



Dave Yost • Auditor of State

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2010.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2009.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Prior Audit Findings	21

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Dave Yost • Auditor of State

Village of Kelleys Island
Erie County
121 Addison Street, P.O. Box 469
Kelleys Island, Ohio 43438-0469

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 29, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Kelleys Island
Erie County
121 Addison Street, P.O. Box 469
Kelleys Island, Ohio 43438-0469

To the Village Council:

We have audited the accompanying financial statements of the Village of Kelleys Island, 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. 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 or cash flows, where applicable 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 Kelleys Island, 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 29, 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 audit.



Dave Yost
Auditor of State

June 29, 2011

**VILLAGE OF KELLEYS ISLAND
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	\$338,004	\$225,883	\$2	\$563,889
Intergovernmental	141,629	93,425	15,718	250,772
Special Assessments		1,239		1,239
Charges for Services	1,000	3,800		4,800
Fines, Licenses and Permits	54,841	5,349	1,726	61,916
Earnings on Investments	1,131	114		1,245
Miscellaneous	5,873	11,770	400	18,043
	<u>542,478</u>	<u>341,580</u>	<u>17,846</u>	<u>901,904</u>
Total Cash Receipts				
	<u>542,478</u>	<u>341,580</u>	<u>17,846</u>	<u>901,904</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	163,684	22,068		185,752
Public Health Services	1,920	48,565		50,485
Community Environment	10,722			10,722
Transportation	43,739	32,270	4,328	80,337
General Government	282,709			282,709
Debt Service:				
Redemption of Principal		24,714		24,714
Interest and Fiscal Charges		8,031		8,031
Capital Outlay	61,284	58,715	22,192	142,191
	<u>564,058</u>	<u>194,363</u>	<u>26,520</u>	<u>784,941</u>
Total Cash Disbursements				
	<u>564,058</u>	<u>194,363</u>	<u>26,520</u>	<u>784,941</u>
Total Receipts Over/(Under) Disbursements	<u>(21,580)</u>	<u>147,217</u>	<u>(8,674)</u>	<u>116,963</u>
Other Financing Receipts / (Disbursements):				
Transfers-In		62		62
Transfers-Out	(62)			(62)
Other Financing Sources	51			51
	<u>(11)</u>	<u>62</u>		<u>51</u>
Total Other Financing Receipts / (Disbursements)				
	<u>(11)</u>	<u>62</u>		<u>51</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(21,591)</u>	<u>147,279</u>	<u>(8,674)</u>	<u>117,014</u>
Fund Cash Balances, January 1	<u>452,303</u>	<u>762,340</u>	<u>63,645</u>	<u>1,278,288</u>
Fund Cash Balances, December 31	<u>\$430,712</u>	<u>\$909,619</u>	<u>\$54,971</u>	<u>\$1,395,302</u>
Reserve for Encumbrances, December 31	<u>\$139,856</u>	<u>\$8,908</u>	<u>\$51</u>	<u>\$148,815</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$337,540		337,540
Operating Cash Disbursements:			
Personal Services	173,038		173,038
Travel Transportation	3,147		3,147
Contractual Services	78,818		78,818
Supplies and Materials	25,720		25,720
Total Operating Cash Disbursements	280,723		280,723
Operating Income	56,817		56,817
Non-Operating Cash Receipts:			
Special Assessments	41,397		41,397
Earnings on Investments	76		76
Miscellaneous Receipts	1,134		1,134
Other Non-Operating Cash Receipts		\$50,302	50,302
Total Non-Operating Cash Receipts	42,607	50,302	92,909
Non-Operating Cash Disbursements:			
Capital Outlay	589		589
Redemption of Principal	73,334		73,334
Interest and Other Fiscal Charges	36,465		36,465
Other Non-Operating Cash Disbursements		52,818	52,818
Total Non-Operating Cash Disbursements	110,388	52,818	163,206
Excess of Disbursements Over Receipts Before Interfund Transfers	(10,964)	(2,516)	(13,480)
Transfers-In	19,731		19,731
Transfers-Out	(19,731)		(19,731)
Net Disbursements Over Receipts	(10,964)	(2,516)	(13,480)
Fund Cash Balances, January 1	136,907	4,007	140,914
Fund Cash Balances, December 31	\$125,943	\$1,491	\$127,434
Reserve for Encumbrances, December 31	\$1,748		\$1,748

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

**VILLAGE OF KELLEYS ISLAND
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	\$355,415	\$206,773	\$13	\$562,201
Intergovernmental	95,401	86,390	110,874	292,665
Special Assessments		3,144		3,144
Charges for Services	1,000	7,350		8,350
Fines, Licenses and Permits	36,021	2,684	4,191	42,896
Earnings on Investments	1,874	154		2,028
Miscellaneous	1,352	3,044	3	4,399
	<u>491,063</u>	<u>309,539</u>	<u>115,081</u>	<u>915,683</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	159,380	26,097		185,477
Public Health Services	1,190	35,093		36,283
Community Environment	11,970			11,970
Transportation	91,326	45,175	34,966	171,467
General Government	286,380	238		286,618
Debt Service:				
Redemption of Principal		2,405		2,405
Capital Outlay	97,152	64,461	306,898	468,511
	<u>647,398</u>	<u>173,469</u>	<u>341,864</u>	<u>1,162,731</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(156,335)</u>	<u>136,070</u>	<u>(226,783)</u>	<u>(247,048)</u>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Bonds			212,000	212,000
Transfers-In		565	15,000	15,565
Transfers-Out	(15,565)			(15,565)
Other Financing Uses	(23)			(23)
	<u>(15,588)</u>	<u>565</u>	<u>227,000</u>	<u>211,977</u>
Total Other Financing Receipts / (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(171,923)	136,635	217	(35,071)
Fund Cash Balances, January 1	624,226	625,705	63,428	1,313,359
Fund Cash Balances, December 31	<u>\$452,303</u>	<u>\$762,340</u>	<u>\$63,645</u>	<u>\$1,278,288</u>
Reserve for Encumbrances, December 31	<u>\$27,702</u>	<u>\$1,715</u>	<u>\$22,093</u>	<u>\$51,510</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$352,715		352,715
Operating Cash Disbursements:			
Personal Services	175,084		175,084
Travel Transportation	3,537		3,537
Contractual Services	92,855		92,855
Supplies and Materials	16,656		16,656
Total Operating Cash Disbursements	288,132		288,132
Operating Income	64,583		64,583
Non-Operating Cash Receipts:			
Special Assessments	41,016		41,016
Earnings on Investments	140		140
Other Non-Operating Cash Receipts		\$32,037	32,037
Total Non-Operating Cash Receipts	41,156	32,037	73,193
Non-Operating Cash Disbursements:			
Capital Outlay	13,582		13,582
Redemption of Principal	46,187		46,187
Interest and Other Fiscal Charges	26,761		26,761
Other Non-Operating Cash Disbursements		33,850	33,850
Total Non-Operating Cash Disbursements	86,530	33,850	120,380
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	19,209	(1,813)	17,396
Transfers-In	19,731		19,731
Transfers-Out	(19,731)		(19,731)
Net Receipts Over/(Under) Disbursements	19,209	(1,813)	17,396
Fund Cash Balances, January 1	117,698	5,820	123,518
Fund Cash Balances, December 31	\$136,907	\$4,007	\$140,914
Reserve for Encumbrances, December 31	\$4,710		\$4,710

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

**VILLAGE OF KELLEYS ISLAND
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 Kelleys Island, Erie County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, transportation, zoning (community environment), water utilities, emergency medical services (public health services) and police and fire services (security of persons and property).

The Village participates in the Public Entities Pool of Ohio public entity risk pool. Note 9 to the financial statements provides additional information for this entity. This organization provides property and casualty coverage for its members.

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31.

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.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from for capital projects, enterprise or agency funds) 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.

Road Construction Fund – This fund receives property tax and special assessment money for construction and repair of roads within the Village.

Medical Service Fund – This fund receives property tax money to provide emergency medical services for the Village.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise funds). The Village had the following significant Capital Project Fund:

Airport Resurfacing Fund – This fund receives grant revenues and proceeds of bonds to be used for airport runway improvements.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Water Fund - This fund receives charges for services from residents to cover water service costs.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village has no trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the activity of the Mayor's Court.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or department 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 4.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. RESTATEMENT OF FUNDS

In 2009 the Village reclassified an Airport Fund from a Special Revenue Fund to a Capital Projects Fund as it was determined to be a more appropriate presentation. The effect on the fund balances as previously stated is as follows:

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

2. RESTATEMENT OF FUNDS (Continued)

	Special Revenue	Capital Projects
Fund Balance as reported at December 31, 2008	\$656,138	\$32,995
Reclassification of Airport Fund	(30,433)	30,433
Restated Fund Balances at January 1, 2009	<u>\$625,705</u>	<u>\$63,428</u>

3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2010	2009
Demand deposits	(\$20,242)	\$28,566
Other time deposits (savings and NOW accounts)	540,049	388,791
Total deposits	<u>519,807</u>	<u>417,357</u>
STAR Ohio	1,002,929	1,001,845
Total deposits and investments	<u>\$1,522,736</u>	<u>\$1,419,202</u>

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. 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	\$500,000	\$542,529	\$42,529
Special Revenue	338,425	341,642	3,217
Capital Projects	167,498	17,846	(149,652)
Enterprise	415,000	399,878	(15,122)
Total	<u>\$1,420,923</u>	<u>\$1,301,895</u>	<u>(\$119,028)</u>

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

4. BUDGETARY ACTIVITY (Continued)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$867,284	\$703,976	\$163,308
Special Revenue	470,227	203,271	266,956
Capital Projects	202,093	26,571	175,522
Enterprise	501,570	412,590	88,980
Total	<u>\$2,041,174</u>	<u>\$1,346,408</u>	<u>\$694,766</u>

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$810,000	\$491,063	(\$318,937)
Special Revenue	289,170	310,104	20,934
Capital Projects	446,000	342,081	(103,919)
Enterprise	464,100	413,602	(50,498)
Total	<u>\$2,009,270</u>	<u>\$1,556,850</u>	<u>(\$452,420)</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,126,657	\$690,688	\$435,969
Special Revenue	584,552	175,184	409,368
Capital Projects	472,003	363,957	108,046
Enterprise	511,062	399,103	111,959
Total	<u>\$2,694,274</u>	<u>\$1,628,932</u>	<u>\$1,065,342</u>

5. PROPERTY TAX

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

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

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

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

6. RESORT TAX

The Village levies a resort tax of 1.5 percent on income arising from business activities conducted within the Village. Businesses submit the tax to the Ohio Department of Taxation. The Ohio Department of Taxation remits the tax to the Village's General Fund monthly.

7. DEBT

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Water Line Project Loan	\$126,756	5.90%
OWDA Water Treatment Plant Loan	820,953	1.50%
USDA Water System Loan	214,600	6.13%
OPWC Road Project Loan	16,831	0.00%
WSOS Water Line Project Loan	40,169	3.00%
USDA Airport Improvement Bonds	<u>194,500</u>	4.25%
Total	<u><u>\$1,413,809</u></u>	

The Ohio Water Development Authority (OWDA) loans relate to water system improvements. The Water Line Project Loan was obtained in 1990 and will be repaid in semiannual installments, including interest, over a period of 20 years. The Water Treatment Plant Loan was obtained in 2001 and will be repaid in semiannual installments, including interest, over a period of 30 years. These loans are collateralized by water receipts. The USDA Water System Loan relates to water system improvements for rural development. The loan was obtained in 1990 and will be repaid in annual installments, including interest, over 40 years. The OPWC Road Project Loan was obtained in 2001 for a road improvement project and will be repaid in semiannual installments over 12 years. The WSOS Water Line Project Loan relates to a water line improvement project. The loan was obtained in 2008 and will be repaid in monthly installments, including interest, over 10 years. The USDA Airport Improvement Bonds relate to airport runway improvements. The bonds were obtained in 2009 and will be repaid in annual installments, including interest, over 10 years. The bonds will be repaid from a tax levy approved by the voters.

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

7. DEBT (Continued)

Year ending December 31:	OWDA Water Line Project Loan	OWDA Water Treatment Plant Loan	USDA Water System Loan	OPWC Road Project Loan	WSOS Water Line Project Loan
2011	\$32,938	\$44,806	\$19,744	\$4,809	\$12,347
2012	32,936	44,808	19,740	4,809	12,347
2013	32,936	44,807	19,711	4,809	12,347
2014	32,937	44,807	19,658	2,404	4,898
2015	16,467	44,807	19,680		
2016-2020		224,236	98,514		
2021-2025		224,034	98,536		
2026-2030		224,038	69,073		
2031-2035		67,211			
Total	<u>\$148,214</u>	<u>\$963,554</u>	<u>\$364,656</u>	<u>\$16,831</u>	<u>\$41,939</u>

The USDA no longer provides amortization schedules for projects financed through the department. Accordingly, the schedule above does not reflect future USDA Airport Improvement Bonds debt service payments.

8. RETIREMENT SYSTEMS

A. Ohio Public Employees Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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.

B. Social Security

Elected officials who have never been members of OPERS have an option to choose Social Security or OPERS. As of December 31, 2010 certain members of the Village Council have elected Social Security. The Village's liability is 6.2 percent of wages paid.

9. RISK MANAGEMENT

Risk Pool Membership

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

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

9. RISK MANAGEMENT (Continued)

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

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 (the latest information available):

	<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 \$36,000.

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

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

9. RISK MANAGEMENT (Continued)

<u>Contributions to PEP</u>	
<u>2009</u>	<u>2008</u>
\$37,837	\$41,728

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.

10. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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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 Kelleys Island
Erie County
121 Addison Street, P.O. Box 469
Kelleys Island, Ohio 43438-0469

To the Village Council:

We have audited the financial statements of the Village of Kelleys Island, Erie County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated June 29, 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 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 opinion 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.auditor.state.oh.us

Village of Kelleys Island
Erie County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 29, 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.

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

Dave Yost
Auditor of State

June 29, 2011

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

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	Material Weakness due to Financial Reporting errors.	No	Partially Corrected – Reissued as a management letter comment.
2008-002	Ohio Rev. Code Section 5705.41(D)(1) – Certification of Expenditures.	Yes	
2008-003	Ohio Rev. Code Section 5705.41(B) – Expenditures Exceeding Appropriations.	Yes	

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VILLAGE OF KELLEYS ISLAND

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
JULY 19, 2011