



**VILLAGE OF CASTALIA  
ERIE COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006**



**Mary Taylor, CPA**  
Auditor of State



VILLAGE OF CASTALIA  
ERIE COUNTY

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# Mary Taylor, CPA

Auditor of State

Village of Castalia  
Erie County  
126 Main Street, P.O. Box 451  
Castalia, Ohio 44824-0451

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

August 16, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Village of Castalia  
Erie County  
126 Main Street, P.O. Box 451  
Castalia, Ohio 44824-0451

To the Village Council:

We have audited the accompanying financial statements of the Village of Castalia, Erie County, (the Village) as of and for the years ended December 31, 2006 and 2005. 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 audits 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 audits 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audits provide 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 Villages 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, 2006 and 2005, 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, 2006 and 2005, 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 Castalia, Erie County, as of December 31, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2007, 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.



**Mary Taylor, CPA**  
Auditor of State

August 16, 2007



**VILLAGE OF CASTALIA  
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$79,918	\$7,967	\$12,742	\$100,627
Intergovernmental	84,803	45,782	2,049	132,634
Special Assessments		20,188		20,188
Fines, Licenses and Permits	38,162			38,162
Earnings on Investments	2,065	364		2,429
Miscellaneous	1,415			1,415
Total Cash Receipts	<u>206,363</u>	<u>74,301</u>	<u>14,791</u>	<u>295,455</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	130,729			130,729
Public Health Services	821			821
Leisure Time Activities	4,174			4,174
Community Environment	657			657
Transportation	31,521	38,618		70,139
General Government	65,264			65,264
Debt Service:				
Redemption of Principal	10,000			10,000
Interest and Fiscal Charges	643			643
Capital Outlay			546	546
Total Cash Disbursements	<u>243,809</u>	<u>38,618</u>	<u>546</u>	<u>282,973</u>
Total Receipts Over/(Under) Disbursements	(37,446)	35,683	14,245	12,482
Fund Cash Balances, January 1	<u>108,478</u>	<u>101,347</u>	<u>35,457</u>	<u>245,282</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$71,032</u></u></b>	<b><u><u>\$137,030</u></u></b>	<b><u><u>\$49,702</u></u></b>	<b><u><u>\$257,764</u></u></b>

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$101,735	\$8,171	\$9,199	\$119,105
Intergovernmental	80,210	44,066	1,572	125,848
Special Assessments		21,449		21,449
Fines, Licenses and Permits	37,622			37,622
Earnings on Investments	1,383	244		1,627
Miscellaneous	1,980			1,980
Total Cash Receipts	<u>222,930</u>	<u>73,930</u>	<u>10,771</u>	<u>307,631</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	131,698			131,698
Public Health Services	935			935
Leisure Time Activities	3,754			3,754
Community Environment	812			812
Transportation	23,762	52,135		75,897
General Government	79,594			79,594
Debt Service:				
Redemption of Principal	10,000			10,000
Interest and Fiscal Charges	959			959
Capital Outlay			4,142	4,142
Total Cash Disbursements	<u>251,514</u>	<u>52,135</u>	<u>4,142</u>	<u>307,791</u>
Total Receipts Over/(Under) Disbursements	(28,584)	21,795	6,629	(160)
Fund Cash Balances, January 1	<u>137,062</u>	<u>79,552</u>	<u>28,828</u>	<u>245,442</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$108,478</u></u></b>	<b><u><u>\$101,347</u></u></b>	<b><u><u>\$35,457</u></u></b>	<b><u><u>\$245,282</u></u></b>

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio and the Castalia Village Charter establish the rights and privileges of the Village of Castalia, Erie County, (the Village) as a body corporate and politic. A publicly-elected five-member Council directs the Village. The Village provides park operations (leisure time activities), police services, transportation, and general government services. The Village is covered for emergency medical services and fire protection as the Village lies within Margaretta Township which provides these services from taxes levied on Township and Village property owners.

The Village participates in public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

*Public Entities Pool of Ohio (the "Pool")*. The Pool provides property and casualty insurance for its members.

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State 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.

**C. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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

Permissive Motor Vehicle License Fund – This fund receives motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Street Lighting Fund – This fund receives special assessment tax proceeds for constructing, repairing, and maintaining street lighting within the Village.

**3. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects. The Village had the following significant capital project fund:

Road, Street, and Bridge Fund – This fund receives real estate and personal property tax proceeds for constructing, maintaining, and repairing Village roads, streets, and bridges.

**D. Budgetary Process**

The Ohio Revised Code requires that each fund 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 Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**E. 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.

**F. 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.

**2. EQUITY IN POOLED CASH**

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

	2006	2005
Demand deposits	\$189,753	\$179,012
Savings Account	68,011	66,270
Total deposits	\$257,764	\$245,282

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$237,173	\$206,363	(\$30,810)
Special Revenue	53,407	74,301	20,894
Capital Projects	17,012	14,791	(2,221)
Total	\$307,592	\$295,455	(\$12,137)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$315,010	\$243,809	\$71,201
Special Revenue	84,300	38,618	45,682
Capital Projects	45,300	546	44,754
Total	\$444,610	\$282,973	\$161,637

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. BUDGETARY ACTIVITY – (CONTINUED)**

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$221,749	\$222,930	\$1,181
Special Revenue	53,407	73,930	20,523
Capital Projects	12,284	10,771	(1,513)
Total	\$287,440	\$307,631	\$20,191

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$336,190	\$251,514	\$84,676
Special Revenue	85,240	52,135	33,105
Capital Projects	35,300	4,142	31,158
Total	\$456,730	\$307,791	\$148,939

**4. PROPERTY TAX**

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

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Dump Truck Commercial Loan	\$10,000	3.17%

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**5. DEBT – (CONTINUED)**

The \$30,000 commercial loan was obtained to finance the purchase of a new dump truck and was dated August 24, 2004 in the amount of \$30,000. The loan principal will be paid in annual installments of \$10,000.

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

	Dump Truck Commercial Loan
Year ending December 31:	<u>          </u>
2007	<u><u>\$10,322</u></u>

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**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.

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 CASTALIA  
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)

7. RISK MANAGEMENT – (CONTINUED)

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses 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 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 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.



**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT – (CONTINUED)**

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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, 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 \$22,980. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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**

2004	\$8,969
2005	\$10,220
2006	\$11,490

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT – (CONTINUED)**

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give 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.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Castalia  
Erie County  
126 Main Street, P.O. Box 451  
Castalia, Ohio 44824-0451

To the Village Council:

We have audited the financial statements of the Village of Castalia, Erie County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 16, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 audits, 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 to opine 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the Village's management in a separate letter dated August 16, 2007

### **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 audits and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated August 16, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

August 16, 2007



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF CASTALIA**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 20, 2007**