

Village of Morrow
Warren County, Ohio
Regular Audit
For the Years Ended December 31, 2011 and 2010



Millhuff-Stang, CPA, Inc.
1428 Gallia Street, Suite 2
Portsmouth, Ohio 45662
Phone: 740.876.8548 ■ Fax: 888.876.8549
Website: www.milhuffstangcpa.com ■ Email: natalie@milhuffstangcpa.com



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, 2010 through December 31, 2011. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 27, 2012

This page intentionally left blank.

Village of Morrow
Warren County, Ohio
Table of Contents
For the Years Ended December 31, 2011 and 2010

Title	Page
Independent Auditor’s Report.....	1 – 2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2011	3
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, 2011	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2010	5
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, 2010	6
Notes to the Financial Statements	7 – 15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16 – 17
Schedule of Findings and Responses	18 – 19
Schedule of Prior Audit Findings.....	20

This page intentionally left blank.

Independent Auditor's Report

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

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, 2011 and 2010. 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. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity-wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Morrow, Warren County, Ohio, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 11, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

June 22, 2012

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, 2011

	General Fund	Special Revenue Funds	Capital Projects Fund	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$34,172	\$5,573	\$0	\$39,745
Municipal Income Tax	247,001	0	0	247,001
Intergovernmental	22,680	61,718	501,628	586,026
Charges for Services	138,002	0	0	138,002
Fines, Licenses and Permits	119,327	6,167	0	125,494
Earnings on Investments	7,479	547	0	8,026
Miscellaneous	8,423	12,427	0	20,850
Total Cash Receipts	577,084	86,432	501,628	1,165,144
Cash Disbursements:				
Current:				
Security of Persons and Property	182,102	6,093	0	188,195
Public Health Services	720	0	0	720
Leisure Time Activities	644	480	0	1,124
Community Environment	4,080	0	0	4,080
Basic Utility Services	118,375	0	0	118,375
Transportation	0	67,435	0	67,435
General Government	209,686	13,050	0	222,736
Capital Outlay	30,000	0	501,628	531,628
Debt Service:				
Principal Payment	2,459	7,000	0	9,459
Interest and Fiscal Charges	3,470	998	0	4,468
Total Cash Disbursements	551,536	95,056	501,628	1,148,220
Total Receipts Over (Under) Disbursements	25,548	(8,624)	0	16,924
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds	30,000	0	0	30,000
Sale of Capital Assets	0	1,120	0	1,120
Total Other Financing Receipts/(Disbursements)	30,000	1,120	0	31,120
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	55,548	(7,504)	0	48,044
Fund Cash Balances, January 1	106,768	148,354	0	255,122
Fund Cash Balances, December 31				
Restricted for:				
Drug and Alcohol Education and Enforcement	0	1,453	0	1,453
Fire Operations	0	6,385	0	6,385
Infrastructure Improvements	0	51,243	0	51,243
Mayor's Court	0	3,920	0	3,920
Park Maintenance	0	1,845	0	1,845
Police Equipment	0	4,824	0	4,824
Road Maintenance and Repair	0	71,180	0	71,180
Unassigned	162,316	0	0	162,316
Fund Cash Balances, December 31	\$162,316	\$140,850	\$0	\$303,166

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, 2011

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$329,337	\$0	\$0	\$329,337
Earnings on Investments	0	613	0	613
Miscellaneous	342	0	0	342
Total Cash Receipts	329,679	613	0	330,292
Operating Cash Disbursements:				
Personal Services	74,249	0	0	74,249
Employee Fringe Benefits	28,518	0	0	28,518
Contractual Services	75,631	0	0	75,631
Supplies and Materials	23,202	0	0	23,202
Total Cash Disbursements	201,600	0	0	201,600
Operating Income/(Loss)	128,079	613	0	128,692
Non-Operating Cash Receipts:				
Special Assessments	3,600	0	0	3,600
Miscellaneous Receipts	904	0	0	904
Other Non-Operating Receipts	0	0	144,229	144,229
Total Non-Operating Cash Receipts	4,504	0	144,229	148,733
Non-Operating Cash Disbursements:				
Redemption of Principal	35,820	0	0	35,820
Interest and Other Fiscal Charges	4,940	0	0	4,940
Other Non-Operating Disbursements	0	1,800	139,409	141,209
Total Non-Operating Cash Disbursements	40,760	1,800	139,409	181,969
Net Receipts Over/(Under) Disbursements	91,823	(1,187)	4,820	95,456
Fund Cash Balances, January 1	473,933	104,856	5,808	584,597
Fund Cash Balances, December 31	<u>\$565,756</u>	<u>\$103,669</u>	<u>\$10,628</u>	<u>\$680,053</u>

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, 2010

	General Fund	Special Revenue Funds	Capital Projects Funds	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$32,434	\$5,851	\$0	\$38,285
Municipal Income Tax	224,635	0	0	224,635
Intergovernmental	20,162	72,709	37,828	130,699
Charges for Services	129,426	5	0	129,431
Fines, Licenses and Permits	86,157	5,027	0	91,184
Earnings on Investments	8,805	739	0	9,544
Miscellaneous	9,258	21,473	0	30,731
Total Cash Receipts	510,877	105,804	37,828	654,509
Cash Disbursements:				
Current:				
Security of Persons and Property	188,176	2,252	0	190,428
Public Health Services	690	0	0	690
Leisure Time Activities	1,073	1,656	0	2,729
Community Environment	5,345	0	0	5,345
Basic Utility Services	115,300	0	0	115,300
Transportation	0	71,933	0	71,933
General Government	211,135	740	0	211,875
Capital Outlay	0	0	37,828	37,828
Debt Service:				
Principal Payment	2,346	7,000	0	9,346
Interest and Fiscal Charges	3,582	1,330	0	4,912
Total Cash Disbursements	527,647	84,911	37,828	650,386
Total Receipts Over (Under) Disbursements	(16,770)	20,893	0	4,123
Fund Cash Balances, January 1, Restated	123,538	127,461	0	250,999
Fund Cash Balances, December 31	<u>\$106,768</u>	<u>\$148,354</u>	<u>\$0</u>	<u>\$255,122</u>

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, 2010

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$378,959	\$0	\$0	\$378,959
Earnings on Investments	0	879	0	879
Miscellaneous	1,487	0	0	1,487
Total Cash Receipts	380,446	879	0	381,325
Operating Cash Disbursements:				
Personal Services	70,154	0	0	70,154
Employee Fringe Benefits	27,988	0	0	27,988
Contractual Services	78,371	0	0	78,371
Supplies and Materials	23,652	0	0	23,652
Other	976	0	0	976
Total Cash Disbursements	201,141	0	0	201,141
Operating Income/(Loss)	179,305	879	0	180,184
Non-Operating Cash Receipts:				
Special Assessments	6,285	0	0	6,285
Other Non-Operating Receipts	0	0	109,631	109,631
Total Non-Operating Cash Receipts	6,285	0	109,631	115,916
Non-Operating Cash Disbursements:				
Redemption of Principal	30,820	0	0	30,820
Interest and Other Fiscal Charges	6,270	0	0	6,270
Other Non-Operating Cash Disbursements	0	2,905	107,718	110,623
Total Non-Operating Cash Disbursements	37,090	2,905	107,718	147,713
Net Receipts Over/(Under) Disbursements	148,500	(2,026)	1,913	148,387
Fund Cash Balances, January 1, Restated	325,433	106,882	3,895	436,210
Fund Cash Balances, December 31	\$473,933	\$104,856	\$5,808	\$584,597

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, 2011 and 2010

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, 2011 and 2010

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 and Community Development Block Grant funds as well as grants from Warrant County. These funds were used for the Main Street Improvement Project.

Morrow/Salem Fire Company Fund – This fund is to account for debt proceeds and the related purchase of a building for use by the Village’s police department and the Salem Township fire department.

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, 2011 and 2010

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 2011 and 2010 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

For December 31, 2011, 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, 2011 and 2010

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:

	2011	2010
Demand Deposits	\$792,384	\$648,887
CDs	185,197	185,197
Total Deposits	977,581	834,084
STAR Ohio	5,638	5,635
Total Investments	5,638	5,635
Total Deposits and Investments	<u>\$983,219</u>	<u>\$839,719</u>

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, 2011 and 2010

Note 3 – Budgetary Activity

Budgetary activity, except for the agency fund, for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$604,413	\$607,084	\$2,671
Special Revenue	87,308	87,552	244
Capital Projects	501,627	501,628	1
Enterprise	334,000	334,183	183
Private Purpose Trust	600	613	13
Total	\$1,527,948	\$1,531,060	\$3,112

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$603,568	\$551,536	\$52,032
Special Revenue	106,245	95,056	11,189
Capital Projects	501,628	501,628	0
Enterprise	319,809	242,360	77,449
Private Purpose Trust	2,000	1,800	200
Total	\$1,533,250	\$1,392,380	\$140,870

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$498,636	\$510,877	\$12,241
Special Revenue	102,423	105,804	3,381
Capital Projects	632,737	37,828	(594,909)
Enterprise	374,780	386,731	11,951
Private Purpose Trust	2,469	879	(1,590)
Total	\$1,611,045	\$1,042,119	(\$568,926)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$571,274	\$527,647	\$43,627
Special Revenue	101,606	84,911	16,695
Capital Projects	652,629	37,828	614,801
Enterprise	301,780	238,231	63,549
Private Purpose Trust	3,000	2,905	95
Total	\$1,630,289	\$891,522	\$738,767

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

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.

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, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan	\$14,100	0.00%
General Obligation Water System Bonds	85,000	4.75%
Pike Street Building Loan	71,195	2.375%
Police Cruiser Loan	30,000	3.5%
Total	<u>\$200,295</u>	

The Ohio Public Works Commission (OPWC) loan relates to the water tower construction project. The 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. The last payment is due September 1, 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.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 6 – Debt (Continued)

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	General Obligation Water Bonds	Building Loan	Police Cruiser Loan
2012	\$2,820	\$44,038	\$4,683	\$10,621
2013	2,820	47,138	5,928	10,621
2014	2,820	0	5,929	10,621
2015	2,820	0	5,929	0
2016	2,820	0	5,928	0
2017-2021	0	0	29,642	0
2022-2026	0	0	29,642	0
2027-2030	0	0	20,749	0
Total	<u>\$14,100</u>	<u>\$91,176</u>	<u>\$108,430</u>	<u>\$31,863</u>

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 2011 and 2010, OP&F members contributed 10% of their gross salaries, with the Village contributing an amount equal to 19.5% of participants' gross salaries. For 2011 and 2010, 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, 2011.

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), 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.

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, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 8 – Risk Management (Continued)

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, 2010 and 2009 (the latest information available):

	2010	2009
Assets	\$34,952,010	\$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	\$20,631,198	\$21,118,036

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village’s share of these unpaid claims collectible in future years is approximately \$5,873.

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	
2010	2009
\$6,315	\$14,164

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 appropriations in excess of available resources, which is contrary to Ohio Revised Code Section 5705.36(A).
- The Village had appropriations in excess of estimated resources, which is contrary to Ohio Revised Code Section 5705.39.

Village of Morrow
Warren County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 10 – Restatement of Fund Cash Balances

The Village adjusted balances in accordance with an audit comment issued in the previous audit report. The Village also identified a small error in beginning balances that required correction. Those restatements had the following effects on balances as previously reported.

	General Fund	Special Revenue Funds	Private Purpose Trust Fund
Fund Cash Balances, December 31, 2009	\$123,055	\$127,042	\$107,716
Restatements	483	419	(834)
Restated Fund Cash Balances, January 1, 2010	\$123,538	\$127,461	\$106,882

Note 11 – Change in Accounting Principles

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, which the Village has implemented for the year ended December 31, 2011. This pronouncement does not affect the calculation of the Village’s fund balances but does shift the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in funds can be spent (See Note 1). Fund balances have been classified in the financial statements, as applicable, for the year ended December 31, 2011 in accordance with this pronouncement. This pronouncement also requires that certain funds previously reported as Special Revenue Funds be reclassified to the General Fund. The Village has no funds that required fund reclassification.

Note 12 – Subsequent Event

On June 1, 2012, the Village issued a note in the amount of \$19,635 for the purchase of a police vehicle. The note bears an interest rate of 3.00% and requires semi-annual installments of \$4,116, with a final maturity date of December 1, 2014. The note is secured by the vehicle.

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*

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

We have audited the financial statements of the Village of Morrow, Warren County, Ohio, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 22, 2012, wherein we noted the Village followed the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted, for the year ended December 31, 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Village is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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 2011-1 through 2011-3.

We noted certain matters that we reported to management of the Village in a separate letter dated June 22, 2012.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



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

June 22, 2012

Village of Morrow
Warren County, Ohio
Schedule of Findings and Responses
For the Years Ended December 31, 2011 and 2010

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

FINDING NUMBER 2011-1

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 exceptions 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 he is completing his 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.

Client Response:

The Village will use then and now certificates as needed.

FINDING NUMBER 2011-2

Noncompliance – Appropriations in Excess of Available Resources

Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. The Village had appropriations in excess of available resources in various funds in 2010. The Village should implement the appropriate procedures, such as periodic comparisons of available resources to estimated resources and appropriations, to ensure that appropriations are limited to available resources to ensure overspending does not occur.

Client Response:

This noncompliance occurred in funds where moneys are paid directly by grantors to vendors. Information is not always provided timely by grantors to ensure that all budgetary modifications can be made timely prior to the end of the year. These projects are expected to be completed in 2012, but we will continue to monitor this in the future.

Village of Morrow
Warren County, Ohio
Schedule of Findings and Responses
For the Years Ended December 31, 2011 and 2010

FINDING NUMBER 2011-3

Noncompliance – Appropriations in Excess of Estimated Resources

Ohio Revised Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. The Village had appropriations in excess of estimated resources in various funds in 2010. The Village should implement budgetary monitoring procedures to ensure that overspending does not occur by amending budget where appropriate.

Client Response:

This noncompliance occurred in funds where moneys are paid directly by grantors to vendors. Information is not always provided timely by grantors to ensure that all budgetary modifications can be made timely prior to the end of the year. These projects are expected to be completed in 2012, but we will continue to monitor this in the future.

Village of Morrow
Warren County, Ohio
Schedule of Prior Audit Findings
For the Years Ended December 31, 2011 and 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-1	Material weakness – previous audit comments	Yes	No longer valid – we believe sufficient action has been taken in correcting findings that this comment is no longer required.
2009-2	Material weakness – minute record	Yes	
2009-3	Noncompliance – proper certification of funds	No	Reissued as finding 2011-1
2009-4	Noncompliance – certification of amounts available for expenditure	Yes	
2009-5	Noncompliance – appropriation in excess of available resources	No	Reissued as finding 2011-2
2009-6	Significant deficiency – Scheurer Trust	No	Partially corrected – reissued, in part, in management letter
2009-7	Material weakness – payroll disbursements	No	Partially corrected – reissued, in part, in management letter
2009-8	Significant deficiency – unrecorded investments	Yes	
2009-9	Significant deficiency – controls over bank reconciliations	Yes	
2009-10	Significant deficiency – audit adjustments and misclassifications	Yes	



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
SEPTEMBER 6, 2012