salary paid to its employees.

**FINDING NUMBER 2003-009**  
**(Continued)**

Thus, although R.C. 731.13 prohibits in-term increases in compensation for village officers, an ordinance authorizing such increases prevails over the statute. See, OAG Op. 83-036. In addition, the Ohio Ethics Commission has considered whether a clerk of a village may receive an in-term increase in compensation under R.C. 102.03(D)(E) and opined that a village clerk is not prohibited from receiving an in-term increase in compensation enacted by ordinance, unless the clerk is authorized to exercise discretionary authority over enacting ordinances, appropriation of moneys, or establishing the clerk's compensation in Advisory Opinion 93-006. It should also be noted that the Ohio Ethics Commission further opined that for certain municipal officials (mayor, village council member and solicitor), an in-term increase would violate ethics law, R.C. 102.03.

The Village did approve a wage increase for the Clerk in 2002 and 2003; however, this approval was not done by ordinance. We recommend the Village pass an ordinance each time a wage increase is given to the Clerk and consult with its legal counsel on all matters related to compensation of elected officials and Village employees.

**VILLAGE OF MORROW  
WARREN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
1	ORC 5705.41(B)	No	Reissued as finding number 2003-005
2	ORC 5705.34	No	Reissued in the management letter
3	ORC 733.28	No	Reissued as finding number 2003-2007
4	ORC 149.351	No	Reissued as finding number 2003-002





**Auditor of State  
Betty Montgomery**

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**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  
OCTOBER 12, 2004**