

Village of Tremont City

Clark County

January 1, 2008 through December 31, 2009

Years Audited Under GAGAS: 2008 and 2009

CAUDILL & ASSOCIATES, CPA'S

725 5TH Street

Portsmouth, OH 45662



Mary Taylor, CPA

Auditor of State

Village Council
Village of Tremont City
26 East Main Street
Tremont City, Ohio 45372

We have reviewed the *Independent Auditor's Report* of the Village of Tremont City, Clark County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2008 through December 31, 2009. 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 Tremont City is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 23, 2010

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Village of Tremont City
Clark County
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For the Years Ended December 31, 2009 and 2008

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Independent Auditor's Report

Village of Tremont City
Clark County
26 East Main Street
Tremont City, Ohio 45372

To the Village Council:

We have audited the accompanying financial statements of the Village of Tremont City, Clark County, (the Village) as of and for the years ended December 31, 2009 and 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 require 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, 2009 and 2008 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, 2009 and 2008, or its changes in financial position 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 Tremont City, Clark County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Village of Tremont City
Clark County
Independent Auditor's Report

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2010, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
June 25, 2010

Village of Tremont City
Clark County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Funds
For the Year Ended December 31, 2009

	Governmental Funds Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Receipts</u>				
Property and Other Local Taxes	\$9,388	\$0	\$0	\$9,388
Intergovernmental	5,777	12,534	0	18,311
Fines, Licenses and Permits	91,022	0	0	91,022
Interest	131	10	0	141
Miscellaneous	8,968	0	0	8,968
<i>Total Receipts</i>	<u>115,286</u>	<u>12,544</u>	<u>0</u>	<u>127,830</u>
<u>Disbursements</u>				
Current:				
General Government	40,666	0	0	40,666
Security of Persons and Property	100,365	0	0	100,365
Transportation	955	4,099	0	5,054
Capital Outlay	23,792	0	0	23,792
Total Disbursements	<u>165,778</u>	<u>4,099</u>	<u>0</u>	<u>169,877</u>
Net Change in Fund Balances	(50,492)	8,445	0	(42,047)
Fund Balances Beginning of Year	<u>90,740</u>	<u>27,274</u>	<u>17,857</u>	<u>135,871</u>
Fund Balances End of Year	<u><u>\$40,248</u></u>	<u><u>\$35,719</u></u>	<u><u>\$17,857</u></u>	<u><u>\$93,824</u></u>

See accompanying notes to the financial statements.

Village of Tremont City
Clark County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances - Fiduciary Fund Type
For the Year Ended December 31, 2009

	Fiduciary Fund
	Agency
<u>Operating Cash Receipts</u>	\$0
<u>Operating Cash Disbursements</u>	
Supplies, Material and Charges	511
<i>Operating Loss</i>	(511)
<u>Non-Operating Cash Receipts</u>	
Court Fines and Fees	111,201
Interest Income	2
Total Non-Operating Cash Receipts	111,203
<u>Non-Operating Cash Disbursements</u>	
Payments to Village	91,032
Payments to State	20,020
Total Non-Operating Cash Disbursements	111,052
Net Receipts Under Disbursements	(360)
Fund Balance Beginning of Year	6,364
Fund Balance End of Year	\$6,004

See accompanying notes to the financial statements.

Village of Tremont City
Clark County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Funds
For the Year Ended December 31, 2008

	Governmental Funds Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Receipts</u>				
Property and Other Local Taxes	\$29,254	\$0	\$0	\$29,254
Intergovernmental	9,861	12,035	0	21,896
Fines, Licenses and Permits	75,947	0	0	75,947
Interest	691	0	0	691
Miscellaneous	10,099	0	0	10,099
<i>Total Receipts</i>	<u>125,852</u>	<u>12,035</u>	<u>0</u>	<u>137,887</u>
<u>Disbursements</u>				
Current:				
General Government	55,764	0	0	55,764
Security of Persons and Property	62,557	0	0	62,557
Transportation	7,936	11,504	0	19,440
Capital Outlay	6,010	0	0	6,010
<i>Total Disbursements</i>	<u>132,267</u>	<u>11,504</u>	<u>0</u>	<u>143,771</u>
Net Change in Fund Balances	(6,415)	531	0	(5,884)
Fund Balances Beginning of Year	<u>97,155</u>	<u>26,743</u>	<u>17,857</u>	<u>141,755</u>
Fund Balances End of Year	<u><u>\$90,740</u></u>	<u><u>\$27,274</u></u>	<u><u>\$17,857</u></u>	<u><u>\$135,871</u></u>

See accompanying notes to the financial statements.

Village of Tremont City
Clark County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances - Fiduciary Fund Type
For the Year Ended December 31, 2008

	Fiduciary Fund
	Agency
<u>Operating Cash Receipts</u>	\$0
<u>Operating Cash Disbursements</u>	
Supplies, Material and Charges	121
<i>Operating Loss</i>	(121)
<u>Non-Operating Cash Receipts</u>	
Court Fines and Fees	90,650
Interest Income	10
Total Non-Operating Cash Receipts	90,660
<u>Non-Operating Cash Disbursements</u>	
Payments to Village	75,947
Payments to State	14,638
Total Non-Operating Cash Disbursements	90,585
Net Receipts Under Disbursements	(46)
Fund Balance Beginning of Year	6,410
Fund Balance End of Year	\$6,364

See accompanying notes to the financial statements.

Village of Tremont City
Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 1 – Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Tremont City, Clark County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides police services and road maintenance. The Village contracts with German Township to provide fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Cash Equivalents

All Village funds are held in interest bearing checking and savings accounts and in money market accounts.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Fund Accounting

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant Capital Project Fund:

Sewer Fund - This fund has a prior fund balance being held for the possible construction of a new sewer system.

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Magistrate Court Fund - This fund receives fines and forfeitures for the use in General Fund operations.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are carried over and need not be reappropriated in the subsequent year. The Village did not have any outstanding encumbrances at year-end.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

Village of Tremont City
Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon retirement. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

Note 2 – Equity in Pooled Cash and Cash Equivalents

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

	2009	2008
Demand Deposits	\$99,828	\$142,235

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

Note 3 – Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,959	\$115,286	\$31,327
Special Revenue	12,525	12,544	19
Capital Projects	250	0	(250)
Total	\$96,734	\$127,830	\$31,096

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$181,923	\$165,778	\$16,145
Special Revenue	45,429	4,099	41,330
Capital Projects	0	0	0
Total	\$227,352	\$169,877	\$57,475

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$120,062	\$125,852	\$5,790
Special Revenue	12,532	12,035	(497)
Capital Projects	250	0	(250)
Total	\$132,844	\$137,887	\$5,043

Village of Tremont City
Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 3 – Budgetary Activity (Continued)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$219,181	\$132,267	\$86,914
Special Revenue	41,877	11,504	30,373
Capital Projects	0	0	0
Total	\$261,058	\$143,771	\$117,287

Note 4 - Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which tax rates are adopted by Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

Note 5 – Equipment Lease

In January 2006, the Village entered into a lease agreement with Ford Motor Credit Company for a 2006 Ford Crown Victoria Police Sedan. The Village made its final payment in 2009.

Note 6 - Retirement System

The Village’s officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits, to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. OPERS members were required to contribute 10% of their gross salaries, and the Village was required to contribute an amount equaling 14% of participants’ gross salaries in 2009 and 2008. The Village has paid all contributions required through December 31, 2009.

Note 7 – 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.

Beginning in 2009, 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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Tremont City
Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 7 – Risk Management (Continued)

Casualty Insurance

For occurrences prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, and provides up to \$1,750,000 per claim and \$10,000,000 in aggregate per year.

For occurrences on or after January 1, 2006, PEP retains casualty risks up to \$350,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$350,000, and provides up to \$2,650,000 per claim and \$10,000,000 in the aggregate per year.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to an aggregate of \$10,000,000. Governments can elect additional coverage, from \$3,000,000 to \$13,000,000, from the General Reinsurance Corporation.

Property Insurance

Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop-loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective PEP member.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years. Coverage has not been significantly reduced from the prior year.

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, 2008 and 2007 (the latest information available).

<u>Property and Casualty Coverage</u>	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Retained Earnings	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, casualty coverage liabilities noted above include approximately \$12.9 million and \$15.0 million of estimated incurred claims payable. The casualty coverage assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008 and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$10,088. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Village of Tremont City
Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 7 – Risk Management (Continued)

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.

<u>Contributions to PEP</u>	
2009	\$5,044

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s budgetary contribution. Withdrawing members have no other future obligation to the pool. 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.

Prior to 2009, the Village belonged to the Ohio Municipal Joint Self-Insurance Pool (Pool), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code.

The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

The Pool cedes certain premiums to re-insurers or excess re-insurers. The Pool is contingently liable should any re-insurer be unable to meet its reinsurance obligations.

The Pool’s financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and accumulated deficits at December 31, 2008 and 2007 (the latest information available):

	<u>2008</u>	<u>2007</u>
Assets	\$2,552,519	\$2,405,834
Liabilities	2,814,306	2,877,385
Accumulated Deficit	<u>(\$261,787)</u>	<u>(\$471,551)</u>

Note 8 – Compliance

- The Village did not properly encumbrance funds contrary to Ohio Revised Code Section 5705.41(D).
- The Village had appropriations in excess of available resources contrary to Ohio Revised Code Section 5705.36(A)(4).
- The Village had appropriations in excess of estimated resources contrary to Ohio Revised Code Section 5705.39.
- The Village failed to maintain an adequate accounting system contrary to Ohio Administrative Code Sections 117-2-02(C)(1) and 117-2-02(D).
- The Village maintained an inactive capital project fund balance without transferring the monies from the fund from which they came contrary to Ohio Revised Code Section 5705.13.
- The Village did not file its annual financial report with the Auditor of State contrary to Ohio Revised Code Section 117.38.



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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 of Tremont City
Clark County
26 East Main Street
Tremont City, Ohio 45372

To the Village Council:

We have audited the financial statements of the Village of Tremont City, Clark County, (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated June 25, 2010, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 audit procedures for expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatements in the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-004 through 2009-006 described in the accompanying schedule of findings and responses to be material weaknesses.

Village of Tremont City
Clark County

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*

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2009-001 through 2009-005 and 2009-007.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 25, 2010.

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.

We intend this report solely for the information and use of management, Village Council, and others within the Village. We intend it for no one other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
June 25, 2010

Village of Tremont City
Clark County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

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

Finding Number 2009-001

Noncompliance – Encumbrance 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 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.

41% percent of non-payroll disbursements tested in 2008 and 26% percent in 2009 were not encumbered prior to commitment in accordance with the Ohio Revised Code.

Failure to properly encumber funds subjects the Village to the risk of expenditure or commitment to expend for items unauthorized or unallowable. We recommend the Village adopt the appropriate procedures to ensure that encumbrances are certified timely in accordance with the Ohio Revised Code, or that exceptions are utilized as appropriate.

Client Response:

The Village chose not to respond.

Finding Number 2009-002

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. Ohio Revised Code Section 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.

Village of Tremont City
Clark County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

Finding Number 2009-002 (Continued)

Noncompliance – Appropriations in Excess of Available Resources (Continued)

The Village had appropriations in excess of available resources in the Street Construction, Maintenance and Repair Fund in 2009 and 2008. The Village was subject to the risk of unauthorized spending or overspending if available resources fall below appropriations and the Village spends up to authorized appropriation levels. We recommend the Village implement the appropriate budgetary monitoring controls, such as periodic comparisons of available resources to estimated resources and appropriations, to ensure compliance with the Ohio Revised Code.

Client Response:

The Village chose not to respond.

Finding Number 2009-003

Noncompliance – Appropriations in Excess of Estimated Resources

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources. The Village had appropriations in excess of estimated resources in the General and Street Construction, Maintenance and Repair Funds in 2009 and 2008. The Village was subject to the risk of unauthorized spending. We recommend the Village implement the appropriate budgetary monitoring controls, such as periodic comparisons of estimated resources to appropriations, to ensure compliance with the Ohio Revised Code.

Client Response:

The Village chose not to respond.

Finding Number 2009-004

Noncompliance/Material Weakness – Failure to Maintain Adequate Financial Accounting System

Ohio Administrative Code 117-2-02(C)(1) states, in part, that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

Ohio Administrative Code 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following: Cash Journal, Receipts Ledger, Appropriations Ledger, and Payroll Records.

The Village utilizes Quickbooks and follows the UAN manual for implementing various revenue and expenditure account codes. However, Quickbooks is unable to provide required reports on a fund by fund basis. Therefore, it is not determinable from the accounting reports what fund balances are at any given time. The Village maintains a manual bank reconciliation outside of Quickbooks to track fund balances, but no additional subsidiary ledgers are maintained to identify how balances are arrived at. It was also noted that discrepancies existed between the Quickbooks reconciliations and the manual reconciliation.

Village of Tremont City
Clark County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

Finding Number 2009-004 (Continued)

Noncompliance/Material Weakness – Failure to Maintain Adequate Financial Accounting System (Continued)

In addition, budgetary information has not been properly incorporated into the accounting system. Therefore, budget to actual comparisons are unreliable for decision-making processes.

Lastly, the Village does not have a formal policy in place regarding computer security.

The Village has implemented an accounting system that is not adequately equipped to account for governmental activities. Furthermore, it appears that the Fiscal Officer had not obtained a sufficient understanding of the accounting system and therefore relies on third parties and relatives to enter transactions into the accounting system and to generate desired output. The Village is subject to risk of producing inaccurate or incomplete financial information and statements, relying on inaccurate budgetary information when making decisions regarding spending or investing, and being noncompliant with various laws and regulations, including Ohio budgetary laws. The Village is also at risk for computer security breaches without a formal policy in place to ensure employees and officials are aware of and able to implement the proper security controls over the Village's computer environment. The Village should generate and maintain the appropriate required financial reports in order to provide a complete and accurate set of financial data and to provide for a complete record-keeping. The Village should also implement processing and monitoring procedures to ensure that budgetary information is properly incorporated within the accounting system and updated as necessary. Reviews of such budgetary information, in addition to general accounting information and bank reconciliations, should also be performed by Council and other members of management. In addition, the Village should ensure that the Fiscal Officer has sufficient working knowledge of the accounting system to be able to enter information directly into the system and generate desired output without the use of persons who are not authorized and bonded. Lastly, the Village should adopt a formal computer security policy to document what controls should be in place and how such controls should be implemented to ensure that computer security risk is minimized.

Client Response:

The Village chose not to respond.

Finding Number 2009-005

Noncompliance/Material Weakness – Inactive Capital Projects Fund

Ohio Revised Code Section 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance) and the source of the resources. Despite Ohio Revised Code Section 5705.14 through 5705.16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it.

The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came.

Village of Tremont City
Clark County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

Finding Number 2009-005 (Continued)

Noncompliance/Material Weakness – Inactive Capital Projects Fund (Continued)

The Village established a capital projects fund during the 1970s for a potential sewer project. The project was never started; therefore the money was not spent and remained in the fund with a balance of \$17,857.

Client Response:

Our new legal counsel is working on this problem as of this date.

Finding Number 2009-006

Material Weakness – Misclassifications in the Financial Statements

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. SAS No. 112, as amended by SAS 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.

The Village erroneously posted several receipts to incorrect line items. There were also erroneous postings of Mayor's Court receipts and disbursements to the Village's accounting system. These issues required reclassifications and adjustments to properly present the activity of the Village in both years. Furthermore, during 2008, the Village Fiscal Officer did not correctly post receipts from fines distributed from the Mayor's Court. Fines should be recorded in the amount distributed from the Mayor's Court Clerk. In 2008, the Village Fiscal Officer posted amounts distributed from the Mayor's Court Clerk to the state of Ohio as fines for the Village and consequently as a general government disbursement. In one instance in 2009, the Fiscal Officer posted fines into the Street fund instead of the General Fund. This resulted erroneous over-reporting of receipts and disbursements could result in cash reconciliation issues. The Clerk should post exactly the amounts remitted from the Mayor's Court as fines into the proper fund.

The Village was subject to the risk of misstatements in the financial statements and accounting records. The Village should implement 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:

The Village chose not to respond.

Finding Number 2009-007

Noncompliance – Filing of Annual Financial Reports

Ohio Revised Code Section 117.38 requires cash basis governmental entities to file annual financial reports with the Auditor of State within 60 days of fiscal year end. Furthermore, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The Village did not file its annual financial report for 2008 or 2009, nor did it publish a notice in a local newspaper stating the financial report is available for public inspection at the office of the Fiscal Officer. The Village should ensure that annual reports are timely filed with the Auditor of State each year and should also ensure the timely publication of a notice in a local newspaper for the availability of the annual financial report.

Village of Tremont City
Clark County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

Finding Number 2009-007 (Continued)

Noncompliance – Filing of Annual Financial Reports (Continued)

Client Response:

The Village chose not to respond.

Village of Tremont City
Clark County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2009 and 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-001	Noncompliance – ORC 117.38 – Timely Filing of Financial Statements	No	Reissued as Finding 2009-007.
2007-002	Noncompliance/Material Weakness – ORC 5705.41(D) – Proper Encumbrance of Funds	No	Reissued as Finding 2009-001.
2007-003	Noncompliance/Material Weakness – OAC 117-2-02(C)(1) and 117-2-02(D) – Failure to Maintain Adequate Financial Accounting System	No	Reissued as Finding 2009-004.
2007-004	Noncompliance/Material Weakness – ORC 5705.13(C) – Inactive Capital Projects Fund	No	Reissued as Finding 2009-005.
2007-005	Significant Deficiency – Mayor’s Court Records	Yes	N/A
2007-006	Significant Deficiency/Material Weakness – Proper Classification of Revenues and Receipts	No	Reissued as Finding 2009-006.

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Mary Taylor, CPA
Auditor of State

VILLAGE OF TREMONT CITY

CLARK 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 5, 2010