

VILLAGE OF CASTINE

DARKE COUNTY

REGULAR AUDIT

JANUARY 1, 2008 THROUGH DECEMBER 31, 2009

YEARS AUDITED UNDER GAGAS: 2009 AND 2008

**Caudill & Associates, CPA's**

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# Mary Taylor, CPA

Auditor of State

Members of Council  
Village of Castine  
133 South Main Street  
Castine, Ohio 45304

We have reviewed the *Independent Auditor's Report* of the Village of Castine, Darke County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2008 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 1, 2010

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VILLAGE OF CASTINE  
DARKE COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

## Independent Auditor's Report

Village of Castine  
Darke County  
133 South Main Street  
Castine, Ohio 45304

We have audited the accompanying financial statements of the Village of Castine (the Village), Darke County, Ohio, as of and for the years ended December 31, 2009 and 2008. 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 disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Village, as well as evaluating the overall financial statement presentation. 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 require 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 Village's 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, 2009 and 2008, 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, 2009 and 2008, 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 of the Village as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

Village of Castine  
Darke County  
Independent Auditor's Report

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 July 9, 2010, 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.

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's

July 9, 2010

**VILLAGE OF CASTINE  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - 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>	
<b><u>Cash Receipts:</u></b>			
Property and Other Taxes	\$ 686	\$ -	\$ 686
Intergovernmental Receipts	23,575	5,324	28,899
Licenses, Fees, and Permits	538	-	538
Interest	69	-	69
Miscellaneous Revenue	143	-	143
Total Cash Receipts	<u>25,011</u>	<u>5,324</u>	<u>30,335</u>
<b><u>Disbursements:</u></b>			
Security of Persons and Property	2,213	-	2,213
Leisure Time Activities	1,791	-	1,791
Transportation	-	379	379
Basic Utility Services	12,318	-	12,318
General Government	14,779	-	14,779
Total Cash Disbursements	<u>31,101</u>	<u>379</u>	<u>31,480</u>
Total Receipts Over/(Under) Disbursements	<u>(6,090)</u>	<u>4,945</u>	<u>(1,145)</u>
Fund Cash Balance, January 1	<u>29,807</u>	<u>79,079</u>	<u>108,886</u>
Fund Cash Balance December 31	<u>\$ 23,717</u>	<u>\$ 84,024</u>	<u>\$ 107,741</u>

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



**VILLAGE OF CASTINE  
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<b><u>Cash Receipts:</u></b>			
Property and Other Taxes	\$ 329	\$ -	\$ 329
Intergovernmental Receipts	27,451	5,014	32,465
Fines, Licenses, and Permits	528	-	528
Interest	253	-	253
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	<u>28,561</u>	<u>5,014</u>	<u>33,575</u>
<b><u>Disbursements:</u></b>			
Security of Persons and Property	1,131	-	1,131
Leisure Time Activities	2,783	-	2,783
Transportation	-	723	723
Basic Utility Services	11,322	-	11,322
General Government	17,303	-	17,303
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	<u>32,539</u>	<u>723</u>	<u>33,262</u>
Total Receipts Over/(Under) Disbursements	<u>(3,978)</u>	<u>4,291</u>	<u>313</u>
Fund Cash Balance, January 1	<u>33,785</u>	<u>74,788</u>	<u>108,573</u>
Fund Cash Balance December 31	<u>\$ 29,807</u>	<u>\$ 79,079</u>	<u>\$ 108,886</u>

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

**VILLAGE OF CASTINE  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**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 Castine, Darke County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services including park operations (leisure time activities), police and fire services.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements. 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

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

The Village no longer maintains investments in certificates of deposit.

**D. 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 Fund**

These funds account for proceeds from specific sources (other than from 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.

State Highway Fund – This fund receives State money for constructing, maintaining, and repairing Village streets in conjunction with the State highways in the Village.

**VILLAGE OF CASTINE  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**E. 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. 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 commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

**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. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<u>2009</u>	<u>2008</u>
Demand deposits	<u>\$107,741</u>	<u>\$108,886</u>
Total deposits	<u><u>\$107,741</u></u>	<u><u>\$108,886</u></u>

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool

**VILLAGE OF CASTINE  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,804	\$25,011	(\$17,793)
Special Revenue	68,093	5,324	(62,769)
Total	\$110,897	\$30,335	(\$80,562)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$50,956	\$31,101	\$19,855
Special Revenue	15,000	379	14,621
Total	\$65,956	\$31,480	\$34,476

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$35,995	\$28,561	(\$7,434)
Special Revenue	5,300	5,014	(286)
Total	\$41,295	\$33,575	(\$7,720)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$52,156	\$32,539	\$19,617
Special Revenue	15,000	723	14,277
Total	\$67,156	\$33,262	\$33,894

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

**VILLAGE OF CASTINE  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**4. PROPERTY TAX (Continued)**

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**5. RETIREMENT SYSTEMS**

The Village's elected officials belong to the Social Security System. This plan provides retirement benefits, including post-retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. Members of the Social Security System contributed 6.2% of their wages to Social Security. The Village has paid approximately 50% required through December 31, 2009. The Village does not participate in the Ohio Employees Retirement System.

**6. 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 has obtained commercial insurance for the following risks:

- General Liability
- Public Officials Liability
- Vehicle
- Law Enforcement
- Property

**7. COMPLIANCE**

Contrary to Title 26: Internal Revenue Code; Subtitle C: Employment Taxes; Chapter 24: Collection of Income Tax at Source on Wages; Sections 3303 and 3404, the Village did not remit federal taxes in an accurate or timely manner.



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### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Village Council  
Village of Castine  
133 South Main St.  
Castine, Ohio 45304

We have audited the financial statements of Village of Castine, Darke County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated July 9, 2010 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 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness on 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.

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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented or detected and timely corrected.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider a significant deficiency in internal control over financial reporting. We consider finding 2009-002 to be a significant deficiency. 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.

Village of Castine  
Darke County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about 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 such 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 and Responses as item 2009-001.

We also noted a certain matter not requiring inclusion in this report that we reported to the Village in a separate letter dated July 9, 2010.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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 management, Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's  
July 9, 2010

**VILLAGE OF CASTINE  
DARKE COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-001**

**Noncompliance Citation – Title 26: Internal Revenue Code; Subtitle C: Employment Taxes; Chapter 24: Collection of Income Tax at Source on Wages; Sections 3303 and 3404.**

Section 3403, Liability for Tax, states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter and shall not be liable to any person for the amount of any such payment.

Section 3404, Return and Payment by Governmental Employer, states that if the employer is in the United States, or a State, or a political subdivision thereof, or the District of Columbia, or any agency or instrumentality of one or more of the foregoing, the return of the amount deducted and withheld upon any wages may be made by any officer or employee of the United States, or of such State, or political subdivision, or the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of such wages, or appropriately designated for the purpose.

The Village did not properly calculate or remit its federal income taxes for the years 2008 and 2009.

Failure to remit withholdings and Village match may result in the assessment of fines, penalties, and interest by the IRS.

We recommend the Village remit the correct amount of taxes on a timely basis to avoid the unnecessary expenditure of public funds for fines, penalties, and interest.

**Village Response:**

The Village will monitor the payment of taxes and will ensure that taxes are calculated correctly and remitted timely each year.

**FINDING NUMBER 2009-002**

**Significant Deficiency – Segregation of Duties**

The Clerk handles all financial record-keeping, including receipting and posting. Also, only one signature is required on all checks in which the clerk signs all checks. Potential fraud could result due to inadequate segregation of duties combined with only one required signature on checks written from the Village's primary operating account.

Due to inadequate segregation of duties, the Village should adopt a written policy that requires at a minimum two signatures on all checks written from the Village's primary account. The second signature should be an individual that serves on the Village Council.

**Village Response:**

No response from the Village.



**Village of Castine**  
**Darke County**  
*Schedule of Prior Audit Findings*  
*For the Fiscal Years Ended December 31, 2009 and 2008*

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Ohio Revised Code 5705.36, Failure to secure an amended estimated resource when estimated receipts were less than actual receipts	Yes	N/A
2007-002	Ohio Revised Code 5705.39, Failure to secure an amended certificate of appropriations for estimated resources	Yes	N/A
2007-003	Segregation of Duties	No	Repeated as Finding 2009-002
2007-004	AOS Bulletin 97-003, Failure to approve advances	Yes	N/A
2007-005	Failure to adjust fund balances requested by prior auditors	Yes	N/A

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**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF CASTINE**

**DARKE 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 14, 2010**