

Village of Morrow  
Warren County, Ohio  
Regular Audit  
For the Years Ended December 31, 2015 and 2014



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# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Morrow, Warren County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2014 through December 31, 2015. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

## **Finding for Recovery**

Section 5.3 of the Village of Morrow Personnel Policy Manual states that employees who retire with PERS or Police and Firemans Fund may receive twenty-five percent (25%) of unused sick leave balance. On March 11, 2015, Timothy Erwin received a termination leave payout in the amount of \$5,766.03. This payout included a payment for 100% of his sick leave balance of 279.75 hours, which is not in accordance with the Village policy. Mr. Erwin should have been paid out for 25% of the sick leave balance, which is 69.94 hours. This resulted in an overpayment of \$3,057.49.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Timothy Erwin in the amount of \$3,057, and in favor of Village of Morrow, Warren County's Street Construction Maintenance & Repair in the amount of \$1,223 and the Water Operating Fund in the amount of \$1,834.

Under Ohio Law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such an illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1908 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.38; State ex. Rel. Village of Masten, 18 Ohio St. 3D 228 (1985). Public officials who have control over public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost, or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. 80-074.

Village Council  
Village of Morrow  
150 Pike Street  
Morrow, Ohio 45152  
Page -2-

Accordingly, a Finding for Recovery is hereby issued against the following:

- Kathie Koehler, who served as Village Fiscal Officer and issued the check resulting in the finding, and her bonding company, The Cincinnati Insurance Company, will be jointly and severally, in the amount of \$3,057, and in favor of Village of Morrow, Warren County's Street Construction Maintenance & Repair in the amount of \$1,223 and the Water Operating Fund in the amount of \$1,834.
- Judith Warman-Neal, Council Member of the Village who authorized by signature on the check resulting in the finding, in the amount of \$3,057, and in favor of Village of Morrow, Warren County's Street Construction Maintenance & Repair in the amount of \$1,223 and the Water Operating Fund in the amount of \$1,834.

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.



Dave Yost  
Auditor of State

October 12, 2016

**Village of Morrow**  
**Warren County, Ohio**  
*Table of Contents*  
*For the Years Ended December 31, 2015 and 2014*

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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, 2015 .....	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, 2015 .....	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2014 .....	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, 2014 .....	6
Notes to the Financial Statements .....	7 – 14
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> .....	15 – 16
Schedule of Findings and Responses .....	17 – 18
Schedule of Prior Audit Findings.....	19

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**Independent Auditor's Report**

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Morrow, Warren County, (the Village) as of and for the years ended December 31, 2015 and 2014.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

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

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

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2015 and 2014, or changes in financial position or cash flows thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Morrow, Warren County, as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



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

June 27, 2016

**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, 2015*

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$37,416	\$6,929	\$44,345
Municipal Income Tax	322,456	0	322,456
Intergovernmental	16,745	66,720	83,465
Charges for Services	136,088	310	136,398
Fines, Licenses and Permits	113,913	5,213	119,126
Earnings on Investments	2,540	291	2,831
Miscellaneous	7,136	8,485	15,621
<b>Total Cash Receipts</b>	<b>636,294</b>	<b>87,948</b>	<b>724,242</b>
<b>Cash Disbursements:</b>			
<b>Current:</b>			
Security of Persons and Property	180,438	1,508	181,946
Public Health Services	863	0	863
Leisure Time Activities	14,404	134	14,538
Community Environment	9,572	0	9,572
Basic Utility Services	115,043	0	115,043
Transportation	0	81,015	81,015
General Government	306,076	1,566	307,642
Capital Outlay	0	0	0
<b>Debt Service:</b>			
Principal Payment	5,679	0	5,679
Interest and Fiscal Charges	3,198	0	3,198
<b>Total Cash Disbursements</b>	<b>635,273</b>	<b>84,223</b>	<b>719,496</b>
<b>Excess of Cash Receipts Over Cash Disbursements</b>	<b>1,021</b>	<b>3,725</b>	<b>4,746</b>
<b>Fund Cash Balances, January 1</b>	<b>251,760</b>	<b>135,775</b>	<b>387,535</b>
<b>Fund Cash Balances, December 31</b>			
<b>Restricted for:</b>			
Capital Improvement	0	52,387	52,387
Drug and Alcohol Education and Enforcement	0	4,697	4,697
Fire Operations	0	1,653	1,653
Mayor's Court	0	7,928	7,928
Parks and Recreation	0	580	580
Police Equipment	0	1,984	1,984
Police Training	0	2,980	2,980
Road Maintenance and Repair	0	67,291	67,291
Assigned	8,033	0	8,033
Unassigned	244,748	0	244,748
<b>Fund Cash Balances, December 31</b>	<b>\$252,781</b>	<b>\$139,500</b>	<b>\$392,281</b>

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, 2015*

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$327,894	\$0	\$0	\$327,894
Earnings on Investments	0	708	0	708
Miscellaneous	446	0	0	446
<b>Total Cash Receipts</b>	<b>328,340</b>	<b>708</b>	<b>0</b>	<b>329,048</b>
Operating Cash Disbursements:				
Personal Services	32,978	0	0	32,978
Employee Fringe Benefits	22,532	0	0	22,532
Contractual Services	25,941	0	0	25,941
Supplies and Materials	58,326	0	0	58,326
Other	83	1,343	0	1,426
<b>Total Cash Disbursements</b>	<b>139,860</b>	<b>1,343</b>	<b>0</b>	<b>141,203</b>
Operating Income	188,480	(635)	0	187,845
Non-Operating Cash Receipts:				
Special Assessments	3,067	0	0	3,067
Other Non-Operating Receipts	0	0	99,573	99,573
<b>Total Non-Operating Cash Receipts</b>	<b>3,067</b>	<b>0</b>	<b>99,573</b>	<b>102,640</b>
Non-Operating Cash Disbursements:				
Redemption of Principal	1,410	0	0	1,410
Capital Outlay	241,912	0	0	241,912
Other Non-Operating Disbursements	0	0	101,538	101,538
<b>Total Non-Operating Cash Disbursements</b>	<b>243,322</b>	<b>0</b>	<b>101,538</b>	<b>344,860</b>
Net Receipts Over/(Under) Disbursements	(51,775)	(635)	(1,965)	(54,375)
Fund Cash Balances, January 1	364,405	101,392	7,400	473,197
Fund Cash Balances, December 31	<u>\$312,630</u>	<u>\$100,757</u>	<u>\$5,435</u>	<u>\$418,822</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, 2014*

	General Fund	Special Revenue Funds	Capital Projects Funds	Totals (Memorandum Only)
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$35,841	\$6,765	\$0	\$42,606
Municipal Income Tax	279,884	0	0	279,884
Intergovernmental	14,180	91,096	123,722	228,998
Charges for Services	137,419	105	0	137,524
Fines, Licenses and Permits	121,483	7,694	0	129,177
Earnings on Investments	3,022	304	0	3,326
Miscellaneous	19,511	4,446	0	23,957
<b>Total Cash Receipts</b>	<b>611,340</b>	<b>110,410</b>	<b>123,722</b>	<b>845,472</b>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property	200,848	5,040	0	205,888
Public Health Services	870	0	0	870
Leisure Time Activities	6,164	1,447	0	7,611
Community Environment	5,082	0	0	5,082
Basic Utility Services	115,779	0	0	115,779
Transportation	2,408	95,208	273	97,889
General Government	270,687	1,799	0	272,486
Capital Outlay	0	10,022	123,449	133,471
<b>Debt Service:</b>				
Principal Payment	23,845	0	0	23,845
Interest and Fiscal Charges	3,898	0	0	3,898
<b>Total Cash Disbursements</b>	<b>629,581</b>	<b>113,516</b>	<b>123,722</b>	<b>866,819</b>
<b>Total Receipts Under Disbursements</b>	<b>(18,241)</b>	<b>(3,106)</b>	<b>0</b>	<b>(21,347)</b>
<b>Other Financing Receipts:</b>				
Sale of Capital Assets	0	7,580	0	7,580
<b>Total Other Financing Receipts</b>	<b>0</b>	<b>7,580</b>	<b>0</b>	<b>7,580</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements</b>	<b>(18,241)</b>	<b>4,474</b>	<b>0</b>	<b>(13,767)</b>
<b>Fund Cash Balances, January 1</b>	<b>270,001</b>	<b>131,301</b>	<b>0</b>	<b>401,302</b>
<b>Fund Cash Balances, December 31</b>				
<b>Restricted for:</b>				
Capital improvement	0	45,515	0	45,515
Drug and Alcohol Education and Enforcement	0	3,717	0	3,717
Fire Operations	0	2,084	0	2,084
Mayor's Court	0	7,532	0	7,532
Parks and Recreation	0	304	0	304
Police Equipment	0	1,176	0	1,176
Police Training	0	2,417	0	2,417
Road Maintenance and Repair	0	73,030	0	73,030
Unassigned	251,760	0	0	251,760
<b>Fund Cash Balances, December 31</b>	<b>\$251,760</b>	<b>\$135,775</b>	<b>\$0</b>	<b>\$387,535</b>

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, 2014*

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$296,978	\$0	\$0	\$296,978
Earnings on Investments	0	708	0	708
Miscellaneous	1,526	0	0	1,526
<b>Total Cash Receipts</b>	<b>298,504</b>	<b>708</b>	<b>0</b>	<b>299,212</b>
Operating Cash Disbursements:				
Personal Services	94,472	0	0	94,472
Employee Fringe Benefits	41,699	0	0	41,699
Contractual Services	156,827	0	0	156,827
Supplies and Materials	36,230	0	0	36,230
Other	0	745	0	745
<b>Total Cash Disbursements</b>	<b>329,228</b>	<b>745</b>	<b>0</b>	<b>329,973</b>
Operating Income	(30,724)	(37)	0	(30,761)
Non-Operating Cash Receipts:				
Special Assessments	1,250	0	0	1,250
Sale of Capital Assets	5,589	0	0	5,589
Other Non-Operating Receipts	0	0	137,124	137,124
<b>Total Non-Operating Cash Receipts</b>	<b>6,839</b>	<b>0</b>	<b>137,124</b>	<b>143,963</b>
Non-Operating Cash Disbursements:				
Redemption of Principal	2,820	0	0	2,820
Capital Outlay	142,581	0	0	142,581
Other Non-Operating Cash Disbursements	0	0	139,816	139,816
<b>Total Non-Operating Cash Disbursements</b>	<b>145,401</b>	<b>0</b>	<b>139,816</b>	<b>285,217</b>
Net Receipts Over/(Under) Disbursements	(169,286)	(37)	(2,692)	(172,015)
Fund Cash Balances, January 1	533,691	101,429	10,092	645,212
Fund Cash Balances, December 31	<u>\$364,405</u>	<u>\$101,392</u>	<u>\$7,400</u>	<u>\$473,197</u>

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

**Village of Morrow**  
**Warren County, Ohio**  
*Notes to the Financial Statements*  
*For the Years Ended December 31, 2015 and 2014*

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**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.

**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, 2015 and 2014*

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

*Capital Projects Funds*

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

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

*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, 2015 and 2014*

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**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 2015 and 2014 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.

**Fund Balances**

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

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

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

**Village of Morrow**  
**Warren County, Ohio**  
*Notes to the Financial Statements*  
*For the Years Ended December 31, 2015 and 2014*

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**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:

	2015	2014
Demand Deposits	\$620,254	\$669,889
CDs	185,197	185,197
Total Deposits	805,451	855,086
STAR Ohio	5,652	5,646
Total Investments	5,652	5,646
Total Deposits and Investments	\$811,103	\$860,732

*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, 2015 and 2014*

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**Note 3 – Budgetary Activity**

Budgetary activity, except for the agency fund, for the years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$635,916	\$636,294	\$378
Special Revenue	87,680	87,948	268
Enterprise	331,404	331,407	3
Private Purpose Trust	650	708	58
Total	\$1,055,650	\$1,056,357	\$707

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$791,257	\$643,306	\$147,951
Special Revenue	117,562	84,223	33,339
Enterprise	456,330	383,182	73,148
Private Purpose Trust	1,500	1,343	157
Total	\$1,366,649	\$1,112,054	\$254,595

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$601,300	\$611,340	\$10,040
Special Revenue	114,462	117,990	3,528
Capital Projects	123,722	123,722	0
Enterprise	304,429	305,343	914
Private Purpose Trust	700	708	8
Total	\$1,144,613	\$1,159,103	\$14,490

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$675,277	\$629,581	\$45,696
Special Revenue	130,869	113,516	17,353
Capital Projects	123,722	123,722	0
Enterprise	484,095	474,629	9,466
Private Purpose Trust	1,500	745	755
Total	\$1,415,463	\$1,342,193	\$73,270

**Note 4 – Property Taxes**

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

**Village of Morrow**  
**Warren County, Ohio**  
*Notes to the Financial Statements*  
*For the Years Ended December 31, 2015 and 2014*

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**Note 4 – Property Taxes (Continued)**

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

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

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

**Note 5 – Local Income Tax**

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

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

**Note 6 – Debt**

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan	\$4,230	0.00%
Pike Street Building Loan	60,116	2.375%
Dump Truck Loan	7,134	3.0%
Total	<u>\$71,480</u>	

The Ohio Public Works Commission (OPWC) loan relates to the water tower construction project. OPWC approved a \$56,410 loan for this project with semiannual payments of \$1,410 over 20 years. The last payment is due July 1, 2017.

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

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

**Village of Morrow**  
**Warren County, Ohio**  
*Notes to the Financial Statements*  
*For the Years Ended December 31, 2015 and 2014*

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**Note 6 – Debt (Continued)**

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

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

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

Year Ending December 31:	OPWC Loan	Building Loan	Dump Truck Loan
2016	\$2,820	\$2,964	\$2,984
2017	1,410	5,928	2,984
2018	0	5,928	1,492
2019	0	5,928	0
2020	0	5,928	0
2021-2025	0	29,642	0
2026-2030	0	26,677	0
Total	<u>\$4,230</u>	<u>\$82,995</u>	<u>\$7,460</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. OP&F participants who were full time police contributed 10.75% of their wages through June 30, 2014, 11.5% from July 1, 2014 through June 30, 2015, and 12.25% thereafter. The Village contributed 19.5% throughout 2015 and 2014. For 2015 and 2014, 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, 2015.

**Note 8 – Risk Management**

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**Village of Morrow**  
**Warren County, Ohio**  
*Notes to the Financial Statements*  
*For the Years Ended December 31, 2015 and 2014*

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**Note 8 – Risk Management (Continued)**

**Casualty and Property Coverage**

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2015, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

**Financial Position**

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2014 and 2015:

	2014	2015
Assets	\$35,402,177	\$38,307,677
Liabilities	(12,363,257)	(12,759,127)
Net Assets	\$23,038,920	\$25,548,550

At December 31, 2014 and 2015, respectively, the liabilities above include approximately \$11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool’s membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village’s share of these unpaid claims collectible in future years is approximately \$13,000.

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

Contributions to PEP	
2014	2015
\$18,521	\$20,370

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).

**Note 10 – Contingent Liabilities**

The Village is currently party to litigation. However, management is of the opinion that such litigation will not have a material adverse effect on the Village’s cash financial position.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Village of Morrow, Warren County (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 and 2015-003, that we consider to be material weaknesses.

Village of Morrow  
Warren County, Ohio

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-002.

### **Village's Responses to Findings**

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

### **Purpose of this Report**

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



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

June 27, 2016

**Village of Morrow**  
**Warren County, Ohio**  
*Schedule of Findings and Responses*  
*For the Years Ended December 31, 2015 and 2014*

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

**FINDING NUMBER 2015-001**

**Material Weakness – Financial Reporting**

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

During 2015 and 2014, we identified various errors in the financial statements. Reclassifications and adjustments were required to properly present the activity of the Village.

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

***Client Response:***

New Fiscal Officer will make every effort to double check expense and receipt documentation for mistakes on a monthly basis.

**FINDING NUMBER 2015-002**

**Noncompliance – Proper Certification of Funds**

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

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

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

Instances were noted where the Village did not properly encumber funds. In addition instances were noted where Then and Now certifications were used for amounts in excess of \$3,000 without Council approval. The Village should implement budgetary monitoring procedures to ensure that funds are properly and timely encumbered prior to commitment. When prior certification is not possible, "then and now" certification should be used, when applicable, in accordance with state law.

**Village of Morrow**  
**Warren County, Ohio**  
*Schedule of Findings and Responses*  
*For the Years Ended December 31, 2015 and 2014*

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**Noncompliance – Proper Certification of Funds (Continued)**

***Client Response:***

Management has been working to improve the consistency of encumbering funds before making expenditures; however, some expenditures must be made on an emergency basis during non-office hours and a PO cannot be made until the next day. Additionally, some payments are automatically withdrawn and the amounts vary so the funds cannot be put on a PO/encumbered until a statement is received via email. Finally, the \$3,000 threshold was not shared with the new fiscal officer and any future Then and Now expenditures exceeding that amount will be approved by a resolution. These unusual expenditures have been brought to Council for approval but not actually approved by official resolution.

**FINDING NUMBER 2015-003**

**Material Weakness – Leave**

Having a sound internal control environment is paramount within the payroll processing procedure. A strong internal control environment includes the monitoring and governing by the Village's Council. Approved policies are an effective tool to promote a strong control environment.

The following deviations from the Village's leave policies were noted:

1. A Village employee received a 100% payout of accrued sick leave time. Village policy states that employees are to be paid out only 25% of their accrued sick time upon termination of employment with the Village. This resulted in an overpayment in the amount of \$3,057.49.
2. A Village employee was granted vacation leave prior to their one year anniversary with the Village.
3. A Village employee was paid out 33% of his accumulated sick leave upon resignation with the Village. In 2015, it was determined that this employee was not entitled to a sick leave payout, therefore amount was paid back.
4. A Village employee was paid for vacation leave that was carried over from a prior year upon resignation with the Village.

The Village should implement procedures to ensure adherence to Village approved policies. The Village should also conduct reviews of current policies and update said policies if necessary. Any deviations from Village policies should be approved and documented within the Village's official minutes.

***Client Response:***

The Village will update the personnel policy sections that pertain to these issues so that it is clear what the policy actually is and it can be consistently adhered to. Fiscal Officer granted vacation as told by administration because the personnel policy was in the process of being revised.

**Village of Morrow**  
**Warren County, Ohio**  
*Schedule of Prior Audit Findings*  
*For the Years Ended December 31, 2015 and 2014*

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-1	Material Weakness – Financial Reporting	No	Reissued as finding 2015-001
2013-2	Noncompliance – Proper Certification of Funds	No	Reissued as finding 2015-002
2013-3	Noncompliance – Expenditures in Excess of Appropriations and Failure to File Budgetary Modifications with the County	Yes	
2013-4	Material Weakness – Budgetary Information Within UAN	No	Reissued in the Management Letter

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# Dave Yost • Auditor of State

**VILLAGE OF MORROW**

**WARREN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 25, 2016**