



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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OHIO AUDITOR OF STATE
KEITH FABER



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Village Council
Village of Kelleys Island
P.O. Box 469
Kelleys Island, Ohio 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, 2019 through December 31, 2020. 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 black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 10, 2021

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**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

*For the Years Ended December 31, 2020 and 2019
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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 for each governmental and proprietary fund type and the fiduciary fund type combined total as of and for the year ended December 31, 2020 and for each governmental, proprietary and fiduciary fund type as of and for the year ended December 31, 2019, and related notes of the Village of Kelleys Island, Erie County, Ohio (the Village).

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, 2020 and 2019, and the respective changes in financial position or cash flows 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 for each governmental and proprietary fund type and the fiduciary fund type combined total as of and for the year ended December 31, 2020 and for each governmental, proprietary and fiduciary fund type as of and for the year ended December 31, 2019, and related notes of the Village, 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.

Emphasis of Matter

As discussed in Note 13 to the 2020 financial statements, the financial impact of COVID-19 and the ensuing measures will impact subsequent periods of the Village. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, 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
November 30, 2021

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, 2020

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Permanent	
Cash Receipts						
Property and Other Local Taxes	\$ 563,670	\$ 235,953	\$ -	\$ -	\$ -	\$ 799,623
Intergovernmental	99,330	148,523	-	48,614	-	296,467
Special Assessments	-	17,067	-	67,622	-	84,689
Charges for Services	-	18,011	-	-	-	18,011
Fines, Licenses and Permits	28,426	909	-	-	-	29,335
Earnings on Investments	5,185	483	-	-	8	5,676
Miscellaneous	9,514	3,486	-	200	400	13,600
<i>Total Cash Receipts</i>	<u>706,125</u>	<u>424,432</u>	<u>-</u>	<u>116,436</u>	<u>408</u>	<u>1,247,401</u>
Cash Disbursements						
Current:						
Security of Persons and Property	300,130	98,727	-	-	-	398,857
Public Health Services	585	4,293	-	-	643	5,521
Leisure Time Activities	-	3,737	-	-	-	3,737
Community Environment	8,183	-	-	-	-	8,183
Basic Utility Services	-	82,407	-	-	-	82,407
Transportation	-	52,495	-	-	-	52,495
General Government	388,367	36,745	-	-	-	425,112
Capital Outlay	-	4,111	-	48,613	-	52,724
Debt Service:						
Principal Retirement	-	17,148	13,207	-	-	30,355
Interest and Fiscal Charges	-	2,608	10,651	1,300	-	14,559
<i>Total Cash Disbursements</i>	<u>697,265</u>	<u>302,271</u>	<u>23,858</u>	<u>49,913</u>	<u>643</u>	<u>1,073,950</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	8,860	122,161	(23,858)	66,523	(235)	173,451
Other Financing Receipts (Disbursements)						
Loan Proceeds		-	-	190,000	-	190,000
Transfers In	15,000	416	26,875	26,452	-	68,743
Transfers Out	(27,864)	(26,452)	-	-	-	(54,316)
Other Financing Uses	-	(12,596)	-	-	-	(12,596)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(12,864)</u>	<u>(38,632)</u>	<u>26,875</u>	<u>216,452</u>	<u>-</u>	<u>191,831</u>
Extraordinary Item	217	-	-	-	-	217
<i>Net Change in Fund Cash Balances</i>	(3,787)	83,529	3,017	282,975	(235)	365,499
<i>Fund Cash Balances, January 1 As Restated - Note 14</i>	<u>357,917</u>	<u>690,604</u>	<u>2,071</u>	<u>113,845</u>	<u>95,917</u>	<u>1,260,354</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 354,130</u>	<u>\$ 774,133</u>	<u>\$ 5,088</u>	<u>\$ 396,820</u>	<u>\$ 95,682</u>	<u>\$ 1,625,853</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 Fund Types
For the Year Ended December 31, 2020

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$ 645,771
Miscellaneous	1,235
	647,006
<i>Total Operating Cash Receipts</i>	<i>647,006</i>
Operating Cash Disbursements	
Personal Services	208,262
Employee Fringe Benefits	58,832
Contractual Services	267,471
Supplies and Materials	105,442
Other	562
	640,569
<i>Total Operating Cash Disbursements</i>	<i>640,569</i>
<i>Operating Income (Loss)</i>	<i>6,437</i>
Non-Operating Receipts (Disbursements)	
Special Assessments	34,750
Earnings on Investments	630
Miscellaneous Receipts	30,031
Capital Outlay	(11,735)
Principal Retirement	(102,716)
Interest and Other Fiscal Charges	(22,803)
	(71,844)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(71,844)</i>
<i>Income (Loss) before Transfers</i>	<i>(65,407)</i>
Transfers In	45,826
Transfers Out	(60,253)
	(14,427)
<i>Net Change in Fund Cash Balances</i>	<i>(14,427)</i>
<i>Fund Cash Balances, January 1</i>	<i>512,998</i>
<i>Fund Cash Balances, December 31</i>	<i>\$ 433,165</i>

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

Village of Kelleys Island
Erie County
*Combined Statement of Additions, Deductions
and Changes in Fund Balances (Regulatory Cash Basis)*
All Fiduciary Fund Types
For the Year Ended December 31, 2020

	Fiduciary Fund Type
	Custodial
Additions	
Fines, Licenses and Permits for Distribution	\$ 15,712
<i>Total Additions</i>	15,712
Deductions	
Other Distributions	19,056
<i>Total Deductions</i>	19,056
<i>Net Change in Fund Balances</i>	(3,344)
<i>Fund Cash Balances, January 1</i>	10,505
<i>Fund Cash Balances, December 31</i>	\$ 7,161

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, 2020

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.

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

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 fund types and a combined statement of additions, deductions and changes in fund balances (regulatory cash basis) all fiduciary fund types which are all 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 Fund 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.

Sweetbriar Assessments Fund The sweetbriar assessments fund accounts for and reports that portion of the special assessments for the purpose of retiring principal and interest charges.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 2 – Summary of Significant Accounting Policies (continued)

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

Golias Debt Service Fund The golias debt service fund accounts for and reports that portion of interfund transfers for the purpose of retiring principal and interest charges.

Capital Project Fund These 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:

Airport Improvement t-FAA Fund The airport improvement fund accounts for and reports moneys for public agencies for the planning, rehabilitation, and development of public use airports.

MFM Assessment Fund The MFM assessment fund accounts for and reports moneys charged for services to use on overall general transportation for the Village.

Permanent Fund 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 had the following significant Permanent Fund:

Cemetery Trust Fund The cemetery endowment fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of the Village's cemetery.

Enterprise Fund 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 Operating Fund The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Water Intake Debt Fund The water intake debt fund accounts for and reports that portion of the charges for services restricted for the purpose of retiring principal and interest charges.

Custodial Fund Custodial funds are purely custodial in nature and used to report fiduciary activity that is not required to be reported in a trust fund. The Village's custodial fund accounts for mayor's court activities.

For regulatory purposes, certain own source revenues are permitted to flow through clearing funds presented as custodial funds. The amounts distributed to the other funds of the entity are identified on the combined statement of additions, deductions and changes in fund balances (regulatory cash basis) all fiduciary fund types. Also, for regulatory purposes, certain deposits and clearing funds are permitted to be presented as custodial funds.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 2 – Summary of Significant Accounting Policies (continued)

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 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 disbursements 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 (except certain custodial funds) be budgeted annually.

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

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 reappropriated.

A summary of 2020 budgetary activity appears in Note 3.

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.

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.

Accumulated Leave

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 2 – Summary of Significant Accounting Policies (continued)

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. For regulatory purposes nonspendable fund balance includes unclaimed monies that are required to be held for five years before they may be utilized by the Village and the nonexpendable portion of the corpus in permanent funds.

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 (ordinance or resolution). The Village must adhere to these commitments unless Council amends the ordinance or 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. For regulatory purposes, assigned fund balance in the general fund is limited to encumbrances outstanding at year end.

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.

For regulatory purposes, limited disclosure related to fund balance is included in Note 11.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 3 – Budgetary Activity

Budgetary activity for the year ended December 31, 2020 follows:

2020 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 671,433	\$ 721,342	\$ 49,909
Special Revenue	414,034	424,848	10,814
Debt Service	44,389	26,875	(17,514)
Capital Projects	390,000	332,888	(57,112)
Permanent	15,100	408	(14,692)
Enterprise	852,624	758,243	(94,381)

2020 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 770,300	\$ 727,664	\$ 42,636
Special Revenue	732,894	406,171	326,723
Debt Service	26,000	23,858	2,142
Capital Projects	411,200	198,371	212,829
Permanent	10,000	643	9,357
Enterprise	1,126,000	838,076	287,924

Note 4 – Deposits

To improve cash management, cash received by the Village is pooled. Monies for all funds are maintained in this pool. The Ohio Revised Code prescribes allowable deposits. A summary of the Village's deposits are as follows:

	2020
<i>Cash Management Pool:</i>	
Demand deposits	\$993,860
Total deposits	993,860
STAR Plus	1,072,319
Total investments	1,072,319
Total carrying amount of deposits and investments held in the Pool	\$2,066,179

The Village does not use a separate payroll clearing account. The expenditures included in the accompanying financial statement reflect net payroll plus all remitted payroll withholdings. At December 31, 2020, the Village did not have any unremitted withholdings.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 4 – Deposits (continued)

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Village; or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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% 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.

Lodging Tax

The Village levies a local lodging tax of 2% which began to be collected in 2020. The County is responsible for collecting and distributing all lodging taxes on behalf of the Village.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

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:

	<u>2020</u>
Cash and investments	\$ 40,318,971
Actuarial liabilities	14,111,510

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Settled claims have not exceeded insurance coverage in any of the past three years. Coverage limits have not changed significantly since last year.

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some of 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 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, 2020.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 7 – Defined Benefit Pension Plans (continued)

Social Security

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

Employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants’ gross salaries. The Village has paid all contributions required through December 31, 2020.

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 OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2020. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2020.

Note 9 – Debt

Debt outstanding at December 31, 2020 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA #3525 Water Treatment Plant Loan	\$ 471,507	1.50%
OWDA #8091 Water Treatment Plant Improvements	317,879	0.90%
USDA Water System Loan	127,600	6.13%
US Bank - Sweetbriar Road	55,533	3.75%
US Bank - Water Intake	59,392	3.70%
US Bank - Golias Property	300,050	3.73%
Civista Bank-MFM Road Project	190,000	4.78%
Total	<u>\$ 1,521,961</u>	

The Ohio Water Development Authority (OWDA) loan #3525 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 Ohio Water Development Authority (OWDA) loan #8091 relates to water system improvements. The Water Treatment Plant Improvements Loan was obtained in 2019 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 9 – Debt (continued)

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

The Civista Bank Loan- MFM Road Project was obtained in 2020 and will be repaid in nineteen payments of \$12,041.88 each payment and an irregular last payment. The Village’s first payment is due March 16, 2021, and all subsequent payments are due on the same day of each half-year after that. The Village’s final payment will be due September 16, 2030.

Amortization

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

Year ending	USDA Water	US Bank	US Bank	US Bank	Civista
December 31:	OWDA	Systems	Sweetbriar	Water	Bank MFM
2021	\$ 83,722	\$ 14,542	\$ 18,714	\$ 20,012	\$ 20,981
2022	83,722	14,542	18,714	20,012	20,980
2023	83,722	14,542	18,714	20,011	20,981
2024	83,722	14,542	-	-	20,980
2025	83,722	14,542	-	-	20,981
2026-2030	360,215	58,169	-	-	94,413
2031-2035	67,188	-	-	-	-
Total	<u>\$ 846,013</u>	<u>\$ 130,879</u>	<u>\$ 56,142</u>	<u>\$ 60,035</u>	<u>\$ 199,316</u>

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Village’s financial condition.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 11 – Fund Balances

Included in fund balance are amounts the Village cannot spend, including the unexpendable corpus of the permanent funds. Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the balances of these amounts were as follows:

Fund Balances	General	Special Revenue	Capital Projects	Permanent	Total
Nonspendable:					
Corpus	\$ -	\$ -	\$ -	\$ 95,682	\$ 95,682
Outstanding encumbrances	2,535	64,852	148,458	-	215,845
	<u>\$ 2,535</u>	<u>\$ 64,852</u>	<u>\$ 148,458</u>	<u>\$ 95,682</u>	<u>\$ 311,527</u>

The fund balance of special revenue funds is either restricted or committed. The fund balance of debt service funds and capital projects fund are restricted committed or assigned. The fund balance of permanent funds that is not part of the nonspendable corpus is either restricted or committed. These restricted, committed and assigned amounts in the special revenue, debt service, capital projects and permanent funds would include the outstanding encumbrances. In the general fund, outstanding encumbrances would be considered assigned.

Note 12 – Change in Accounting Principles

For 2020, the Village has made changes to their cash basis reporting model. These changes include modifications to the definition of fiduciary funds, adding a separate Combined Statement of Additions, Deductions and Changes in Fund Balances (Regulatory Cash Basis) -- All Fiduciary Fund Types, and removing the fund balance classifications from the Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types. There was no effect on the beginning fund balance.

Note 13 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Village. The Village’s investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the Village’s future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

Note 14 – Beginning Balance Restatement

The beginning balance of the General Fund was restated as follows:

General Fund Balance, January 1, 2020- As previously stated	\$ 357,967
Unrecorded payment from prior period	(50)
General Fund Balance, January 1, 2020- Restated	<u>\$ 357,917</u>

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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, 2019

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Permanent	
Cash Receipts						
Property and Other Local Taxes	\$ 497,153	\$ 253,895	\$ -	\$ -	\$ -	\$ 751,048
Intergovernmental	96,024	98,146	-	-	-	194,170
Special Assessments	-	17,457	-	-	-	17,457
Charges for Services	200	15,100	-	-	-	15,300
Fines, Licenses and Permits	45,424	6,841	-	-	-	52,265
Earnings on Investments	19,049	438	-	-	8	19,495
Miscellaneous	13,583	1,115	-	-	5,000	19,698
<i>Total Cash Receipts</i>	671,433	392,992	-	-	5,008	1,069,433
Cash Disbursements						
Current:						
Security of Persons and Property	236,274	93,469	-	-	-	329,743
Public Health Services	1,649	8	-	-	-	1,657
Leisure Time Activities	-	260	-	-	-	260
Community Environment	7,476	-	-	-	-	7,476
Transportation	38,165	104,295	-	-	-	142,460
General Government	358,249	4,880	-	339	-	363,468
Capital Outlay	8,722	37,912	-	10,700	-	57,334
Debt Service:						
Principal Retirement	-	42,031	12,273	-	-	54,304
Interest and Fiscal Charges	-	4,666	14,656	-	-	19,322
<i>Total Cash Disbursements</i>	650,535	287,521	26,929	11,039	-	976,024
<i>Excess of Receipts Over (Under) Disbursements</i>	20,898	105,471	(26,929)	(11,039)	5,008	93,409
Other Financing Receipts (Disbursements)						
Transfers In	-	30,000	29,000	-	-	59,000
Transfers Out	(59,000)	-	-	-	-	(59,000)
<i>Total Other Financing Receipts (Disbursements)</i>	(59,000)	30,000	29,000	-	-	-
<i>Net Change in Fund Cash Balances</i>	(38,102)	135,471	2,071	(11,039)	5,008	93,409
<i>Fund Cash Balances, January 1 As Restated - Note 11</i>	396,069	554,635	-	124,884	90,909	1,166,497
Fund Cash Balances, December 31						
Nonspendable	-	-	-	-	95,900	95,900
Restricted	-	691,355	-	-	17	691,372
Committed	-	-	2,071	113,757	-	115,828
Assigned	5,704	-	-	88	-	5,792
Unassigned	352,263	(1,249)	-	-	-	351,014
<i>Fund Cash Balances, December 31</i>	<u>\$ 357,967</u>	<u>\$ 690,106</u>	<u>\$ 2,071</u>	<u>\$ 113,845</u>	<u>\$ 95,917</u>	<u>\$ 1,259,906</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, 2019

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Custodial	
Operating Cash Receipts			
Charges for Services	\$ 598,647	\$ -	\$ 598,647
Fines, Licenses and Permits	-	49,316	49,316
Miscellaneous	6,113	-	6,113
<i>Total Operating Cash Receipts</i>	604,760	49,316	654,076
Operating Cash Disbursements			
Personal Services	261,284	-	261,284
Employee Fringe Benefits	12,781	-	12,781
Contractual Services	138,171	-	138,171
Supplies and Materials	52,332	-	52,332
Payments to Another Government	-	44,297	44,297
<i>Total Operating Cash Disbursements</i>	464,568	44,297	508,865
<i>Operating Income (Loss)</i>	140,192	5,019	145,211
Non-Operating Receipts (Disbursements)			
Special Assessments	32,758	-	32,758
Earnings on Investments	5,210	-	5,210
Other Debt Proceeds	371,500	-	371,500
Capital Outlay	(379,216)	-	(379,216)
Principal Retirement	(82,869)	-	(82,869)
Interest and Other Fiscal Charges	(22,241)	-	(22,241)
<i>Total Non-Operating Receipts (Disbursements)</i>	(74,858)	-	(74,858)
<i>Income (Loss) before Transfers</i>	65,334	5,019	70,353
Transfers In	19,731	-	19,731
Transfers Out	(19,731)	-	(19,731)
<i>Net Change in Fund Cash Balances</i>	65,334	5,019	70,353
<i>Fund Cash Balances, January 1 As Restated - Note 11</i>	447,664	5,486	453,150
<i>Fund Cash Balances, December 31</i>	\$ 512,998	\$ 10,505	\$ 523,503

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, 2019

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.

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

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 the 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:

Street Maintenance Fund The street maintenance fund accounts for and reports the receipt of intergovernmental money and gasoline tax and motor vehicle tax monies for the purpose of maintaining Village roads.

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

Medical Service Fund The medical service fund accounts for and reports the receipt of property tax money for the purpose of providing medical services to the residents of the Village.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Capital Project Funds These funds account for and report financial resources that are restricted 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 Fund:

Police Donation Fund The police donation fund accounts for and reports the receipt of donations for the purpose of purchasing police vehicles.

Permanent Fund 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 Village's programs (for the benefit of the Village or its citizenry). The Village had the following significant Permanent Fund:

Cemetery Trust Fund The cemetery endowment fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of 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 Fund:

Water Fund The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Water Intake Project Fund The water intake project fund accounts for and reports special assessment money for the purpose of repaying debt.

Fiduciary Funds Fiduciary funds include custodial funds. Custodial funds are used to report fiduciary activity that is not required to be reported in a trust fund. The Village's custodial fund accounts for mayor's court activities.

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 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 disbursements 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 (except certain custodial funds) be budgeted annually.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Appropriations Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level 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 reappropriated.

A summary of 2019 budgetary activity appears in Note 3.

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.

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.

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. The Village classifies unclaimed monies as nonspendable in the general fund.

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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Committed Council can commit amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless Council amends the ordinance or 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 Council or a Village official delegated that authority by resolution, or by State Statute. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget in the general fund.

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ended December 31, 2019 follows:

2019 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 628,000	\$ 671,433	\$ 43,433
Special Revenue	367,550	422,992	55,442
Debt Service	11,707	29,000	17,293
Capital Projects	-	-	-
Permanent	2,200	5,008	2,808
Enterprise	708,568	1,033,959	325,391

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 3 – Budgetary Activity (continued)

2019 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 742,417	\$ 709,535	\$ 32,882
Special Revenue	497,383	287,521	209,862
Debt Service	52,200	26,929	25,271
Capital Projects	14,643	11,039	3,604
Permanent	14,000	-	14,000
Enterprise	1,089,120	968,625	120,495

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:

	2019
Demand deposits	\$ 717,307
STAR Plus	1,066,102
Total deposits	\$ 1,783,409

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Village; or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution

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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 5 – Taxes (continued)

Resort Tax

The Village levies a resort income tax of 1.5% 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.

Lodging Tax

The Village levies a local lodging tax of 2% which began to be collected in 2019. The County is responsible for collecting and distributing all lodging taxes on behalf of the Village.

Note 6 – Risk Management

Risk Pool Membership

The Village is a member of the Public Entities Pool of Ohio (PEP). 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:

	<u>2019</u>
Cash and investments	\$ 35,381,789
Actuarial liabilities	12,965,015

Commercial Insurance

The Village’s airport is not covered under the risk pool membership above and has obtained commercial insurance for the following risks:

- Comprehensive property and general liability; and
- Vehicles

Settled claims have not exceeded this insurance coverage in any of the past three years and there has been no significant decrease to coverage limits in the past year.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Most Village 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, 2019.

Social Security

All of the Village’s firefighters, EMS personnel and Council members contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants’ gross salaries. The Village has paid all contributions required through December 31, 2019.

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 OPERS members in the Traditional Pension Plan and Combined Plan was 0% during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2019.

Note 9 – Debt

Debt outstanding at December 31, 2019 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA #3525 Water Treatment Plant Loan	\$ 508,806	1.50%
OWDA #8091 Water Treatment Plant Improvements	353,707	0.90%
USDA Water System Loan	138,800	6.13%
US Bank - Sweetbriar Road	72,681	3.75%
US Bank - Water Intake	77,781	2.94%
US Bank - Golias Property	313,257	3.73%
Total	<u>\$ 1,465,032</u>	

The Ohio Water Development Authority (OWDA) loan #3525 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 9 – Debt (continued)

The Ohio Water Development Authority (OWDA) loan #8091 relates to water system improvements. The Water Treatment Plant Improvements Loan was obtained in 2019 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 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

Amortization

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

Year ending December 31:	OWDA	USDA Water Systems	US Bank Sweetbriar	US Bank Water	US Bank Golias
2020	\$ 83,722	\$ 21,539	\$ 19,757	\$ 21,099	\$ 24,858
2021	83,722	21,553	19,757	21,099	24,858
2022	83,722	21,524	19,757	21,099	24,858
2023	83,722	21,552	19,757	21,099	24,858
2024	83,722	21,552	-	-	24,858
2025-2029	399,145	107,703	-	-	124,288
2030-2034	111,979	21,505	-	-	124,288
2035-2039	-	-	-	-	49,708
Total	<u>\$ 929,734</u>	<u>\$ 236,928</u>	<u>\$ 79,028</u>	<u>\$ 84,396</u>	<u>\$ 422,574</u>

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Village’s financial condition.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 11 – Prior Period Adjustment

During the Village’s previous audit, beginning fund balance adjustments were incorrectly posted resulting in an overstatement of beginning fund balance for 2018. Funds were also misclassified by fund type. These adjustments have been posted to the beginning balance of the 2019 financial statements to correct the error, which resulted in the following prior period adjustment:

	Special Revenue Fund	Capital Projects Fund	Enterprise Fund
Fund Balance, December 31, 2018	\$ 565,490	\$ 139,482	\$ 433,066
Adjustments, Net	(10,855)	(14,598)	14,598
Restated Fund Balance, January 1, 2019	<u>\$ 554,635</u>	<u>\$ 124,884</u>	<u>\$ 447,664</u>



**INDEPENDENT AUDITOR'S 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, 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 for each governmental and proprietary fund type and the fiduciary fund type combined total as of and for the year ended December 31, 2020 and for each governmental, proprietary and fiduciary fund type as of and for the year ended December 31, 2019, and related notes of the Village of Kelleys Island, Erie County, (the Village) and have issued our report thereon dated November 30, 2021, 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. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions 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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2020-001 and 2020-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statements. 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
November 30, 2021

**Village of Kelleys Island
Erie County
Schedule of Findings
December 31, 2020 and 2019**

1. SUMMARY OF AUDITOR'S RESULTS

FINDING NUMBER 2020-001

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 misstatements in the following areas requiring adjustment to the financial statements and/or notes to the financial statements for the years ended December 31, 2020 and 2019:

- Charges for Services Receipts
- Special Assessments Receipts
- Earnings on Investments Receipts
- Fines, Licenses and Permits Receipts
- Miscellaneous Receipts
- Proceeds of Loan
- Principal Disbursements
- Interest Disbursements
- General Government Disbursements
- Other Financing Uses
- Transfers In
- Transfers Out
- Fund Type Classifications
- Numerous corrections and updates were posted to disclosures.

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, 2020 and 2019.

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.

Additionally, the Clerk-Treasurer can refer to the Village Officer's Handbook at the following website address for guidance on the recording of transactions: <https://ohioauditor.gov/publications/Village%20Officers%20Manual.pdf>.

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

FINDING NUMBER 2020-002

Material Weakness – Bank Reconciliations

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.

**Village of Kelleys Island
Erie County
Schedule of Findings
December 31, 2020 and 2019**

**FINDING NUMBER 2020-002
(continued)**

Bank reconciliations are a key internal control procedure and should be performed by the Village on a monthly basis and reviewed and approved by someone other than the preparer. The Village did not perform accurate bank to book reconciliations for the year ended December 31, 2020.

These deficiencies were due to a lack of internal control policies and procedures over monitoring bank reconciliations. The lack of an accurate reconciliation could allow for misappropriation of assets and/or financial errors to occur and go undetected.

We recommend the Clerk-Treasurer reconcile all bank accounts to the accounting system. This process should also include a detailed review in order to help ensure its accuracy and completeness. In this process all reconciling items and/or errors should be identified and included on the face of the reconciliation. All unreconciled balances should be researched in order to determine the source(s) of the error(s). All errors identified during the reconciliation process should be corrected on the Village's accounting system following the completion of the reconciliation. Additionally, the Village Council should review the monthly reconciliation, including agreement of reported amounts to underlying support (such as original bank statements, subsequent month redemption of checks, accounting system balances, etc.) as part of its review of monthly financial reports. Evidence of these reviews should also be documented.

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

**Village of Kelleys Island
Erie County
Schedule of Prior Audit Findings
December 31, 2020 and 2019**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2018-001	Financial Reporting – Material Weakness	No	Reissued as Finding 2020-001

OHIO AUDITOR OF STATE KEITH FABER



VILLAGE OF KELLEYS ISLAND

ERIE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 12/23/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov