



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2018 and 2017
Fiscal Years Audited Under GAGAS: 2018 and 2017

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OHIO AUDITOR OF STATE
KEITH FABER



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Village Council
Village of Kelleys Island
PO Box 469
121 Addison Street
Kelleys Island, OH 43438

We have reviewed the *Independent Auditor's Report* of the Village of Kelleys Island, Erie County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2017 through December 31, 2018. 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.

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 Kelleys Island is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

August 15, 2019

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VILLAGE OF KELLEYS ISLAND
ERIECOUNTY

For the Fiscal Years Ended December 31, 2018 and 2017
Table of Contents

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report.....	1
Basic Financial Statements:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types For the Year Ended December 31, 2018.....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Proprietary and Fiduciary Fund Types For the Year Ended December 31, 2018.....	4
Notes to the Financial Statements For the Year Ended December 31, 2018.....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types For the Year Ended December 31, 2017.....	13
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – All Proprietary and Fiduciary Fund Types For the Year Ended December 31, 2017.....	14
Notes to the Financial Statements For the Year Ended December 31, 2017.....	15
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Findings.....	25
Schedule of Prior Audit Findings.....	26

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INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Kelleys Island, Erie County, Ohio (the Village) as of and for the years ended December 31, 2018 and 2017.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018 and 2017, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Kelleys Island, Erie County as of December 31, 2018 and 2017, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2019, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



BHM CPA Group, Inc.
Piketon, Ohio
June 20, 2019

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Permanent	
Cash Receipts:						
Property Taxes	\$ 466,757	\$ 249,519	\$ -	\$ -	\$ -	\$ 716,276
Intergovernmental	97,339	85,986	-	722,525	-	905,850
Special Assessments	-	14,777	-	32,114	-	46,891
Charges for Services	4,150	9,815	-	-	-	13,965
Fines, Licenses, and Permits	43,675	6,411	-	-	-	50,086
Earnings on Investments	15,677	557	-	-	9	16,243
Miscellaneous	181,049	6,811	-	208,948	2,200	399,008
Total Cash Receipts	808,647	373,876	-	963,587	2,209	2,148,319
Cash Disbursements:						
Current:						
Security of Persons and Property	205,782	455	-	-	-	206,237
Public Health Services	1,773	-	-	-	-	1,773
Community Environment	8,559	-	-	-	-	8,559
Transportation	16,660	-	-	-	-	16,660
General Government	331,827	225,266	-	139	-	557,232
Capital Outlay	39,743	146,278	-	864,500	-	1,050,521
Debt Service:						
Redemption of Principal	-	40,211	12,462	112,841	-	165,514
Interest and Fiscal Charges	-	5,957	12,396	3,108	-	21,461
Total Cash Disbursements	604,344	418,167	24,858	980,588	-	2,027,957
Excess of Receipts Over/(Under) Disbursements	204,303	(44,291)	(24,858)	(17,001)	2,209	120,362
Other Financing Receipts (Disbursements):						
Sale of Bonds	-	-	-	95,509	-	95,509
Transfers-In	-	-	24,858	-	-	24,858
Transfers-Out	(24,858)	-	-	-	-	(24,858)
Other Sources	-	3,050	-	-	-	3,050
Other Uses	(100)	-	-	-	-	(100)
Total Other Financing Receipts (Disbursements)	(24,958)	3,050	24,858	95,509	-	98,459
Net Change in Fund Cash Balances	179,345	(41,241)	-	78,508	2,209	218,821
Fund Cash Balances, January 1	216,724	606,731	-	60,974	88,700	973,129
Fund Cash Balances, December 31						
Nonspendable	-	-	-	-	90,909	90,909
Restricted	-	565,490	-	-	-	565,490
Committed	24,858	-	-	114,096	-	138,954
Assigned	1,204	-	-	25,386	-	26,590
Unassigned (Deficit)	370,007	-	-	-	-	370,007
Fund Cash Balances, December 31	\$ 396,069	\$ 565,490	\$ -	\$ 139,482	\$ 90,909	\$ 1,191,950

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 622,383	\$ -	\$ 622,383
Fines, Licenses, and Permits	-	39,560	39,560
Miscellaneous	189	-	189
	<hr/>	<hr/>	<hr/>
Total Operating Cash Receipts	622,572	39,560	662,132
	<hr/>	<hr/>	<hr/>
Operating Cash Disbursements:			
Personal Services	275,770	-	275,770
Travel Transportation	-	-	-
Contractual Services	128,793	38,264	167,057
Supplies and Materials	46,667	-	46,667
Other	9,779	-	9,779
	<hr/>	<hr/>	<hr/>
Total Operating Cash Disbursements	461,009	38,264	499,273
	<hr/>	<hr/>	<hr/>
Operating Income (Loss)	161,563	1,296	162,859
	<hr/>	<hr/>	<hr/>
Non-Operating Receipts (Disbursements)			
Miscellaneous Receipts	111	-	111
Special Assessments	9,516	-	9,516
Capital Outlay	(40,304)	-	(40,304)
Other Financing Sources	4,448	-	4,448
Principal Retirement	(49,191)	-	(49,191)
Interest and Fiscal Charges	(18,348)	-	(18,348)
	<hr/>	<hr/>	<hr/>
Total Non-Operating Cash Receipts (Disbursements)	(93,768)	-	(93,768)
	<hr/>	<hr/>	<hr/>
Income (Loss) before Transfers	67,795	1,296	69,091
	<hr/>	<hr/>	<hr/>
Transfers In	19,730	-	19,730
Transfers Out	(19,730)	-	(19,730)
	<hr/>	<hr/>	<hr/>
Net Change in Fund Cash Balances	67,795	1,296	69,091
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	365,271	4,190	369,461
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 433,066</u>	<u>\$ 5,486</u>	<u>\$ 438,552</u>

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 - Reporting Entity

The Village of Kelleys Island, Erie County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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).

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio, which is a public entity risk pool that provides property and casualty coverage for its members. Note 6 to the financial statements provides additional information for this entity.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds.

Road Construction Fund The road construction fund receives property tax money for construction and repair of roads within the Village.

Firemans Levy Fund The firemans levy fund receives property tax money to provide fire services for the Village.

Capital Project Funds The funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Other Capital Projects Fund The Village received a grant from the state for capital improvements. The proceeds are restricted for capital improvement.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Permanent Funds These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Village's permanent fund receives a portion of proceeds from the sale of cemetery lots for the perpetual care of cemetery lots in the Village's cemetery.

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 Funds

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

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. The Village does not have a private purpose trust fund.

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.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or object of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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 re-appropriated.

A summary of 2018 budgetary activity appears in Note 3.

Capital Assets

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$640,000	\$808,647	\$168,647
Special Revenue	603,541	376,926	(226,615)
Debt Service	27,000	24,858	(2,142)
Capital Projects	985,000	1,056,096	71,096
Enterprise	814,488	656,377	(158,111)
Permanent	3,000	2,209	(791)
Total	\$3,073,029	\$2,925,113	(\$147,916)

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$691,439	\$629,302	\$62,137
Special Revenue	1,416,798	418,167	998,631
Debt Service	27,000	24,858	2,142
Capital Projects	1,019,083	980,588	38,495
Enterprise	1,114,319	588,582	525,737
Total	\$4,268,639	\$2,641,497	\$1,627,142

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 4 – 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:

	<u>2018</u>
Demand deposits	\$498,032
Other time deposits (savings and NOW accounts)	<u>90,708</u>
Total deposits	<u>588,740</u>
STAR Plus	1,041,762
Total investments	<u>1,041,762</u>
Total deposits and investments	<u><u>\$1,630,502</u></u>

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

Note 5 – Taxes

Property Taxes

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

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

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

Resort Tax

The Village levies a resort income 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 6 - Risk Management

Risk Pool Membership

The Village is a member of the Public Entities Pool of Ohio (The Pool). The Pool assumes the risk of loss up to the limits of the Village's policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	2018
Cash and investments	\$ 35,381,789
Actuarial liabilities	\$12,965,015

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. 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, 2018.

Social Security

Several Village employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2018.

Note 8 - Postemployment Benefits

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 4.0 percent during calendar year 2018.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 9 – Debt

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest Rate
OWDA Water Treatment Plant Loan	\$545,553	1.50%
USDA Water System Loan	149,400	6.13%
USDA Airport Improvement Bonds	25,400	4.25%
US Bank - Sweetbriar Road	89,312	3.75%
US Bank - Water Intake	95,509	2.94%
US Bank - Golias Property	325,531	3.73%
Total	\$1,230,705	

The Ohio Water Development Authority (OWDA) loan relates to water system improvements. The Water Treatment Plant Loan was obtained in 2001 and will be repaid in semiannual installments, including interest, over a period of 30 years. This loan is 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 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 voters.

The US Bank Promissory Note – Sweetbriar Road was obtained in 2013 and will be repaid in semiannual installments, including interest, over a period of 10 years. This note was obtained to pay for a road improvement project.

The US Bank Promissory Note – Water Intake was obtained in 2018 and will be repaid in semiannual installments, including interest, over a period of 5 years. This note was obtained to run a pipe for the intake of water from the lake to the water plant.

The US Bank Loan – Golias Property was obtained in 2016 and will be repaid in monthly installments, including interest, over a period of 10 years. This loan was obtained for the purchase of a property.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Amortization

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

Year Ending December 31:	OWDA Water Treatment Loan	USDA Water System Loan	USDA - Airport	US Bank - Sweetbriar Road	US Bank - Water Intake	US Bank - Golias Property
2019	\$44,792	\$51,588	\$26,480	\$19,757	\$21,099	\$24,858
2020	44,792	21,539	0	19,757	21,099	24,858
2021	44,792	21,553	0	19,757	21,099	24,858
2022	44,792	21,524	0	19,757	21,099	24,858
2023	44,792	21,552	0	19,757	21,099	24,858
2024-2028	223,959	107,703	0	0	0	124,288
2029-2033	156,771	43,057	0	0	0	124,288
2034-2038	0	0	0	0	0	74,566
Total	<u>\$604,690</u>	<u>\$288,516</u>	<u>\$26,480</u>	<u>\$98,785</u>	<u>\$105,495</u>	<u>\$447,432</u>

Note 10 – Contingent Liabilities

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

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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**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:					
Property Taxes	\$ 470,325	\$ 263,061	\$ -	\$ -	\$ 733,386
Intergovernmental	93,134	86,589	100,235	-	279,958
Special Assessments	-	16,163	31,411	-	47,574
Charges for Services	2,643	5,750	-	-	8,393
Fines, Licenses, and Permits	49,326	8,095	-	-	57,421
Earnings on Investments	6,008	252	-	9	6,269
Miscellaneous	20,450	7,437	-	2,000	29,887
Total Cash Receipts	<u>641,886</u>	<u>387,347</u>	<u>131,646</u>	<u>2,009</u>	<u>1,162,888</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	240,789	35,423	-	-	276,212
Public Health Services	3,772	54,629	-	-	58,401
Leisure Time Activities	-	1,663	-	-	1,663
Community Environment	10,271	-	-	-	10,271
Transportation	55,584	98,238	-	-	153,822
General Government	351,603	371	-	-	351,974
Capital Outlay	66,161	244,542	104,882	-	415,585
Debt Service:					
Redemption of Principal	12,007	38,723	26,398	-	77,128
Interest and Fiscal Charges	12,851	7,540	4,292	-	24,683
Total Cash Disbursements	<u>753,038</u>	<u>481,129</u>	<u>135,572</u>	<u>-</u>	<u>1,369,739</u>
Excess of Receipts Over/(Under) Disbursements	(111,152)	(93,782)	(3,926)	2,009	(206,851)
Other Financing Receipts (Disbursements):					
Transfers-In		75	-	-	75
Transfers-Out	(75)	-	-	-	(75)
Total Other Financing Receipts (Disbursements)	<u>(75)</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Cash Balances	(111,227)	(93,707)	(3,926)	2,009	(206,851)
Fund Cash Balances, January 1	<u>327,951</u>	<u>700,438</u>	<u>64,900</u>	<u>86,691</u>	<u>1,179,980</u>
Fund Cash Balances, December 31					
Nonspendable	-	-	-	88,700	88,700
Restricted	-	606,731	60,974	-	667,705
Unassigned (Deficit)	216,724	-	-	-	216,724
Fund Cash Balances, December 31	<u>\$ 216,724</u>	<u>\$ 606,731</u>	<u>\$ 60,974</u>	<u>\$ 88,700</u>	<u>\$ 973,129</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>		<u>Agency</u>		
Operating Cash Receipts:					
Charges for Services	\$	611,694	\$	-	\$ 611,694
Fines, Licenses, and Permits		-		38,747	38,747
Miscellaneous		258		-	258
		<u>611,952</u>		<u>38,747</u>	<u>650,699</u>
Operating Cash Disbursements:					
Personal Services		270,853		-	270,853
Travel Transportation		13,238		-	13,238
Contractual Services		114,855		39,918	154,773
Supplies and Materials		59,884		-	59,884
Capital Outlay		50,871		-	50,871
		<u>509,701</u>		<u>39,918</u>	<u>549,619</u>
Operating Income (Loss)		102,251		(1,171)	101,080
Non-Operating Receipts (Disbursements)					
Miscellaneous Receipts		9,434		-	9,434
Interest		1,304		-	1,304
Principal Retirement		(60,316)		-	(60,316)
Interest and Fiscal Charges		(19,461)		-	(19,461)
		<u>(69,039)</u>		<u>-</u>	<u>(69,039)</u>
Income (Loss) before Transfers		33,212		(1,171)	32,041
Transfers In		18,087		-	18,087
Transfers Out		(18,087)		-	(18,087)
Net Change in Fund Cash Balances		33,212		(1,171)	32,041
Fund Cash Balances, January 1		<u>332,059</u>		<u>5,361</u>	<u>337,420</u>
Fund Cash Balances, December 31	\$	<u><u>365,271</u></u>	\$	<u><u>4,190</u></u>	\$ <u><u>369,461</u></u>

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

The Village of Kelleys Island, Erie County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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).

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio, which is a public entity risk pool that provides property and casualty coverage for its members. Note 6 to the financial statements provides additional information for this entity.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds.

Road Construction Fund The road construction fund receives property tax money for construction and repair of roads within the Village.

Firemans Levy Fund The firemans levy fund receives property tax money to provide fire services for the Village.

Capital Project Funds The funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Other Capital Projects Fund The Village received a grant from the state for capital improvements. The proceeds are restricted for capital improvement.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Permanent Funds These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Village's permanent fund receives a portion of proceeds from the sale of cemetery lots for the perpetual care of cemetery lots in the Village's cemetery.

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 Funds

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

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. The Village does not have a private purpose trust fund.

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.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or object of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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 re-appropriated.

A summary of 2017 budgetary activity appears in Note 3.

Capital Assets

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$584,793	\$641,886	\$57,093
Special Revenue	368,975	387,422	18,447
Capital Projects	209,668	131,646	(78,022)
Enterprise	570,769	640,777	70,008
Permanent	1,200	2,009	809
Total	\$1,735,405	\$1,803,740	\$68,335

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$852,575	\$753,113	\$99,462
Special Revenue	683,829	481,129	202,700
Capital Projects	173,471	135,572	37,899
Enterprise	726,323	607,565	118,758
Total	\$2,436,198	\$1,977,379	\$458,819

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – 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:

	<u>2017</u>
Demand deposits	\$232,499
Other time deposits (savings and NOW accounts)	<u>88,499</u>
Total deposits	<u>320,998</u>
STAR Plus	1,021,592
Total investments	<u>1,021,592</u>
Total deposits and investments	<u><u>\$1,342,590</u></u>

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

Note 5 – Taxes

Property Taxes

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

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

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

Resort Tax

The Village levies a resort income 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 - 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. 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 York. 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, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Government's share of these unpaid claims collectible in future years is approximately \$30,000.

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

<u>2017 Contributions to PEP</u> \$ 47,995

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. 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, 2017.

Social Security

Several Village employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Note 8 - Postemployment Benefits

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 4.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Water Treatment Plant Loan	\$581,753	1.50%
USDA Water System Loan	159,300	6.13%
USDA Airport Improvement Bonds	49,700	4.25%
US Bank - Sweetbriar Road	105,225	3.75%
US Bank - Water Intake	115,930	2.94%
US Bank - Golias Property	<u>337,993</u>	3.73%
Total	<u><u>\$1,349,901</u></u>	

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2017

The Ohio Water Development Authority (OWDA) loan relates to water system improvements. The Water Treatment Plant Loan was obtained in 2001 and will be repaid in semiannual installments, including interest, over a period of 30 years. This loan is 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 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 voters.

The US Bank Promissory Note – Sweetbriar Road was obtained in 2013 and will be repaid in semiannual installments, including interest, over a period of 10 years. This note was obtained to pay for a road improvement project.

The US Bank Promissory Note – Water Intake was obtained in 2013 and will be repaid in semiannual installments, including interest, over a period of 5 years. This note was obtained to run a pipe for the intake of water from the lake to the water plant.

The US Bank Loan – Golias Property was obtained in 2016 and will be repaid in monthly installments, including interest, over a period of 10 years. This loan was obtained for the purchase of a property.

Amortization

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

Year Ending December 31:	OWDA Water Treatment Loan	USDA Water System Loan	USDA - Airport	US Bank - Sweetbriar Road	US bank - Water Intake	US Bank - Golias Property
2018	\$44,792	\$21,435	\$26,412	\$19,757	\$34,359	\$24,852
2019	44,792	21,588	26,480	19,757	0	24,852
2020	44,792	21,539	0	19,757	0	24,852
2021	44,792	21,553	0	19,757	0	24,852
2022	44,792	21,524	0	19,757	0	24,852
2023-2027	223,959	107,740	0	19,757	0	124,260
2028-2032	201,563	64,572	0	0	0	99,424
Total	<u>\$649,482</u>	<u>\$279,951</u>	<u>\$52,892</u>	<u>\$118,542</u>	<u>\$34,359</u>	<u>\$347,944</u>

Note 10 – Contingent Liabilities

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

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.



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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Kelleys Island, Erie County, (the Village) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated June 20, 2019 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "BHM CPA Group". The letters are cursive and somewhat stylized.

BHM CPA Group, Inc.
Piketon, Ohio
June 20, 2019

**Village of Kelleys Island
Erie County
Schedule of Findings
December 31, 2018 and 2017**

1. SUMMARY OF AUDITOR'S RESULTS

FINDING NUMBER 2018-001

Financial Reporting – Material Weakness

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2017:

- The Village's annual report submitted via the HINKLE system did not include fund balance classifications set forth in Government Accounting Standards Board Statement No. 54, as the annual report only reported fund balances in total by fund type. General, Special Revenue, Capital Projects and Permanent fund type balances have been reclassified in accordance with the provisions of Governmental Accounting Standards Board Statement No. 54;
- Agency Fund fines, licenses, and permits receipts in the amount of \$38,747 were improperly classified as miscellaneous receipts.
- Capital Projects fund special assessments in the amount of \$31,411 was improperly classified as proceeds of bonds revenue.
- In the Capital Project fund a refund of capital outlay expenditures was improperly classified as a transportation expenses in the amount of \$10,530.

We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2018:

- Capital Projects fund special assessments in the amount of \$32,114 was improperly classified as charges for services revenue.

These errors were not identified and corrected prior to the Village preparing its financial statements due to deficiencies in the Village's internal controls over financial statement monitoring. The accompanying financial statements and notes to the financial statements have been adjusted to reflect these changes. Additional insignificant errors were also noted for the years ended December 31, 2018 and 2017.

To help ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Clerk-Treasurer and Village Council, to help identify and correct errors and omissions. The Clerk-Treasurer can refer to Auditor of State Bulletin 2011-004 at the following website address for information on Governmental Accounting Standards Board Statement No. 54: <http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

Additionally, the Clerk-Treasurer can refer to the Village Officer's Handbook at the following website address for guidance on the recording of transactions: <http://www.ohioauditor.gov/publications/VillageOfficerManual%203-1-18.pdf>.

Client Response: We did not receive a response to this finding.

**Village of Kelleys Island
Erie County
Schedule of Prior Audit Findings
December 31, 2018 and 2017**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	Noncompliance and Material Weakness ORC 5705.10E	Yes	
2016-002	Material Weakness – Financial Reporting	No	Reissued as Finding 2018-001
2016-003	Significant Deficiency – Bank Reconciliations	Yes	

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OHIO AUDITOR OF STATE KEITH FABER



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
AUGUST 29, 2019**