



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF CASTALIA
ERIE COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2018 and 2017
Fiscal Years Audited Under GAGAS: 2018 and 2017

One East Campus View Blvd. Suite 300 • Columbus, OH 43235 • (614) 389-5775 • FAX (614) 467-3920
PO Box 875 • 129 Pinckney Street • Circleville, OH 43113 • (740) 474-5210 • FAX (740) 474-7319
PO Box 687 • 528 S. West Street • Piketon, OH 45661 • (740) 289-4131 • FAX (740) 289-3639

www.bhmcgroup.com

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Village Council
Village of Castalia
126 Main Street
Castalia, Ohio 44824

We have reviewed the *Independent Auditor's Report* of the Village of Castalia, Erie County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2017 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Castalia is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 17, 2019

This page intentionally left blank.

VILLAGE OF CASTALIA
ERIE COUNTY

Table of Contents

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report.....	1
Basic Financial Statements:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types For the Year Ended December 31, 2018.....	4
Notes to the Basic Financial Statements For the Year Ended December 31, 2018.....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types For the Year Ended December 31, 2017.....	12
Notes to the Basic Financial Statements For the Year Ended December 31, 2017.....	13
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	20
Schedule of Findings.....	22
Schedule of Prior Audit Findings.....	26

This page intentionally left blank.



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, 2018 and 2017.

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.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018 and 2017, and the respective changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

During 2018 and 2017 the Village of Castalia failed to record certain fund balance adjustments from the previous audit. The effects of noncompliance with applicable Ohio Revised Code provisions had the following effect on fund cash balances as presented:

<u>Opinion Unit / Description</u>	<u>Amount Per Report</u>	<u>Amount per Audit</u>	<u>Variance</u>
<i>Year Ending December 31, 2018</i>			
General Fund / Fund Cash Balance - Jan. 1	36,234	16,234	20,000
General Fund / Fund Cash Balance - Dec. 31 (Unassigned)	67,640	47,640	20,000
Speical Revenue / Fund Cash Balance - Jan. 1	53,144	54,626	(1,482)
Special Revenue / Fund Cash Balances - Dec. 31 (Restricted)	43,874	45,356	(1,482)
Capital Projects / Fund Cash Balance - Jan. 1	2,813	21,331	(18,518)
Capital Projects / Fund Cash Balances - Dec. 31 (Restricted)	4,813	23,331	(18,518)

<u>Opinion Unit / Description</u>	<u>Amount Per Report</u>	<u>Amount per Audit</u>	<u>Variance</u>
<i>Year Ending December 31, 2017</i>			
General Fund / Fund Cash Balance - Jan. 1	14,666	(5,334)	20,000
General Fund / Fund Cash Balance - Dec. 31 (Unassigned)	36,234	16,234	20,000
Speical Revenue / Fund Cash Balance	54,048	55,530	(1,482)
Special Revenue / Fund Cash Balances - Dec. 31 (Restricted)	53,144	54,626	(1,482)
Capital Projects / Fund Cash Balance - Jan. 1	4,911	23,426	(18,515)
Capital Projects / Fund Cash Balances - Dec. 31 (Restricted)	2,813	21,331	(18,518)

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, 2018 and 2017, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2019, 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.

BHM CPA Group

BHM CPA Group, Inc.
 Piketon, Ohio
 July 26, 2019

**VILLAGE OF CASTALIA
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Taxes	\$ 93,444	\$ 33,117	\$ 13,207	\$ 139,768
Intergovernmental	32,792	49,476	2,066	84,334
Special Assessments	-	12,842	-	12,842
Fines, Licenses and Permits	18,931	-	-	18,931
Earnings on Investments	134	-	-	134
Miscellaneous	36,214	-	-	36,214
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	181,515	95,435	15,273	292,223
Cash Disbursements:				
Current:				
Security of Persons & Property	76,076	31,604	-	107,680
Public Health Services	1,365	-	-	1,365
Leisure Time Activities	500	-	-	500
Community Environment	1,385	-	-	1,385
Basic Utility	845	-	-	845
Transportation	21,724	72,271	-	93,995
General Government	48,214	830	500	49,544
Capital Outlay	-	-	7,397	7,397
Debt Service:				
Principal Retirement	-	-	5,376	5,376
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	150,109	104,705	13,273	268,087
Net Change in Fund Cash Balances	<hr/>	<hr/>	<hr/>	<hr/>
	31,406	(9,270)	2,000	24,136
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	36,234	53,144	2,813	92,191
Fund Cash Balances, December 31				
Restricted	-	43,874	4,813	48,687
Unassigned	67,640	-	-	67,640
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 67,640</u>	<u>\$ 43,874</u>	<u>\$ 4,813</u>	<u>\$ 116,327</u>

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

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 - Reporting Entity

The Village of Castalia (the Village), Erie County, 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 five-member Council directs the Village. The Village provides street maintenance, park operations, and police services

Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools and Related Organizations

The Village participates in jointly governed organizations, joint ventures and a public entity risk pool and is associated with a related organization. Notes to the financial statements provides additional information for these entities The Village's management believes these financial statements present all activities for which the Village is financially accountable.

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, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

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 or committed to expenditure for specified purposes other than debt service or 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:

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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

Basis of Accounting

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2018 budgetary activity appears in Note 4.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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.

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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.

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.

Village of Castalia, Ohio
 Erie County
 Notes to the Financial Statements
 For the Year Ended December 31, 2018

Note 3 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in various funds at December 31, 2018.

Note 4 - Budgetary Activity

Budgetary activity for the year ending 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 209,312	\$ 181,515	\$ (27,797)
Special Revenue	142,250	95,435	(46,815)
Capital Projects	15,219	15,273	54
Total	\$ 366,781	\$ 292,223	\$ (74,558)

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 209,312	\$ 150,109	\$ 59,203
Special Revenue	142,250	104,705	37,545
	15,956	13,273	2,683
Total	\$ 367,518	\$ 268,087	\$ 99,431

Note 5 Deposits and Investments

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

	2018
Demand deposits	\$ 116,327
Total deposits	\$ 116,327

Deposits

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

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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.

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

Risk Pool Membership

The (The Village) is a member of the Public Entities Pool of Ohio (The Pool). The Pool assumes the risk of loss up to the limits of the (The Village's) policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	<u>2018</u>
Cash and investments	\$ 35,381,789
Actuarial liabilities	\$12,965,015

Village of Castalia, Ohio
 Erie County
 Notes to the Financial Statements
 For the Year Ended December 31, 2018

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All employees of the Village of Castalia 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, 2018.

Note 9 - Postemployment Benefits

OPERS offers 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2018.

Note 10 Debt

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest Rate
Ohio Public Water Commission	\$32,252	0.00%
Total	\$32,252	

The Ohio Public Works Commission (OPW) loan relates to road repairs to Depot and Water Streets. The OPW approved up to \$107,513 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$5,376, including interest, over 10 years. The Village established no levies nor sold bonds to cover the cost of this loan.

Amortization

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

Year ending	OPWC Loan
December 31:	
2019	10,751
2020	10,751
2021	10,750
Total	\$ 32,252

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 11 – Public Entity Risk Pool

The Village participates in the Ohio Municipal League Group Rating Plan (GRP) for worker's compensation. The pool's business and affairs are conducted by a twenty-six-member Board of Trustees consisting of fifteen mayors, two council members, three administrators, three finance directors, and three law directors which are voted on by the members for staggered two-year terms. The Executive Director of the Ohio Municipal League serves as the coordinator of the Program. Each year the participants pay an enrollment fee to the program to cover the costs of administering the program.

THIS PAGE IS INTENTIONALLY LEFT BLANK

**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, 2017**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Taxes	\$ 94,518	\$ 33,957	\$ 13,384	\$ 141,859
Intergovernmental	31,315	135,846	2,076	169,237
Special Assessments	-	12,857	-	12,857
Fines, Licenses, and Permits	20,817	-	-	20,817
Earnings on Investments	103	-	-	103
	<u>146,753</u>	<u>182,660</u>	<u>15,460</u>	<u>344,873</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	69,202	32,250	-	101,452
Public Health Services	1,620	-	-	1,620
Leisure Time Activities	593	-	-	593
Community Environment	1,409	-	-	1,409
Basic Utility Services	603	-	-	603
Transportation	21,446	66,117	-	87,563
General Government	52,389	87,618	500	140,507
Capital Outlay	-	-	930	930
Debt Service:				
Redemption of Principal	-	-	16,128	16,128
	<u>147,262</u>	<u>185,985</u>	<u>17,558</u>	<u>350,805</u>
Total Cash Disbursements				
Excess of Receipts Over/(Under) Disbursements	(509)	(3,325)	(2,098)	(5,932)
Other Financing Receipts (Disbursements):				
Other Financing Sources	22,077	2,421	-	24,498
	<u>22,077</u>	<u>2,421</u>	<u>-</u>	<u>24,498</u>
Total Other Financing Receipts (Disbursements)				
Net Change in Fund Cash Balances	21,568	(904)	(2,098)	18,566
Fund Cash Balances, January 1	14,666	54,048	4,911	73,625
	<u>14,666</u>	<u>54,048</u>	<u>4,911</u>	<u>73,625</u>
Fund Cash Balances, December 31				
Restricted	-	53,144	2,813	55,957
Unassigned (Deficit)	36,234	-	-	36,234
	<u>36,234</u>	<u>-</u>	<u>-</u>	<u>36,234</u>
Fund Cash Balances, December 31	<u>\$ 36,234</u>	<u>\$ 53,144</u>	<u>\$ 2,813</u>	<u>\$ 92,191</u>

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

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

The Village of Castalia (the Village), Erie County, 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 five-member Council directs the Village. The Village provides street maintenance, park operations, and police services

Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools and Related Organizations

The Village participates in jointly governed organizations, joint ventures and a public entity risk pool and is associated with a related organization. Notes to the financial statements provides additional information for these entities The Village's management believes these financial statements present all activities for which the Village is financially accountable.

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, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

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 or committed to expenditure for specified purposes other than debt service or 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:

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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

Basis of Accounting

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2017 budgetary activity appears in Note 4.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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.

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

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.

Village of Castalia, Ohio
 Erie County
 Notes to the Financial Statements
 For the Year Ended December 31, 2017

Note 3 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in various funds at December 31, 2017.

Note 4 - Budgetary Activity

Budgetary activity for the year ending 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 212,346	\$ 168,830	\$ (43,516)
Special Revenue	206,208	185,081	(21,127)
Capital Projects	15,177	15,460	283
Total	\$ 433,731	\$ 369,371	\$ (64,360)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 205,145	\$ 147,262	\$ 57,883
Special Revenue	243,743	185,985	57,758
Capital Projects	88	17,558	17,470
Total	\$ 448,976	\$ 350,805	\$ 133,111

Note 5 Deposits and Investments

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

	2017
Demand deposits	\$ 92,191
Total deposits	\$ 92,191

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Village of Castalia, Ohio
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

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

Commercial Insurance

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

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

The Government 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, 2017, 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.

Village of Castalia, Ohio
 Erie County
 Notes to the Financial Statements
 For the Year Ended December 31, 2017

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, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool’s membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Government’s share of these unpaid claims collectible in future years is approximately \$4,000.

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>2017 Contributions to PEP</u> \$6,000
--

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All employees of the Village of Castalia 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, 2017.

Note 9 - Postemployment Benefits

OPERS offers 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Village of Castalia, Ohio
 Erie County
 Notes to the Financial Statements
 For the Year Ended December 31, 2017

Note 10 Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
Ohio Public Water Commission	\$37,628	0.00%
Total	\$37,628	

The Ohio Public Works Commission (OPW) loan relates to road repairs to Depot and Water Streets. The OPW approved up to \$107,513 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$5,376, including interest, over 10 years. The Village established no levies nor sold bonds to cover the cost of this loan.

Amortization

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

Year ending	OPWC Loan
December 31:	
2018	5,376
2019	10,751
2020	10,751
2021	10,750
Total	\$ 37,628

Note 11 – Public Entity Risk Pool

The Village participates in the Ohio Municipal League Group Rating Plan (GRP) for worker's compensation. The pool's business and affairs are conducted by a twenty-six-member Board of Trustees consisting of fifteen mayors, two council members, three administrators, three finance directors, and three law directors which are voted on by the members for staggered two-year terms. The Executive Director of the Ohio Municipal League serves as the coordinator of the Program. Each year the participants pay an enrollment fee to the program to cover the costs of administering the program.



**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 44824-04

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, (the Village) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated July 26, 2019 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 posting the necessary fund balance adjustments from the previous audit.

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 2018-001, 2018-003 and 2018-004 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 item 2018-001 and 2018-002.

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 report is not suitable for any other purpose.

BHM CPA Group

BHM CPA Group, Inc.
Piketon, Ohio
July 26, 2019

**Village of Castalia
Erie County
Schedule of Findings
December 31, 2018 and 2017**

1. SUMMARY OF AUDITOR'S RESULTS

FINDING NUMBER 2018-001

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, 2018 and 2017 instead of a special fund as required by the provision outlined above. The following table illustrates the errors in posting:

<u>Fund Type / Fund</u>	<u>2018 Amount Adjusted</u>	<u>2017 Amount Adjusted</u>
General Fund		
Property and Other Local Taxes	\$ (26,633)	\$ (26,988)
Intergovernmental	(4,132)	(4,153)
Security of Person and Property	(30,765)	(31,141)
Special Revenue Fund Type		
Property and Other Local Taxes	\$ 26,633	\$ 26,988
Intergovernmental	4,132	4,153
Security of Person and Property	30,765	34,141

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>

Officials' Response: We did not receive a response to this finding.

**Village of Castalia
Erie County
Schedule of Findings
December 31, 2018 and 2017**

FINDING NUMBER 2018-002

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:

<u>Fund Type / Fund</u>	<u>Certified Resources</u>	<u>Appropriations</u>	<u>Excess</u>
December 31, 2018			
General Fund	\$ 188,675	\$ 209,312	\$ (20,637)
Special Revenue Fund Type:			
Street Construction, Maintenance and Repair Fund	34,310	50,335	(16,025)
State Highway Fund	2,890	7,036	(4,146)
Permissive Motor Vehicle License Fund	9,600	55,363	(45,763)
Enforcement and Education Fund	-	7,915	(7,915)
Street Lighting Fund	12,000	14,315	(2,315)
Capital Projects Fund Type:			
Road and Bridge Fund	15,177	15,959	(782)
December 31, 2017			
Special Revenue Fund Type:			
Street Construction, Maintenance and Repair Fund	7,983	39,437	(31,454)
Permissive Motor Vehicle License Fund	48,935	68,394	(19,459)
Enforcement and Education Fund	6,603	6,703	(100)
Capital Projects Fund Type:			
Road and Bridge Fund	14,912	20,088	(5,176)

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.

Officials’ Response: We did not receive a response to this finding.

**Village of Castalia
Erie County
Schedule of Findings
December 31, 2018 and 2017**

FINDING NUMBER 2018-003

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 2016-001, 2016-002, 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, 2018:

- The Village’s annual report submitted via the HINKLE system did not include budgeted expenditures (appropriations) or actual budgetary expenditures for the Capital Projects 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 Capital Projects fund type authorized budgeted amounts and actual activity, as applicable;
- Capital Projects Fund Principal Payments in the amount of \$5,376 were improperly classified as General Government disbursements;
- General Fund transportation disbursements in the amount of \$21,724 were improperly classified as security of persons and property 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, 2017:

- The Village’s annual report submitted via the HINKLE system did not include budgeted expenditures (appropriations) or actual budgetary expenditures for the Capital Projects 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 Capital Projects fund type authorized budgeted amounts and actual activity, as applicable;
- Capital Projects Fund Principal Payments in the amount of \$16,128 were improperly classified as General Government disbursements in the Capital Projects fund of \$15,328 and in the Permissive Motor Vehicle License Fund of \$800;
- General Fund transportation disbursements in the amount of \$21,446 were improperly classified as security of persons and property 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.

**Village of Castalia
Erie County
Schedule of Findings
December 31, 2018 and 2017**

**FINDING NUMBER 2018-004
(Continued)**

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.

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>.

Officials' Response: We did not receive a response to this finding.

FINDING NUMBER 2018-004

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, 2018 and 2017, respectively, were overstated in the Street Construction, Maintenance, and Repair Fund and understated in the Road and Bridge Fund by \$18,518, also, were overstated in the General Fund and understated in the Permissive MVL Fund by \$20,000. 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 to this finding.

**Village of Castalia
Erie County
Schedule of Prior Findings
December 31, 2018 and 2017**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	Noncompliance and Material Weakness – ORC 5705.10(C)	No	Reissued as Finding 2018-001
2016-002	Noncompliance and Material Weakness – ORC 5705.10(D)	No	Reissued as Management Letter comment
2016-003	Noncompliance – ORC 5705.39	No	Reissued as Finding 2018-002
2016-004	Material Weakness – Financial Report	No	Reissued as Finding 2018-003
2016-005	Noncompliance and Material Weakness – ORC 5705.10(I)	Yes	
2016-006	Material Weakness – Prior Year’s Findings for Adjustments	No	Reissued as Finding 2018-004

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



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
NOVEMBER 7, 2019**