



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 and related notes of the Village of Castalia, Erie County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011.

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

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

### ***Auditor's Responsibility***

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***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, 2012 and 2011, or changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Castalia, Erie County, Ohio as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, during 2011 the Village of Castalia adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013, 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.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 8, 2013

**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, 2012**

	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$86,083	\$11,408	\$12,930	\$110,421
Intergovernmental	52,591	43,117	88,349	184,057
Special Assessments		2		2
Charges for Services	45			45
Fines, Licenses and Permits	23,658			23,658
Earnings on Investments	424			424
Miscellaneous	120			120
<i>Total Cash Receipts</i>	<u>162,921</u>	<u>54,527</u>	<u>101,279</u>	<u>318,727</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	157,356			157,356
Public Health Services	1,170			1,170
Leisure Time Activities	5,357			5,357
Community Environment	1,348			1,348
Basic Utility Services	4,500			4,500
Transportation	812	82,340		83,152
General Government	61,339		258	61,597
Capital Outlay			120,812	120,812
Debt Service:				
Principal Retirement	4,018			4,018
Interest and Fiscal Charges	106			106
<i>Total Cash Disbursements</i>	<u>236,006</u>	<u>82,340</u>	<u>121,070</u>	<u>439,416</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(73,085)</u>	<u>(27,813)</u>	<u>(19,791)</u>	<u>(120,689)</u>
<b>Other Financing Receipts</b>				
Other Financing Sources	20,000			20,000
<i>Net Change in Fund Cash Balances</i>	(53,085)	(27,813)	(19,791)	(100,689)
<i>Fund Cash Balances, January 1</i>	<u>305,646</u>	<u>115,843</u>	<u>49,842</u>	<u>471,331</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		88,030	30,051	118,081
Unassigned	252,561			252,561
<i>Fund Cash Balances, December 31</i>	<u>\$252,561</u>	<u>\$88,030</u>	<u>\$30,051</u>	<u>\$370,642</u>

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

**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, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$111,068	\$9,942	\$12,824	\$133,834
Intergovernmental	73,751	44,271	2,690	120,712
Special Assessments		456		456
Fines, Licenses and Permits	42,668			42,668
Earnings on Investments	533			533
Miscellaneous	5,100			5,100
<i>Total Cash Receipts</i>	<u>233,120</u>	<u>54,669</u>	<u>15,514</u>	<u>303,303</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	174,042			174,042
Public Health Services	720			720
Leisure Time Activities	4,979			4,979
Community Environment	686			686
Basic Utility Services	1,217			1,217
Transportation	404	80,587		80,991
General Government	77,306	30	263	77,599
Capital Outlay			24,769	24,769
Debt Service:				
Principal Retirement	5,687			5,687
Interest and Fiscal Charges	499			499
<i>Total Cash Disbursements</i>	<u>265,540</u>	<u>80,617</u>	<u>25,032</u>	<u>371,189</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(32,420)</u>	<u>(25,948)</u>	<u>(9,518)</u>	<u>(67,886)</u>
<b>Other Financing Receipts</b>				
Other Financing Sources	258,413			258,413
<i>Net Change in Fund Cash Balances</i>	225,993	(25,948)	(9,518)	190,527
<i>Fund Cash Balances, January 1</i>	<u>79,653</u>	<u>141,791</u>	<u>59,360</u>	<u>280,804</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		115,843	49,842	165,685
Unassigned	305,646			305,646
<i>Fund Cash Balances, December 31</i>	<u>\$305,646</u>	<u>\$115,843</u>	<u>\$49,842</u>	<u>\$471,331</u>

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Castalia, Erie County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides park operations (leisure time activities), police protection, 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.

The Village participates in the Public Entities Pool of Ohio (PEP) public entity risk pool. Note 7 to the financial statements provide additional information for this entity. This organization provides property and casualty coverage for its members.

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Fund Accounting**

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

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. 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 capital projects. The Village had the following significant Special Revenue Fund:

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned 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 Funds:

Road and Bridge Fund – This fund receives property tax money for constructing, maintaining, and repairing Village streets, roads, and bridges.

Issue II Fund - The Village received a grant from the State of Ohio to resurface Depot and Water streets.

**D. Budgetary Process**

The Ohio Revised Code requires each fund be budgeted annually.

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2012 and 2011 budgetary activity appears in Note 4.

**E. 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:

**1. 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  
DECEMBER 31, 2012 AND 2011  
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. **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.

3. **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.

4. **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.

5. **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.

**F. Property, Plant, and Equipment**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. **CHANGE IN ACCOUNTING PRINCIPLE**

For 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Implementing GASB Statement No. 54 had no effect on fund balances previously reported.

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**3. EQUITY IN POOLED 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:

	2012	2011
Demand deposits	\$298,385	\$399,147
Other time deposits (savings accounts)	72,257	72,184
Total deposits	\$370,642	\$471,331

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

**4. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$155,928	\$182,921	\$26,993
Special Revenue	70,055	54,527	(15,528)
Capital Projects	16,000	101,279	85,279
Total	\$241,983	\$338,727	\$96,744

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$288,060	\$236,006	\$52,054
Special Revenue	117,150	82,340	34,810
Capital Projects	85,771	121,070	(35,299)
Total	\$490,981	\$439,416	\$51,565

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$155,928	\$491,533	\$335,605
Special Revenue	70,055	54,669	(15,386)
Capital Projects	15,261	15,514	253
Total	\$241,244	\$561,716	\$320,472

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**4. BUDGETARY ACTIVITY (Continued)**

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$301,444	\$265,540	\$35,904
Special Revenue	122,326	80,617	41,709
Capital Projects	27,413	25,032	2,381
Total	\$451,183	\$371,189	\$79,994

**5. PROPERTY TAX**

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

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

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

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

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, 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, 2012.

**7. RISK MANAGEMENT**

**Risk Pool Membership**

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  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), 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 ARPCO. 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, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$10,000.

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  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$11,759	\$10,684

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.

**8. OTHER FINANCING SOURCES**

In 2012, General Fund Other Financing Sources consist of a contribution of \$20,000 from First Energy for electric aggregation.

In 2011, General Fund Other Financing Sources consist of proceeds of \$258,413 from the buyout of the telecommunications tower and antenna lease.

**9. COMPLIANCE**

Contrary to Ohio law, the Fiscal Officer posted rollback/homestead, public utility property tax replacement, tangible personal property tax reimbursement, and auto registration monies to the incorrect funds.

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# 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 Village of Castalia, Erie County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated August 8, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, and the Village adopted Governmental Accounting Standards Board Statement No. 54 in 2011.

### ***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 opinion 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.

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

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 a 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. We consider findings 2012-001 through 2012-003 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

***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 initial "D".

**Dave Yost**  
Auditor of State

Columbus, Ohio

August 8, 2013

**VILLAGE OF CASTALIA  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

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

**FINDING NUMBER 2012-001**

**Noncompliance Citation / Material Weakness**

**Ohio Revised Code, § 5705.10(D)**, states in part 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 rollback/homestead, public utility property tax replacement, tangible personal property tax reimbursement, and auto registration monies to the incorrect funds during the years ended December 31, 2012 and 2011. The following table illustrates the errors in posting by fund:

<b>Fund Type/Fund</b>	<b>2012 Amount Adjusted</b>	<b>2011 Amount Adjusted</b>
General Fund	(\$2,339)	(\$2,690)
<b>Special Revenue Fund Type:</b>		
Street Construction, Maintenance, and Repair Fund	6,647	7,814
State Highway Fund	539	634
Permissive Motor Vehicle License Tax Fund	(7,186)	(8,448)
<b>Capital Projects Fund Type:</b>		
Road and Bridge Fund	2,339	2,690

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

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 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 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/services/lgs/publications/LocalGovernmentManualsHandbooks/Village%20Officers%20Handbook%202013.pdf>

### **FINDING NUMBER 2012-002**

#### **Material Weakness – Recording Grant Activity**

In 2012 the Village was the beneficiary of \$75,750 of Ohio Public Work Commission (OPWC) grant monies paid directly to the vendor by OPWC. The Fiscal Officer did not record the receipts and disbursements of this activity. Auditor of State Bulletins 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements in a capital project fund when the Village applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect these amounts in the OPWC Issue II Capital Projects Fund.

Sound financial reporting is the responsibility of the Fiscal Officer and 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 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 Council, to identify and correct errors and omissions. The Fiscal Officer can review Auditor of State Bulletins 2000-008 and 2002-004 for accounting guidance for certain on-behalf-of grants or improvement projects.

### **FINDING NUMBER 2012-003**

#### **Material Weakness - Financial Reporting**

We identified the following errors requiring adjustment to the financial statements or notes to the financial statements for the year ending December 31, 2011:

- Intergovernmental receipts in the amount of \$44,587 were improperly classified as property and other local taxes in the General fund;
- Permissive motor vehicle license tax receipts in the amount of \$9,942 were improperly classified as intergovernmental receipts in the Special Revenue fund type;
- Principal and interest payments in the amounts of \$5,687 and \$499, respectively, in the General fund were incorrectly recorded as security of persons and property disbursements;
- Fines, licenses, and permits and other financing sources in the amounts of \$14,283 and \$258,413, respectively, in the General fund were incorrectly recorded as charges for services receipts.
- Estimated Receipts were decreased in the General and Special Revenue fund types in the amounts of \$78,698 and \$8,417, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and
- Appropriations were decreased in the General fund in the amount of \$29,950 and increased in the Capital Projects fund type in the amount of \$2,382 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts.

We also identified the following errors requiring adjustment to the financial statements or notes to the financial statements for the year ending December 31, 2012:

**FINDING NUMBER 2012-003  
(Continued)**

- Intergovernmental receipts in the amount of \$15,468 were improperly classified as property and other local taxes in the General fund;
- Permissive motor vehicle license tax receipts in the amount of \$9,801 were improperly classified as intergovernmental receipts in the Special Revenue fund type;
- Principal and interest payments in the amounts of \$4,018 and \$106, respectively, in the General fund were incorrectly recorded as security of persons and property disbursements;
- Estimated Receipts were decreased in the General fund and increased in the Special Revenue fund type in the amounts of \$69,072 and \$12,555, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and
- Appropriations were increased in the Capital Projects fund type in the amount of \$40,450 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts.

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 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, to identify and correct errors and omissions, as well as recording correct budgetary information. Also, the Fiscal Officer can refer to the Ohio Village Officer's Handbook at the following web site address for guidance on the recording of transactions:

<http://www.ohioauditor.gov/services/lgs/publications/LocalGovernmentManualsHandbooks/Village%20Officers%20Handbook%202013.pdf>

**Officials' Response:**

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

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**VILLAGE OF CASTALIA  
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Ohio Revised Code § 5705.10(D) for improper distribution of revenue to funds.	No	Not corrected. Reissued as Finding 2012-001 in this report.
2010-002	Material weakness due to improper recording of transactions.	No	Not corrected. Reissued as Finding 2012-003 in this report.

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# 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  
SEPTEMBER 19, 2013**