



Dave Yost • Auditor of State

VILLAGE OF CASTALIA
ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

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 Castalia, Erie County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015.

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 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 such 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 2 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 these requirements.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

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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 *Additional Opinion Qualification and Unmodified Opinions* paragraphs 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, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

During 2016 and 2015 the Village of Castalia failed to record certain fund balance adjustments from the previous audit and certain receipts and an advance transaction from the current audit in accordance with applicable Ohio Revised Code provisions. The Village has elected not to record all of the necessary audit adjustments to the financial statements and accounting system. The effects of noncompliance with applicable Ohio Revised Code provisions had the following effect on receipts, disbursements, fund cash balances, and Note 4 to the financial statements as presented:

Opinion Unit / Description	Amount per Report	Amount per Audit	Variance
<i>Year Ending December 31, 2016</i>			
General Fund / Advances In	\$20,000		\$20,000
General Fund / Fund Cash Balance - December 31 (Assigned)	13,805		13,805
General Fund / Fund Cash Balance - December 31 (Unassigned)	86	(\$5,334)	6,195
Special Revenue / Fund Cash Balances - January 1			
	72,822	54,304	18,518
Special Revenue / Advances Out	20,000		20,000
Special Revenue / Fund Cash Balances - December 31 (Restricted)	60,243	61,725	(1,482)
Capital Projects / Fund Cash Balances - January 1			
	4,383	20,831	(16,448)
Capital Projects / Intergovernmental	12,934	15,004	(2,070)
Capital Projects / Fund Cash Balances - December 31 (Restricted)	4,911	23,429	(18,518)
Capital Projects / Note 4 Actual Receipts	10,864	12,934	(2,070)
<i>Year Ending December 31, 2015</i>			
Special Revenue / Fund Cash Balances - January 1	74,655	56,137	18,518
Special Revenue / Fund Cash Balances - December 31 (Restricted)	80,589	62,071	18,518
Capital Projects / Fund Cash Balances - January 1			
	32,411	46,787	(14,376)
Capital Projects / Intergovernmental	13,107	15,179	(2,072)
Capital Projects / Fund Cash Balances - December 31 (Restricted)	4,383	20,831	(16,448)
Capital Projects / Note 4 Actual Receipts	13,107	15,179	(2,072)

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements as it relates to the General Fund, Special Revenue Funds, and Capital Projects Funds referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Castalia, Erie County, Ohio as of December 31, 2016 and 2015, 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 2.

Emphasis of Matter

As discussed in Note 11 to the 2015 financial statements, the Village restated its beginning fund balances for the year ended December 31, 2015 to properly account for prior audit adjustments that were not previously recorded. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2018, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

May 22, 2018

Village of Castalia*Erie County**Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2016*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$80,659	\$32,821	\$12,934	\$126,414
Charges for Services	10,706			10,706
Licenses, Permits and Fees	21,340			21,340
Intergovernmental	42,128	47,386		89,514
Special Assessments		12,240		12,240
Earnings on Investments	70			70
Miscellaneous	149			149
<i>Total Cash Receipts</i>	<u>155,052</u>	<u>92,447</u>	<u>12,934</u>	<u>260,433</u>
Cash Disbursements				
Current:				
Security of Persons and Property	100,671	30,422		131,093
Public Health Services	1,721			1,721
Leisure Time Activities	1,463			1,463
Community Environment	1,409			1,409
Basic Utility Services	256			256
Transportation	12,686	61,603		74,289
General Government	53,532	76	500	54,108
Capital Outlay			6,530	6,530
Debt Service:				
Principal Retirement			5,376	5,376
<i>Total Cash Disbursements</i>	<u>171,738</u>	<u>92,101</u>	<u>12,406</u>	<u>276,245</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(16,686)</u>	<u>346</u>	<u>528</u>	<u>(15,812)</u>
Other Financing Receipts (Disbursements)				
Advances In	20,000			20,000
Advances Out		(20,000)		(20,000)
Other Financing Sources		880		880
<i>Total Other Financing Receipts (Disbursements)</i>	<u>20,000</u>	<u>(19,120)</u>		<u>880</u>
<i>Net Changes in Fund Cash Balances</i>	3,314	(18,774)	528	(14,932)
<i>Fund Cash Balances, January 1</i>	<u>11,352</u>	<u>72,822</u>	<u>4,383</u>	<u>88,557</u>
Fund Cash Balances, December 31				
Restricted		60,243	4,911	65,154
Assigned	13,805			13,805
Unassigned (Deficit)	861	(6,195)		(5,334)
<i>Fund Cash Balances, December 31</i>	<u>\$14,666</u>	<u>\$54,048</u>	<u>\$4,911</u>	<u>\$73,625</u>

See accompanying notes to the financial statements

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Castalia (the Village), Erie County, Ohio is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides park operations (leisure time activities), police services, road and bridge maintenance (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.

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio, which is a public entity risk pool that provides property and casualty coverage for its members. Note 7 to the financial statements provides additional information for this entity.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes other than capital projects. The Village had the following significant Special Revenue Funds:

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Police Levy Fund The police levy fund receives property tax money to be used for providing police protection services.

Capital Project Funds These funds account for and report financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Road and Bridge Fund The road and bridge fund receives property tax money for constructing, maintaining, and repairing Village streets, roads, and bridges.

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (D). 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 financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires each fund 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. 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 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 reappropriated.

A summary of 2016 budgetary activity appears in Note 4.

Capital Assets

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 Balance

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

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

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

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 3 - Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in various funds at December 31, 2016.

Also contrary to Ohio law, the Fiscal Officer did not allocate receipts to the proper funds.

Also contrary to Ohio law, the Fiscal Officer did not post disbursements to the proper funds.

Also contrary of Ohio law, the Village did not comply with applicable interfund advance requirements.

Note 4 - Budgetary Activity

Budgetary activity for the year ended December 31, 2016 follows:

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,997	\$155,052	\$72,055
Special Revenue	32,849	93,327	60,478
Capital Projects	15,162	12,934	(2,228)
Total	\$131,008	\$261,313	\$130,305

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$171,059	\$172,836	(\$1,777)
Special Revenue	147,941	92,124	55,817
Capital Projects	19,883	12,406	7,477
Total	\$338,883	\$277,366	\$61,517

Note 5 – Deposits

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

	2016
Demand deposits	\$73,625

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 6 – Taxes

Property Taxes

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

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

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

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Risk Management

Public Entity Risk Pool

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 Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by 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.

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, 2016, 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 auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Village's share of these unpaid claims collectible in future years is approximately \$8,000.

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.

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

<u>2016 Contributions to PEP</u>
\$11,960

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 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System

The Village's police chief belongs to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of the police chief's wages. The Village has paid all contributions required through December 31, 2016.

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission		
Depot and Water St. Resurfacing Loan #CE42O	\$53,756	0%

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

The Ohio Public Works Commission (OPWC) loan relates to a Depot and Water streets resurfacing project. The loan is interest free. The Village will repay the loan through semi-annual installments through the year 2021.

Amortization

Amortization of the above debt is scheduled as follows:

Year Ending December 31:	OPWC Loan
2017	10,751
2018	10,751
2019	10,751
2020	10,751
2021	10,752
Total	<u><u>\$53,756</u></u>

Note 11 – Interfund Balances

Interfund balances at December 31, 2016 consisted of \$20,000 advanced from the Permissive Motor Vehicle License Fund to the General Fund in order to allow the General Fund to maintain a positive cash balance.

The loan will be repaid when the General Fund has sufficient resources on hand to repay the Permissive Motor Vehicle License Fund.

Village of Castalia*Erie County**Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2015*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$81,598	\$36,457	\$13,107	\$131,162
Charges for Services	21,189			21,189
Licenses, Permits and Fees	24,045			24,045
Intergovernmental	40,003	47,347		87,350
Special Assessments		70		70
Earnings on Investments	90			90
Miscellaneous	188			188
<i>Total Cash Receipts</i>	<u>167,113</u>	<u>83,874</u>	<u>13,107</u>	<u>264,094</u>
Cash Disbursements				
Current:				
Security of Persons and Property	138,929	30,563		169,492
Public Health Services	1,481			1,481
Leisure Time Activities	916			916
Community Environment	1,361			1,361
Basic Utility Services	965			965
Transportation	10,995	54,465		65,460
General Government	62,397	679	500	63,576
Capital Outlay			24,508	24,508
Debt Service:				
Principal Retirement			16,127	16,127
<i>Total Cash Disbursements</i>	<u>217,044</u>	<u>85,707</u>	<u>41,135</u>	<u>343,886</u>
<i>Net Changes in Fund Cash Balances</i>	(49,931)	(1,833)	(28,028)	(79,792)
<i>Fund Cash Balances, January 1 (Restated)</i>	<u>61,283</u>	<u>74,655</u>	<u>32,411</u>	<u>168,349</u>
Fund Cash Balances, December 31				
Restricted		80,589	4,383	84,972
Assigned	11,352			11,352
Unassigned (Deficit)		(7,767)		(7,767)
<i>Fund Cash Balances, December 31</i>	<u>\$11,352</u>	<u>\$72,822</u>	<u>\$4,383</u>	<u>\$88,557</u>

See accompanying notes to the financial statements

Village of Castalia
Erie County
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For the Year Ended December 31, 2015

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Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Basis of Accounting

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These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (D) permit.

Budgetary Process

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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. 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 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 reappropriated.

A summary of 2015 budgetary activity appears in Note 4.

Capital Assets

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

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Fund Balance

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

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

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

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 3 - Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in various funds at December 31, 2015.

Also contrary to Ohio law, the Fiscal Officer did not allocate receipts to the proper funds.

Note 4 - Budgetary Activity

Budgetary activity for the year ended December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$64,335	\$167,113	\$102,778
Special Revenue	63,338	83,874	20,536
Capital Projects	15,500	13,107	(2,393)
Total	\$143,173	\$264,094	\$120,921

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$204,420	\$218,395	(\$13,975)
Special Revenue	182,371	86,128	96,243
Capital Projects	47,911	41,135	6,776
Total	\$434,702	\$345,658	\$89,044

Note 5 – Deposits

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

	2015
Demand deposits	\$16,141
Other time deposits (savings account)	72,416
Total deposits	\$88,557

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 6 – Taxes

Property Taxes

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

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

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

Note 7 - Risk Management

Public Entity Risk Pool

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.

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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 Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by 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.

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 auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015

	<u>2015</u>
Assets	\$38,307,677
Liabilities	(12,759,127)
Net Position	<u>\$25,548,550</u>

At December 31, 2015 the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$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 \$8,000.

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.

<u>Contributions to PEP</u>
<u>2015</u>
\$12,641

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.

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System

The Village's police chief belongs to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015, OP&F participants contributed 11.5% of their wages through June 30, 2015, and participants contributed 12.25% of their wages beginning July 1, 2015. The Village contributed to OP&F an amount equal to 19.5% of the police chief's wages. The Village has paid all contributions required through December 31, 2015.

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission		
Depot and Water St. Resurfacing Loan #CE42O	<u>\$59,132</u>	0%

The Ohio Public Works Commission (OPWC) loan relates to a Depot and Water streets resurfacing project. The loan is interest free. The Village will repay the loan through semi-annual installments through the year 2021.

Village of Castalia
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Amortization

Amortization of the above debt is scheduled as follows:

Year Ending December 31:	OPWC Loan
2016	\$5,376
2017	10,751
2018	10,751
2019	10,751
2020	10,751
2021	10,752
Total	<u>\$59,132</u>

Note 11 – Accounting Change

The prior audit contained various fund balance adjustments the Village refused to post. The Village subsequently posted a portion of the unadjusted fund balance adjustments from the previous audit to the Village’s accounting system. The posting of a portion of these adjustments had the following effects on fund balances previously reported for the year ended December 31, 2014:

	General Fund	Special Revenue
Fund balance December 31, 2014	\$46,888	\$84,908
Fund balance adjustments posted	14,395	(10,253)
Restated fund balance December 31, 2014	<u>\$61,283</u>	<u>\$74,655</u>



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Castalia, Erie County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated May 22, 2018, 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. We qualified our opinion on the General, Special Revenue, and Capital Projects fund types due to the Village not recording receipts and disbursements in accordance with Ohio Revised Code provisions and not posting the necessary fund balance adjustments from the previous audit. We also noted the Village restated its beginning fund balances to record a portion of prior audit fund balance adjustments.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001, 2016-002, and 2016-004 through 2016-006 described in the accompanying schedule of findings to be material weaknesses.

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, opining 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 through 2016-003 and 2016-005.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

May 22, 2018

**VILLAGE OF CASTALIA
 ERIE COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2016 AND 2015**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2016-001

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(C) provides, in part, all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

The Fiscal Officer posted the receipts and disbursements from a voted police levy to the General Fund during the years ended December 31, 2016 and 2015 instead of a special fund as required by the provision outlined above. The following table illustrates the errors in posting:

Fund Type / Fund	2016 Amount Adjusted	2015 Amount Adjusted
General Fund		
Property and Other Local Taxes	(\$26,062)	(\$26,421)
Intergovernmental	(4,142)	(4,142)
Security of Persons and Property	(30,204)	(30,563)
Special Revenue Fund Type		
Property and Other Local Taxes	26,062	26,421
Intergovernmental	4,142	4,142
Security of Persons and Property	30,204	30,563

The accompanying financial statements and notes to the financial statements have been adjusted to reflect these changes, including adjustments to budgeted receipts and expenditures (appropriations).

These errors were not identified and corrected prior to the audit due to deficiencies in the Village’s internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Village’s financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Village Council, to help identify and correct errors and omissions. Also, the Fiscal Officer can refer to the Ohio Village Officer’s Handbook, available from the following web address, for guidance on the posting of transactions:

<http://www.ohioauditor.gov/publications/VillageOfficerManual%203-1-18.pdf>

FINDING NUMBER 2016-002

Noncompliance and Material Weakness and Finding for Adjustment

Ohio Rev. Code § 5705.10(D) provides, in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

The Fiscal Officer posted rollbacks and permissive motor vehicle license tax receipts to incorrect funds during the years ended December 31, 2016 and 2015. The following table illustrates the errors in posting by fund:

Fund Type / Fund	2016 Posting Errors	2015 Posting Errors
General Fund	(\$2,070)	(\$4,006)
Special Revenue Fund Type:		
Street Construction, Maintenance, and Repair Fund		(1,092)
State Highway Fund		(89)
Permissive Motor Vehicle License Fund		3,115
Capital Projects Fund Type:		
Road and Bridge Fund	2,070	2,072

The accompanying financial statements and notes to the financial statements have been adjusted to reflect a portion of these changes in the General and Special Revenue Fund Types. The net amount owed after some adjustments were posted by the client was the Street, Construction, Maintenance, and Repair Special Revenue Fund owed the Road and Bridge Capital Projects Fund \$2,070 in 2016 and \$2,072 in 2015, respectively. The Village has declined to post these adjustments. Consequently, the accompanying financial statements were materially misstated resulting in a modified opinion.

These errors were not identified and corrected prior to the audit due to deficiencies in the Village's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Village Council, to help identify and correct errors and omissions. Also, the Fiscal Officer can refer to the Ohio Village Officer's Handbook, available from the following web address, for guidance on the posting of transactions:

<http://www.ohioauditor.gov/publications/VillageOfficerManual%203-1-18.pdf>

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the Street Construction, Maintenance, and Repair Fund to the credit of the Road and Bridge Fund in the amount of \$4,142.

FINDING NUMBER 2016-003

Noncompliance

Ohio Rev. Code § 5705.39 provides that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as “estimated resources” because it includes unencumbered fund balances.

The following funds had appropriations exceeding estimated resources:

Fund Type / Fund	Certified Resources	Appropriations	Excess
December 31,2016:			
General Fund	\$113,200	\$199,910	(\$86,710)
Special Revenue Fund Type:			
Street Construction, Maintenance, and Repair Fund	2,270	43,655	(41,385)
State Highway Fund	367	9,453	(9,086)
Capital Projects Fund Type:			
Road and Bridge Fund	15,162	19,383	(4,221)
December 31,2015:			
General Fund	94,898	234,954	(140,056)
Special Revenue Fund Type:			
Street Construction, Maintenance, and Repair Fund	2,231	54,113	(51,882)
State Highway Fund	361	8,219	(7,858)
Capital Projects Fund Type:			
Road and Bridge Fund	15,148	47,411	(32,263)

The compliance matters above were not identified and corrected prior to the audit due to deficiencies in the Village’s internal controls over compliance monitoring. The failure to limit appropriations to amounts certified could allow for deficit spending practices, resulting in deficit fund balances.

The Fiscal Officer should monitor appropriations as compared to estimated resources and submit amendments to the County Budget Commission or reduce appropriations if sufficient revenues are not available.

FINDING NUMBER 2016-004

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16. In addition to the adjustments noted in Findings 2016-002, 2016-005, and 2016-006, we identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2016:

- The Village's annual report submitted via the HINKLE system did not include budgeted expenditures (appropriations) or actual budgetary expenditures for any funds/fund type. Additionally, the notes to the financial statements omitted estimated receipts and actual receipts for the Capital Projects fund type. The notes to the financial statements have been adjusted to include General, Special Revenue, and Capital Projects fund type authorized budgeted amounts and actual activity, as applicable;
- General Fund transportation disbursements in the amount of \$12,686 were improperly classified as security of persons and property disbursements;
- General Fund unassigned fund balance in the amount of \$13,805 was reclassified to assigned in accordance with the provisions of Governmental Accounting Standards Board Statement No. 54;
- General Fund estimated receipts were decreased in the amount of \$87,100 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts;
- Special Revenue fund type estimated receipts and actual receipts were decreased in the amounts of \$49,451 and \$12,935, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and
- Capital Projects fund type principal retirement disbursements in the amount of \$5,376 were incorrectly recorded as capital outlay disbursements.

We also identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- General Fund charges for services receipts in the amount of \$21,189 were improperly classified as other financing sources;
- General Fund unassigned fund balance in the amount of \$11,352 was reclassified to assigned in accordance with the provisions of Governmental Accounting Standards Board Statement No. 54;
- General Fund estimated receipts and budgeted expenditures (appropriations) were decreased in the amounts of \$123,479 and \$26,855, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts;
- Special Revenue fund type estimated receipts were decreased in the amount of \$34,125 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and

**FINDING NUMBER 2016-004
(CONTINUED)**

- Capital Projects fund type principal retirement disbursements in the amount of \$5,376 were incorrectly recorded as capital outlay disbursements.

These errors were not identified and corrected prior to the audit due to deficiencies in the Village's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate. The accompanying financial statements have been adjusted to correct these errors. Additional errors were noted in smaller relative amounts.

To help ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Village Council, to help identify and correct errors and omissions. The Fiscal Officer can refer to Auditor of State Bulletin 2011-004 at the following website address for information on Governmental Accounting Standards Board Statement No. 54:
<http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

Additionally, the Fiscal Officer can refer to the Village Officer's Handbook at the following website address for guidance on the recording of transactions:
<http://www.ohioauditor.gov/publications/VillageOfficerManual%203-1-18.pdf>.

FINDING NUMBER 2016-005

Noncompliance, Material Weakness, and Finding for Adjustment

Ohio Rev. Code § 5705.10(I) provides that money paid into any fund shall be used only for the purposes for which such fund is established. Auditor of State Bulletin 1997-003 further provides that in order to advance cash from one fund to another, there must be a statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established.

The Fiscal Officer posted disbursements related to police cruiser repairs, air conditioning repair and replacement, Uniform Accounting Network fees, and checking account fees to funds in which the purpose of the disbursements were not consistent with the purposes for which those funds were established during 2016. The following table illustrates the errors in posting by fund:

**FINDING NUMBER 2016-005
 (CONTINUED)**

Fund Type/Fund	Amount Adjusted
General Fund	\$5,009
Special Revenue Fund Type:	
State Highway Fund	(3,968)
Permissive Motor Vehicle License Fund	(1,041)

The accompanying financial statements and Village accounting records have been adjusted to reflect these adjustments.

Also during 2016, the Village recorded an advance of \$20,000 from the Permissive Motor Vehicle License Fund to the General Fund to cover Village operating expenses and prevent a deficit General Fund balance. An advance to the General Fund is not consistent with purpose(s) for which the Permissive Motor Vehicle License Tax Fund was established. The advance was also not approved by Council in the minutes.

The Village has declined to post this adjustment. Consequently, the accompanying financial statements were materially misstated, resulting in a modified opinion.

The existence of a deficit fund balance indicates money from another fund or funds was used to pay obligations of funds that carry the deficit fund balance. The Street Construction, Maintenance, and Repair Fund reported a deficit fund balance in the amount of \$6,195 and \$7,767 at December 31, 2016 and 2015, respectively. In addition, had the Village posted the adjustment from the Advance above, the General fund would have a deficit Balance of \$5,334 at December 31, 2016.

These errors were not identified and corrected prior to the audit due to deficiencies in the Village's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the Fiscal Officer and Village Council, to help identify and correct errors and omissions. Also, the Fiscal Officer can refer to the Ohio Village Officer's Handbook, available from the following web address, for guidance on the posting of transactions: <http://www.ohioauditor.gov/publications/VillageOfficerManual%203-1-18.pdf> We further recommend the Village formally approve all advances in the minutes and consult with legal counsel regarding whether an advance is allowable before posting it to the accounting system. The Village should also implement policies and procedures designed to proactively identify and prevent deficit fund balances.

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the General Fund to the credit of the Road and Bridge Fund in the amount of \$20,000.

FINDING NUMBER 2016-006

Material Weakness - Prior Year's Findings for Adjustments

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

In prior years, findings for adjustments were issued to correctly classify certain activities recorded by the Village for transactions which were not posted correctly in accordance with **Ohio Rev. Code § 5705.10**. The Village has decided not to record these adjustments and, as a result, the fund balances reported by the Village at January 1, and December 31, 2016 and 2015, respectively, were overstated in the Street Construction, Maintenance, and Repair Fund and understated in the Road and Bridge Fund by \$18,518. We qualified our opinion for this matter.

We recommend the Village record these adjustments to the Village's accounting records.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF CASTALIA
ERIE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Finding first reported in 2007. Ohio Rev. Code § 5705.10(D) for allocating revenues to improper funds.	Not corrected and reissued as Finding 2016-002 in this report.	The Village declined the opportunity to respond and therefore did not provide reasoning for the continuation of this comment.
2014-002	Ohio Rev. Code § 5705.10(I) for money paid from a fund not for the purposes it was established.	Not corrected and reissued as Finding 2016-005 in this report.	The Village declined the opportunity to respond and therefore did not provide reasoning for the continuation of this comment.
2014-003	Finding first reported in 2007. Material weakness for errors in financial reporting.	Not corrected and reissued as Finding 2016-004 in this report.	The Village declined the opportunity to respond and therefore did not provide reasoning for the continuation of this comment.



Dave Yost • 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
JUNE 12, 2018