VILLAGE OF CASTALIA
ERIE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

VILLAGE OF CASTALIA
ERIE COUNTY

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Mary Taylor, CPA
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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2009

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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, (the Village) as of and for the years ended December 31, 2008 and 2007. 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(B) and 115.56 mandate 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, 2008 and 2007 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, 2008 and 2007, 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 the Village of Castalia, Erie County, as of December 31, 2008 and 2007, 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 September 17, 2009, 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 audit.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2009

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, 2008

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property and Local Taxes	$82,533	$7,380	$12,542	$102,455
Intergovernmental	82,956	48,801	2,594	134,351
Special Assessments		22,304		22,304
Fines, Licenses and Permits	41,008			41,008
Earnings on Investments	1,260	586		1,846
Miscellaneous	264			264
Total Cash Receipts	208,021	79,071	15,136	302,228
Cash Disbursements:				
Current:				
Security of Persons and Property	125,641			125,641
Public Health Services	650			650
Leisure Time Activities	1,919			1,919
Community Environment	569			569
Transportation	5,273	82,103		87,376
General Government	58,527			58,527
Debt Service:				
Redemption of Principal	1,699			1,699
Interest and Fiscal Charges	363			363
Capital Outlay			1,092	1,092
Total Cash Disbursements	194,641	82,103	1,092	277,836
Total Receipts Over/(Under) Disbursements	13,380	(3,032)	14,044	24,392
Other Financing Receipts:				
Other Financing Sources		5,355		5,355
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	13,380	2,323	14,044	29,747
Fund Cash Balances, January 1	56,100	172,993	61,707	290,800
Fund Cash Balances, December 31	**$69,480**	**$175,316**	**$75,751**	**$320,547**
Reserve for Encumbrances, December 31	$8,380	$6,104	$25	$14,509

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, 2007

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property and Local Taxes	$87,171	$8,450	$13,244	$108,865
Intergovernmental	90,402	46,085	2,066	138,553
Special Assessments		21,543		21,543
Fines, Licenses and Permits	37,831			37,831
Earnings on Investments	2,099	368		2,467
Miscellaneous	1,605			1,605
Total Cash Receipts	219,108	76,446	15,310	310,864
Cash Disbursements:				
Current:				
Security of Persons and Property	124,546			124,546
Public Health Services	1,018			1,018
Leisure Time Activities	519			519
Community Environment	691			691
Transportation	33,220	40,483		73,703
General Government	63,726			63,726
Debt Service:				
Redemption of Principal	10,000			10,000
Interest and Fiscal Charges	320			320
Capital Outlay			3,305	3,305
Total Cash Disbursements	234,040	40,483	3,305	277,828
Total Receipts Over/(Under) Disbursements	(14,932)	35,963	12,005	33,036
Fund Cash Balances, January 1	71,032	137,030	49,702	257,764
Fund Cash Balances, December 31	**$56,100**	**$172,993**	**$61,707**	**$290,800**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio and the Castalia Village Charter establish the rights and privileges of the Village of Castalia, Erie County, (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 Margaretta 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:

Public Entity Risk Pool:
The Public Entities Pool of Ohio 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 capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, Street, 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 2008 and 2007 budgetary activity appears in Note 3.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

	2008	2007
Demand deposits	$320,547	$290,800

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, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$206,614	$208,021	$1,407
Special Revenue	52,372	84,426	32,054
Capital Projects	16,981	15,136	(1,845)
Total	$275,967	$307,583	$31,616

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$225,490	$203,021	$22,469
Special Revenue	107,600	88,207	19,393
Capital Projects	45,300	1,117	44,183
Total	$378,390	$292,345	$86,045

3. BUDGETARY ACTIVITY (CONTINUED)

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$216,499	$219,108	$2,609
Special Revenue	52,876	76,446	23,570
Capital Projects	17,973	15,310	(2,663)
Total	$287,348	$310,864	$23,516

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$281,541	$234,040	$47,501
Special Revenue	81,300	40,483	40,817
Capital Projects	45,300	3,305	41,995
Total	$408,141	$277,828	$130,313

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, 2008 was as follows:

	Principal	Interest Rate
2008 Crown Victoria Capital Lease	$19,954	7%

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

5. DEBT (CONTINUED)

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

Year ending December 31:	Capital Lease
2009	$6,186
2010	6,186
2011	6,186
2012	4,124
Total	$22,682

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 2008 and 2007, OP&F participants contributed 10% of their wages. For 2008 and 2007, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2008 and 2007, OPERS members contributed 10 and 9.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to $250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to $350,000 per occurrence. Claims exceeding $350,000 are reinsured with APEEP in an amount not to exceed $2,650,000 for each claim and $10,000,000 in the aggregate per year. Governments can

7. RISK MANAGEMENT (CONTINUED)

elect up to $10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to $5,000,000 per year, subject to a per-claim limit of $2,000,000 (prior to January 1, 2006) or $3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage
Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding $250,000 up to $600 million per occurrence. This amount was increased to $300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding $100,000 up to $300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding $100,000 up to $250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between $100,000 and $250,000 in 2006, or $100,000 and $300,000 in 2007, Travelers will then reinsure specific losses exceeding $100,000 up to their $600 million per occurrence limit. The aggregate stop-loss limit for 2007 was $2,014,548.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2007 and 2006 (the latest information available):

	2007	2006
Assets	$37,560,071	$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Net Assets	$20,219,246	$19,384,290

At December 31, 2007 and 2006, respectively, the liabilities above include approximately $15.9 million and $15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately $15.0 million and $14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is

7. RISK MANAGEMENT (CONTINUED)

approximately $14,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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.

Contributions to PEP	
2006	$11,490
2007	11,486
2008	11,797

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. 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.

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Mary Taylor, CPA
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 (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated September 17, 2009 wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. 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(B) and 115.56 mandate 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*.

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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-001 through 2008-003 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiencies described above are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated September 17, 2009.

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 instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 17, 2009.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2009

VILLAGE OF CASTALIA
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007

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

FINDING NUMBER 2008-001

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 Clerk-Treasurer posted several receipt transactions into the incorrect fund. The following audit adjustments for the year 2008 were made to revenues in the accompanying financial statements and to the Village's accounting records:

- Increased Road and Bridge Fund intergovernmental revenue by $972 and decreased General Fund intergovernmental revenue by $972.
- Increased Permissive Motor Vehicle License Fund intergovernmental revenue by $1,085 and decreased Street Construction Maintenance and Repair Fund intergovernmental revenue by $1,085.
- Increased taxes in the Street Construction Maintenance and Repair Fund by $3,459 and in the State Highway Fund by $280 and decreased General Fund intergovernmental revenue by $2,862, Street Construction Maintenance and Repair Fund intergovernmental revenue by $366, and State Highway Fund intergovernmental revenue by $511.
- Increased Special Assessment Fund special assessments by $10,017 and Road and Bridge Fund taxes by $5,497 and decreased General Fund taxes by $15,514.
- Increased General Fund intergovernmental revenue by $965 and decreased Street Construction Maintenance and Repair by $724 and the State Highway intergovernmental by $241.
- Increased Street Construction Maintenance and Repair intergovernmental revenue by $3,710 and State Highway intergovernmental revenue by $395 and decreased General intergovernmental revenue by $4,105.

In addition, we increased 2007 Road and Bridge Fund intergovernmental revenue by $1,616 and decreased General Fund intergovernmental revenue by $1,616.

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 Clerk-Treasurer and Village Council, to identify and correct errors and omissions. Also, the Clerk-Treasurer 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:

The Village recently changed from having an elected Clerk-Treasurer to appointing a fiscal officer. The Village feels this change plus increased monitoring from Council can decrease the risk of these types of problems occurring in the future.

FINDING NUMBER 2008-002

Noncompliance Finding/Material Weakness

Ohio Revised Code § 5705.10 (H) states money paid into any fund shall be used only for the purposes for which such fund is established.

The Clerk-Treasurer posted several expenditure transactions into the incorrect fund. This increases the possibility that expenditures would be made for an unallowable purpose. The following audit adjustments were made to expenditures in the accompanying financial statements:

- In 2008 increased General Fund security of persons and property expenditures by $10,016, increased General Fund general government expenses by $1,354, increased General Fund principal expense by $1,699 and General Fund interest expense by $363.
- In 2008 increased Street Construction Maintenance and Repair transportation expense by $6,555 and decreased State Highway transportation expense by $1,566, decreased Permissive Motor Vehicle License Tax transportation by $8,439, and decreased Street Lighting transportation by $617, and decreased Road and Bridge capital outlay by $9,365.
- In 2007 increased Street Construction Maintenance and Repair transportation by $1,265 and decreased Road and Bridge capital outlay by $1,265.

We recommend the Council and the Clerk-Treasurer perform a detailed review of each check and the supporting documentation including a review of funds charged before approving the disbursement and signing the check. The Village has posted the adjustments which are reflected in the financial statements.

Officials' Response:

The Village recently changed from having an elected Clerk-Treasurer to appointing a fiscal officer. The Village feels this change plus increased monitoring from Council can decrease the risk of these types of problems occurring in the future.

FINDING NUMBER 2008-003

Material Weakness

Financial Reporting

The Clerk-Treasurer's bank reconciliation and supporting documentation at December 31, 2008 was found to be incorrect. The following was noted.

- Many checks listed on the outstanding checklist had already been cashed.
- The Village's saving account was not being carried at the proper dollar amount.
- An accurate reconciliation had not been performed since April of 2008.

In testing the reconciliations and postings made by the Clerk-Treasurer from April 2008 through December 2008; the following was noted:

- The Clerk-Treasurer was not posting electronic fund transfer (EFT) revenues received from the State of Ohio to the Village's ledgers.

- Interest receipts posted by the bank or bank charges incurred during the month were not posted to the Village's ledgers.
- The Clerk-Treasurer had posted one intergovernmental receipt twice.

The aforementioned errors resulted in the following cash adjustments to the Village's books and bank reconciliation as of December 31, 2008:

- Increased General Fund intergovernmental revenue by $6,210 and Road and Bridge intergovernmental revenue by $965 due to the Clerk-Treasurer not posting the rollback monies received by electronic fund transfer.
- Increased General Fund intergovernmental revenue by $1,440 due to the Clerk-Treasurer not posting a reimbursement received by electronic fund transfer.
- Increased General Fund intergovernmental revenue by $2,049 due to the Clerk-Treasurer not posting liquor license fees received by electronic fund transfer.
- Increased Street Construction Maintenance and Repair Fund intergovernmental revenue by $18,592 and State Highway Fund intergovernmental revenue by $1,507 due to the Clerk-Treasurer not posting gas tax/cents per gallon monies received by electronic fund transfer.
- Increased Permissive Motor Vehicle License Fund intergovernmental revenue by $4,622 due to the Clerk-Treasurer not posting permissive motor vehicle license monies received by electronic fund transfer.
- Increased General Fund interest by $518, Street Construction Maintenance and Repair Fund interest by $325, State Highway Fund interest by $50, and Permissive Motor Vehicle License Fund interest by $54 due to the Clerk-Treasurer not posting interest received to the books.
- Decreased Street Construction Maintenance and Repair Fund intergovernmental revenue by $2,167 due to the Clerk-Treasurer's duplicate posting of a receipt.

To ensure the revenues 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 Clerk-Treasurer. Sound financial reporting is the responsibility of the Clerk-Treasurer 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 Clerk-Treasurer can refer to the UAN accounting manual available from the following web address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

Officials' Response:

The Village recently changed from having an elected Clerk-Treasurer to appointing a fiscal officer. The Village feels this change plus increased monitoring from Council can decrease the risk of these types of problems occurring in the future.

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
OCTOBER 13, 2009

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