



Dave Yost • Auditor of State



VILLAGE OF CASTALIA  
ERIE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts, and disbursements, by fund type, and related notes of the Village of Castalia, Erie County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013.

### ***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 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 adverse and qualified audit opinions.

### ***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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, 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 permitted 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 or cash flows of the Village as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

**Basis for Additional Qualified Opinion**

During 2014 and 2013 the Village of Castalia failed to record certain receipts and disbursements in accordance with applicable Ohio Rev. Code provisions. The Village of Castalia has elected not to record the necessary audit adjustments to the financial statements and accounting system. The effects of noncompliance with applicable Ohio Rev. Code provisions had the following effect on receipts, disbursements, fund balances, and Note 3 to the financial statements as presented:

Opinion Unit / Description	Amount per Report	Amount per Audit	Variance
<b>Year Ending December 31, 2014:</b>			
<b>General Fund</b> / Property and Other Local Taxes	\$ 87,420	\$ 87,231	\$ 189
<b>General Fund</b> / Intergovernmental	45,033	42,958	2,075
<b>General Fund</b> / Miscellaneous	55,851	74,842	(18,991)
<b>General Fund</b> / Fund Balance - Assigned	46,888	63,615	(16,727)
<b>General Fund</b> / Note 3 Actual Receipts	227,485	244,212	(16,727)
<b>Special Revenue</b> / Miscellaneous	18,991		18,991
<b>Special Revenue</b> / Transportation	66,800	72,350	(5,550)
<b>Special Revenue</b> / Fund Balance - Restricted	84,908	60,367	24,541
<b>Special Revenue</b> / Note 3 Actual Receipts	70,679	51,688	18,991
<b>Special Revenue</b> / Note 3 Budgetary Expenditures	67,343	72,893	(5,550)
<b>Capital Projects</b> / Miscellaneous		53	(53)
<b>Capital Projects</b> / Intergovernmental		2,211	(2,211)
<b>Capital Projects</b> / Capital Outlay	6,952	1,402	5,550
<b>Capital Projects</b> / Fund Balance - Restricted	32,411	40,225	(7,814)
<b>Capital Projects</b> / Note 3 Actual Receipts	13,278	15,542	(2,264)
<b>Capital Projects</b> / Note 3 Budgetary Expenditures	12,590	7,040	5,550

Opinion Unit / Description	Amount per Report	Amount per Audit	Variance
<b>Year Ending December 31, 2013:</b>			
<b>General Fund</b> / Property and Other Local Taxes	\$ 84,702	\$ 84,393	\$ 309
<b>General Fund</b> / Intergovernmental	45,363	43,340	2,023
<b>General Fund</b> / Fund Balance - Assigned	156,657	154,325	2,332
<b>General Fund</b> / Note 3 Actual Receipts	154,210	151,878	2,332
<b>Special Revenue</b> / Transportation	69,274	73,504	(4,230)
<b>Special Revenue</b> / Fund Balance - Restricted	81,572	77,342	4,230
<b>Special Revenue</b> / Note 3 Budgetary Expenditures	69,377	73,607	(4,230)
<b>Capital Projects</b> / Miscellaneous		101	(101)
<b>Capital Projects</b> / Intergovernmental		2,231	(2,231)
<b>Capital Projects</b> / Capital Outlay	5,491	1,261	4,230
<b>Capital Projects</b> / Fund Balance - Restricted	31,723	38,285	(6,562)
<b>Capital Projects</b> / Note 3 Actual Receipts	12,788	15,120	(2,332)
<b>Capital Projects</b> / Note 3 Budgetary Expenditures	11,116	6,886	4,230

**Additional Opinion Qualification**

In our opinion, except for the effects of the matters described in the *Basis for Additional Qualified Opinion* paragraph, 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, 2014 and 2013, 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(D) permit, described in Note 1.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, 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

March 15, 2016

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**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, 2014**

	<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	\$87,420	\$7,081	\$13,278	\$107,779
Intergovernmental	45,033	44,599		89,632
Special Assessments		8		8
Fines, Licenses and Permits	27,712			27,712
Earnings on Investments	214			214
Miscellaneous	55,851	18,991		74,842
<i>Total Cash Receipts</i>	<u>216,230</u>	<u>70,679</u>	<u>13,278</u>	<u>300,187</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	235,641			235,641
Public Health Services	1,660			1,660
Leisure Time Activities	4,549			4,549
Community Environment	1,385			1,385
Basic Utility Services	3,790			3,790
Transportation	4,646	66,800		71,446
General Government	85,583	543	262	86,388
Capital Outlay			6,952	6,952
Debt Service:				
Principal Retirement			5,376	5,376
<i>Total Cash Disbursements</i>	<u>337,254</u>	<u>67,343</u>	<u>12,590</u>	<u>417,187</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(121,024)</u>	<u>3,336</u>	<u>688</u>	<u>(117,000)</u>
<b>Other Financing Receipts</b>				
Other Financing Sources	11,255			11,255
<i>Net Change in Fund Cash Balances</i>	<u>(109,769)</u>	<u>3,336</u>	<u>688</u>	<u>(105,745)</u>
<i>Fund Cash Balances, January 1</i>	<u>156,657</u>	<u>81,572</u>	<u>31,723</u>	<u>269,952</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		84,908	32,411	117,319
Assigned	46,888			46,888
<i>Fund Cash Balances, December 31</i>	<u>\$46,888</u>	<u>\$84,908</u>	<u>\$32,411</u>	<u>\$164,207</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, 2013**

	<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	\$84,702	\$7,512	\$12,788	\$105,002
Intergovernmental	45,363	45,235		90,598
Fines, Licenses and Permits	20,431			20,431
Earnings on Investments	312			312
Miscellaneous	3,402			3,402
<i>Total Cash Receipts</i>	<u>154,210</u>	<u>52,747</u>	<u>12,788</u>	<u>219,745</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	158,853			158,853
Public Health Services	1,200			1,200
Leisure Time Activities	4,991			4,991
Community Environment	1,388			1,388
Basic Utility Services	1,260			1,260
Transportation	5,683	69,274		74,957
General Government	66,739	103	249	67,091
Capital Outlay			5,491	5,491
Debt Service:				
Principal Retirement			5,376	5,376
<i>Total Cash Disbursements</i>	<u>240,114</u>	<u>69,377</u>	<u>11,116</u>	<u>320,607</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(85,904)</u>	<u>(16,630)</u>	<u>1,672</u>	<u>(100,862)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Transfers In		10,000		10,000
Transfers Out	(10,000)			(10,000)
Other Financing Sources		172		172
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(10,000)</u>	<u>10,172</u>		<u>172</u>
<i>Net Change in Fund Cash Balances</i>	<u>(95,904)</u>	<u>(6,458)</u>	<u>1,672</u>	<u>(100,690)</u>
<i>Fund Cash Balances, January 1</i>	<u>252,561</u>	<u>88,030</u>	<u>30,051</u>	<u>370,642</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		81,572	31,723	113,295
Assigned	156,657			156,657
<i>Fund Cash Balances, December 31</i>	<u>\$156,657</u>	<u>\$81,572</u>	<u>\$31,723</u>	<u>\$269,952</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, 2014 AND 2013**

**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 services, road and bridge maintenance (transportation) and general government services. The Village is covered for emergency medical services and fire protection as the Village lies within Margaretta Township, which provides these services from taxes levied on Township and Village property owners.

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

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 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 Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**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 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

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**3. Capital Project Fund**

This fund accounts for and reports financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

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

**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, function or object 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.

**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 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 2014 and 2013 budgetary activity appears in Note 3.

**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.

**2. Restricted**

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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. 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:

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

	2014	2013
Demand deposits	\$91,842	\$197,638
Other time deposits (savings accounts)	72,365	72,314
Total deposits	\$164,207	\$269,952

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

**2014 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$95,825	\$227,485	\$131,660
Special Revenue	30,127	70,679	40,552
Capital Projects	15,500	13,278	(2,222)
Total	\$141,452	\$311,442	\$169,990

**2014 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$325,070	\$337,254	(\$12,184)
Special Revenue	106,000	67,343	38,657
Capital Projects	15,500	12,590	2,910
Total	\$446,570	\$417,187	\$29,383

**2013 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$128,075	\$154,210	\$26,135
Special Revenue	33,019	62,919	29,900
Capital Projects	15,500	12,788	(2,712)
Total	\$176,594	\$229,917	\$53,323

**2013 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$291,723	\$250,114	\$41,609
Special Revenue	103,600	69,377	34,223
Capital Projects	24,500	11,116	13,384
Total	\$419,823	\$330,607	\$89,216

**4. PROPERTY TAX**

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
<b>Ohio Public Works Commission</b>		
Depot and Water St. Resurfacing Loan #CE420	\$75,259	0%

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

Amortization of the above debt is scheduled as follows:

Year ending	OPWC Loan	
December 31:		
2015	\$10,751	
2016	10,751	
2017	10,751	
2018	10,751	
2019	10,751	
2020-2021	21,503	
Total	\$75,259	

**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 2014, OP&F participants contributed 10.75% of their wages through June 30, 2014, while participants contributed 11.5% beginning July 1, 2014. For 2013, OP&F participants contributed 10% of their wages through June 30, 2013, while participants contributed 10.75% beginning July 1, 2013. For 2014 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

2014 and 2013, 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, 2014.

**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.

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of 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 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, 2014, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	<u>(12,760,194)</u>	<u>(12,363,257)</u>
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December

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**NOTES TO THE FINANCIAL STATEMENTS  
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(Continued)**

31, 2014, the Village's share of these unpaid claims collectible in future years is approximately \$8,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<b><u>Contributions to PEP</u></b>	
<b><u>2013</u></b>	<b><u>2014</u></b>
\$11,810	\$11,896

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. MISCELLANEOUS RECEIPTS**

In 2014, General Fund and Special Revenue Fund Type Miscellaneous Receipts consist primarily of proceeds from an insurance claim.

**9. INTERFUND TRANSACTIONS**

During 2013 the following transfers were made:

<b>Transfers To</b>	<b>Transfers From General Fund</b>
Street Construction, Maintenance, and Repair Fund	\$10,000

Transfers are used to (1) move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**VILLAGE OF CASTALIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**10. COMPLIANCE**

Contrary to Ohio law, the Fiscal Officer posted excess real estate fee, rollback/homestead, commercial activity tax, kWh tax, and insurance proceeds receipts to the incorrect funds.

Also contrary to Ohio law, the Fiscal Officer used Road and Bridge (Capital Projects) Fund monies for purposes inconsistent with which the fund was established.



# 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 of the cash balances, receipts, and disbursements by fund type of the Village of Castalia, Erie County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated March 15, 2016, 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 also qualified our opinion due to the Village of Castalia not recording receipts and disbursements in accordance with Ohio Rev. Code provisions and not posting the necessary adjustments to the financial statements and accounting system.

### ***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.

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 2014-001 through 2014-003 to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2014-001 and 2014-002.

***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 communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 15, 2016

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

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

**FINDING NUMBER 2014-001**

**Finding for Adjustment / Material Weakness**

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

The Fiscal Officer posted insurance proceeds excess real estate fee, rollback/homestead, commercial activity tax, and kWh tax receipts to the incorrect funds during the years ended December 31, 2014 and 2013. The following table illustrates the errors in posting by fund:

<b>Fund Type/Fund</b>	<b>2014 Amount Adjusted</b>	<b>2013 Amount Adjusted</b>
General Fund	\$16,727	(\$2,332)
<b>Special Revenue Fund Type:</b>		
Street Construction, Maintenance, and Repair Fund	(18,991)	
<b>Capital Projects Fund Type:</b>		
Road and Bridge Fund	2,264	2,332

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 Village refused to record the necessary adjustments to the financial statements and accounting records, and consequently the accompanying financial statements were misstated resulting in a qualified opinion. In accordance with the foregoing facts, we hereby issue a finding for adjustment against the Street Construction, Maintenance, and Repair Fund to the credit of the General Fund in the amount of \$18,991, and against the General Fund to the credit of the Road and Bridge Fund in the amount of \$4,596.

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:

<https://ohioauditor.gov/publications/15OhioVillageOfficersHandbook.pdf>

**FINDING NUMBER 2014-002**

**Finding for Adjustment / Material Weakness**

**Ohio Rev. Code § 5705.10(I)** provides that money paid into any fund shall be used only for the purposes for which such fund is established.

The Village has established a Road and Bridge (Capital Projects) Fund to account for levy proceeds received under Ohio Rev. Code § 5705.19(G) to be used for the general construction, reconstruction, resurfacing, and repair of streets, roads, and bridges in municipal corporations.

The Fiscal Officer charged expenses related to road signs, street lights, and road salt to the Road and Bridge Capital Projects Fund, contrary to the purposes outlined above. These disbursements should have been recorded in the Street Construction, Maintenance, and Repair Fund. The following table illustrates the errors in posting by fund:

<u>Fund Type/Fund</u>	<u>2014 Amount Adjusted</u>	<u>2013 Amount Adjusted</u>
<b>Special Revenue Fund Type:</b>		
Street Construction, Maintenance, and Repair Fund	(\$5,550)	(\$4,230)
<b>Capital Projects Fund Type:</b>		
Road and Bridge Fund	5,550	4,230

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 Village refused to record the necessary adjustments to the financial statements and accounting records, consequently the accompanying financial statements were misstated resulting in a qualified opinion. In accordance with the foregoing facts, we hereby issue a finding for adjustment against the Street Construction, Maintenance, and Repair Fund to the credit of the Road and Bridge Fund in the amount of \$9,780.

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:

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### FINDING NUMBER 2014-003

#### 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, 2014:

- Intergovernmental receipts in the amount of \$15,325 were improperly classified as property and other local taxes in the General Fund;
- Miscellaneous receipts in the amount of \$18,991 were improperly classified as other financing sources in the Street Construction, Maintenance, and Repair Fund.
- Principal payments in the amount of \$5,376 were incorrectly classified as capital outlay in the Road and Bridge Fund;
- Estimated Receipts were decreased in the General Fund and Special Revenue fund type in the amounts of \$186,826 and \$106,754, 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 and Special Revenue fund type in the amounts of \$58,301 and \$37,971, respectively, 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, 2013:

- Intergovernmental receipts in the amount of \$14,971 were improperly classified as property and other local taxes in the General Fund;
- Principal payments in the amount of \$5,376 were incorrectly recorded as capital outlay in the Road and Bridge Fund; and
- Estimated Receipts were decreased in the General Fund and Special Revenue fund type in the amounts of \$54,925 and \$28,681, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts.

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 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:

<https://ohioauditor.gov/publications/15OhioVillageOfficersHandbook.pdf>

**Officials' Response:**

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

**VILLAGE OF CASTALIA  
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2014 AND 2013**

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>
2012-001	<b>Ohio Rev. Code §5705.10(D)</b> for allocating revenues to improper funds.	No	Not corrected. Repeated as Finding number 2014-001 in this report.
2012-002	Material weakness due to failure to record on-behalf-of grant activity.	N/A	Finding no longer valid. No such on-behalf-of activity occurred during 2014 and 2013.
2012-003	Material weakness for the failure to accurately record various transactions and improve monitoring of financial activity.	No	Not corrected. Repeated as Finding number 2014-003 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  
APRIL 12, 2016**