



Dave Yost • Auditor of State

VILLAGE OF CASTALIA
ERIE COUNTY

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Dave Yost • Auditor of State

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 2, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Castalia, Erie County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). Government Auditing Standards considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Castalia, Erie County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.



Dave Yost
Auditor of State

June 2, 2011

**VILLAGE OF CASTALIA
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$110,952	\$10,195	\$12,788	\$133,935
Intergovernmental	84,154	45,587	8,075	137,816
Special Assessments		990		990
Fines, Licenses and Permits	39,226			39,226
Earnings on Investments	883	35		918
Miscellaneous	4,262			4,262
	<u>239,477</u>	<u>56,807</u>	<u>20,863</u>	<u>317,147</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	170,730	1,807		172,537
Public Health Services	961			961
Leisure Time Activities	2,318			2,318
Community Environment	611			611
Basic Utility Service	353			353
Transportation	3,687	72,922		76,609
General Government	57,778			57,778
Debt Service:				
Redemption of Principal	5,303			5,303
Interest and Fiscal Charges	883			883
Capital Outlay			38,715	38,715
	<u>242,624</u>	<u>74,729</u>	<u>38,715</u>	<u>356,068</u>
Total Cash Disbursements				
Total Receipts Under Disbursements	<u>(3,147)</u>	<u>(17,922)</u>	<u>(17,852)</u>	<u>(38,921)</u>
Other Financing Receipts:				
Other Financing Sources		3,000		3,000
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements	<u>(3,147)</u>	<u>(14,922)</u>	<u>(17,852)</u>	<u>(35,921)</u>
Fund Cash Balances, January 1	<u>82,800</u>	<u>156,713</u>	<u>77,212</u>	<u>316,725</u>
Fund Cash Balances, December 31	<u><u>\$79,653</u></u>	<u><u>\$141,791</u></u>	<u><u>\$59,360</u></u>	<u><u>\$280,804</u></u>
Reserve for Encumbrances, December 31	<u><u>\$2,306</u></u>	<u><u>\$776</u></u>		<u><u>\$3,082</u></u>

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

**VILLAGE OF CASTALIA
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$107,442	\$9,866	\$12,394	\$129,702
Intergovernmental	80,095	45,698	2,924	128,717
Special Assessments		2,102		2,102
Charges for Services	19			19
Fines, Licenses and Permits	41,121			41,121
Earnings on Investments	1,034	160		1,194
Miscellaneous	3,501	191	167	3,859
	<u>233,212</u>	<u>58,017</u>	<u>15,485</u>	<u>306,714</u>
Total Cash Receipts				
	<u>233,212</u>	<u>58,017</u>	<u>15,485</u>	<u>306,714</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	134,151	608		134,759
Public Health Services	836			836
Leisure Time Activities	6,967			6,967
Community Environment	690			690
Basic Utility Service	1,274			1,274
Transportation	5,971	77,330		83,301
General Government	66,607			66,607
Debt Service:				
Redemption of Principal	4,946			4,946
Interest and Fiscal Charges	1,240			1,240
Capital Outlay			14,024	14,024
	<u>222,682</u>	<u>77,938</u>	<u>14,024</u>	<u>314,644</u>
Total Cash Disbursements				
	<u>222,682</u>	<u>77,938</u>	<u>14,024</u>	<u>314,644</u>
Total Receipts Over/(Under) Disbursements	<u>10,530</u>	<u>(19,921)</u>	<u>1,461</u>	<u>(7,930)</u>
Other Financing Receipts:				
Other Financing Sources	2,790	1,318		4,108
	<u>2,790</u>	<u>1,318</u>		<u>4,108</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	<u>13,320</u>	<u>(18,603)</u>	<u>1,461</u>	<u>(3,822)</u>
Fund Cash Balances, January 1	<u>69,480</u>	<u>175,316</u>	<u>75,751</u>	<u>320,547</u>
Fund Cash Balances, December 31	<u><u>\$82,800</u></u>	<u><u>\$156,713</u></u>	<u><u>\$77,212</u></u>	<u><u>\$316,725</u></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, 2010 AND 2009**

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 five-member Council directs the Village. The Village provides park operations (leisure time activities), police services, transportation, and general government services. The Village is covered for emergency medical services and fire protection as the Village lies within Margareta Township which provides these services from taxes levied on Township and Village property owners.

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

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

B. Accounting Basis

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

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

C. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

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

**VILLAGE OF CASTALIA
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Capital Project Funds

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

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

D. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must 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 carried over, and need not be reappropriated.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

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

F. Accumulated Leave

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

**VILLAGE OF CASTALIA
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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:

	2010	2009
Demand deposits	\$280,804	\$316,725

Deposits: 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, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$232,310	\$239,477	\$7,167
Special Revenue	77,269	59,807	(17,462)
Capital Projects	77,273	20,863	(56,410)
Total	\$386,852	\$320,147	(\$66,705)

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$315,110	\$244,930	\$70,180
Special Revenue	117,093	75,505	41,588
Capital Projects	108,415	38,715	69,700
Total	\$540,618	\$359,150	\$181,468

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$254,923	\$236,002	(\$18,921)
Special Revenue	41,021	59,335	18,314
Capital Projects	45,634	15,485	(30,149)
Total	\$341,578	\$310,822	(\$30,756)

**VILLAGE OF CASTALIA
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$267,170	\$222,682	\$44,488
Special Revenue	128,204	77,938	50,266
Capital Projects	45,325	14,024	31,301
Total	\$440,699	\$314,644	\$126,055

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
2008 Crown Victoria Capital Lease	\$9,704	7%

The Village entered into a capital lease to finance the purchase of a 2008 Crown Victoria vehicle for the police department.

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

Year ending December 31:	Capital Lease
2011	\$6,186
2012	4,124
Total	\$10,310

**VILLAGE OF CASTALIA
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2010 and 2009, 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, 2010.

7. RISK MANAGEMENT

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. 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, 2009, 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.

**VILLAGE OF CASTALIA
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

7. RISK MANAGEMENT (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	<u>(15,256,862)</u>	<u>(15,310,206)</u>
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$11,000.

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

<u>Contributions to PEP</u>	
<u>2010</u>	<u>2009</u>
\$10,656	\$11,797

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.



Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Castalia, Erie County, Ohio (the Village), as of and for the years ended December 31, 2010 and December 31, 2009, and have issued our report thereon dated June 2, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-002 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, providing an opinion 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 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 2, 2011.

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



Dave Yost
Auditor of State

June 2, 2011

VILLAGE OF CASTALIA
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-001

Noncompliance Finding/Material Weakness

Ohio Revised Code, § 5705.10(D), states 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 several receipt transactions into the incorrect fund.

The following is a summary of the seven audit adjustments for calendar year 2010 which were made to revenues in the accompanying financial statements and to the Village's accounting records:

- General Fund: Seven adjustments ranging from a decrease in revenues of \$622 to a decrease in revenues of \$11,109.
- Special Revenue Funds: Three adjustments ranging from an increase in revenues of \$58 to an increase in revenues of \$10,195.
- Capital Projects Funds: Four adjustments ranging from an increase in revenues of \$373 to an increase in revenues of \$12,788.

A majority of the seven adjustments were due to the incorrect posting of Tax and Intergovernmental Revenue funding streams.

The following is a summary of the twenty-one audit adjustments for calendar year 2009 which were made to revenues in the accompanying financial statements and to the Village's accounting records:

- General Fund: Twenty-One adjustments ranging from an increase in revenues of \$8,603 to a decrease in revenues of \$12,057.
- Special Revenue Funds: Thirteen adjustments ranging from a decrease in revenues of \$3,637 to an increase in revenues of \$8,021.
- Capital Projects Funds: Six adjustments ranging from an increase in revenues of \$41 to an increase in revenues of \$12,349.

A majority of the twenty-one audit adjustments were due to the incorrect posting of Tax and Intergovernmental Revenue funding streams.

The accompanying financial statements and the Village's accounting records have been adjusted to correct these errors.

**FINDING NUMBER 2010-001
(Continued)**

We informed management the practice of improperly posting revenue into the incorrect fund/account has caused material misstatements in the financial statements and could result in deficit fund balances. 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 should refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions:

http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

FINDING NUMBER 2010-002

Material Weakness

Financial Reporting

The Fiscal Officer's bank reconciliation and supporting documentation at December 31, 2010 was found to be incorrect. The following was noted:

- The Village's savings account was not being carried at the proper dollar amount.
- The Village's system balance was not being carried at the proper dollar amount.
- An accurate reconciliation had not been performed by the fiscal officer since April 2008.

In testing the reconciliations and postings made by the Fiscal Officer from January 1, 2009 through December 31, 2010, the following was noted:

- The Fiscal Officer was posting electronic fund transfers (EFT's) from the State of Ohio more than once to the Village's accounting system.
- The Fiscal Officer had posted one bank service charge more than once to the Village's accounting system.
- The Fiscal Officer had "cleared" checks from the outstanding checklist which were in fact voided checks.

The aforementioned errors resulted in the following cash adjustments to the Village's books and bank reconciliations of December 31, 2010:

- Decrease the General Fund Intergovernmental Revenues by \$1,270
- Decrease the Road and Bridge Fund Intergovernmental Revenues by \$1,200
- Decrease the General Fund General Government Expenses by \$59
- Increase the General Fund Miscellaneous Revenues by \$574
- Increase the Road and Bridge Fund Miscellaneous Revenues by \$166
- Increase the State Highway Fund Miscellaneous Revenues by \$191

**FINDING NUMBER 2010-001
(Continued)**

The accompanying financial statements and the Village's accounting records have been adjusted to correct these errors.

To ensure the revenues and expenditures posted are accurate and the bank reconciliations are a true reflection of the receipts and disbursements of the Village and agree to cash and investments, we recommend the Village establish procedures to ensure a proper reconciliation is prepared monthly and a review is conducted by someone independent of the Fiscal Officer. 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.

The Village should adopt policies and procedures, including a final review of the bank reconciliations by a member of the audit committee to identify and correct errors and omissions. Also, the Fiscal Officer should refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.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, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Revenues derived from a source other than General Property Tax were not paid into a special fund for such purposes.	No	Repeat as Finding Number 2010-001, in this report.
2008-002	Expenditures were made out of incorrect funds.	Yes	
2008-003	Bank Reconciliations were inaccurate.	No	Repeat as Finding Number 2010-002, 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
JUNE 21, 2011