



Dave Yost • Auditor of State

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2016	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, 2016	4
Notes to the Financial Statements - For the Year Ended December 31, 2016	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2015	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, 2015	14
Notes to the Financial Statements - For the Year Ended December 31, 2015	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

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Kelleys Island
Erie County, Ohio
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, 2016 and 2015.

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, 2016 and 2015, 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 by fund type, and related notes of the Village of Kelleys Island, Erie County, Ohio as of December 31, 2016 and 2015, 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 April 18, 2018, 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.



Dave Yost
Auditor of State

Columbus, Ohio

April 18, 2018

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, 2016

	General	Special Revenue	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$410,939	\$250,769			\$661,708
Intergovernmental	108,747	87,804	\$238,996		435,547
Special Assessments		16,787	29,963		46,750
Charges for Services	11,159	5,800			16,959
Fines, Licenses and Permits	36,442	7,765			44,207
Earnings on Investments	3,110	127		\$9	3,246
Miscellaneous	4,847	3,917		1,600	10,364
<i>Total Cash Receipts</i>	<u>575,244</u>	<u>372,969</u>	<u>268,959</u>	<u>1,609</u>	<u>1,218,781</u>
Cash Disbursements					
Current:					
Security of Persons and Property	225,189	40,995			266,184
Public Health Services	2,054	51,770			53,824
Leisure Time Activities		3,028			3,028
Community Environment	11,878				11,878
Transportation	51,157	94,375			145,532
General Government	324,853	10,883			335,736
Capital Outlay	111,060	566,436	561,977		1,239,473
Debt Service:					
Principal Retirement		46,216	38,717		84,933
<i>Total Cash Disbursements</i>	<u>726,191</u>	<u>813,703</u>	<u>600,694</u>		<u>2,140,588</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(150,947)</u>	<u>(440,734)</u>	<u>(331,735)</u>	<u>1,609</u>	<u>(921,807)</u>
Other Financing Receipts (Disbursements)					
Loans Issued			350,000		350,000
Transfers-In		36			36
Transfers-Out	(36)				(36)
Other Financing Uses	(50)	(2,400)			(2,450)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(86)</u>	<u>(2,364)</u>	<u>350,000</u>		<u>347,550</u>
<i>Net Changes in Fund Cash Balances</i>	<u>(151,033)</u>	<u>(443,098)</u>	<u>18,265</u>	<u>1,609</u>	<u>(574,257)</u>
<i>Fund Cash Balances, January 1</i>	<u>478,984</u>	<u>1,143,536</u>	<u>46,635</u>	<u>85,082</u>	<u>1,754,237</u>
Fund Cash Balances, December 31					
Nonspendable				86,691	86,691
Restricted		700,438	64,900		765,338
Assigned	269,282				269,282
Unassigned	58,669				58,669
<i>Fund Cash Balances, December 31</i>	<u>\$327,951</u>	<u>\$700,438</u>	<u>\$64,900</u>	<u>\$86,691</u>	<u>\$1,179,980</u>

See accompanying notes to the financial statements

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, 2016*

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$570,718		\$570,718
Fines, Licenses, and Permits		\$41,919	41,919
Miscellaneous	245		245
<i>Total Operating Cash Receipts</i>	<u>570,963</u>	<u>41,919</u>	<u>612,882</u>
Operating Cash Disbursements			
Personal Services	246,679		246,679
Travel Transportation	9,804		9,804
Contractual Services	74,048	41,044	115,092
Supplies and Materials	62,171		62,171
Capital Outlay	58,825		58,825
<i>Total Operating Cash Disbursements</i>	<u>451,527</u>	<u>41,044</u>	<u>492,571</u>
<i>Operating Income</i>	<u>119,436</u>	<u>875</u>	<u>120,311</u>
Non-Operating Receipts (Disbursements)			
Earnings on Investments	427		427
Miscellaneous Receipts	10,157		10,157
Principal Retirement	(49,470)		(49,470)
Interest and Other Fiscal Charges	(20,529)		(20,529)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(59,415)</u>		<u>(59,415)</u>
<i>Income before Transfers</i>	60,021	875	60,896
Transfers In	19,731		19,731
Transfers Out	(19,731)		(19,731)
<i>Net Changes in Fund Cash Balances</i>	60,021	875	60,896
<i>Fund Cash Balances, January 1</i>	<u>272,038</u>	<u>4,486</u>	<u>276,524</u>
<i>Fund Cash Balances, December 31</i>	<u>\$332,059</u>	<u>\$5,361</u>	<u>\$337,420</u>

See accompanying notes to the financial statements

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 to expenditure for specified purposes other than 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 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:

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, 2016

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 Fund:

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 Rev. Code Section 117.38 and Ohio Admin. 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 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 Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 2016 budgetary activity appears in Note 3.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

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, 2016

Note 3 - Budgetary Activity

Budgetary activity for the year ended December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$427,957	\$575,244	\$147,287
Special Revenue	481,308	373,005	(108,303)
Capital Projects	690,000	618,959	(71,041)
Permanent	1,200	1,609	409
Enterprise	445,475	601,278	155,803
Total	\$2,045,940	\$2,170,095	\$124,155

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$812,879	\$739,999	\$72,880
Special Revenue	1,123,315	816,742	306,573
Capital Projects	724,900	717,919	6,981
Enterprise	649,961	594,653	55,308
Total	\$3,311,055	\$2,869,313	\$441,742

Note 4 – Deposits

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

	2016
Demand deposits	(\$28,450)
Other time deposits (savings accounts)	531,579
STAR Plus	1,014,071
Cash on Hand	200
Total deposits	\$1,517,400

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Note 6 - Risk Management

Risk Pool Membership

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

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

The Village 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, 2016, 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Financial Position

PEP’s financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool’s membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Village’s share of these unpaid claims collectible in future years is approximately \$28,000.

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>2016 Contributions to PEP</u>
\$44,406

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

Some 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, 2016.

Social Security

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

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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, 2016.

Note 8 - Postemployment Benefits

OPERS offers 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 2.0 percent during calendar year 2016.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
OWDA Water Treatment Plan Loan	\$617,417	1.50%
USDA Water System Loan	168,700	6.13%
USDA Airport Improvement Bonds	73,100	4.25%
US Bank Promissory Note - Sweetbriar Road	120,547	3.75%
US Bank Promissory Note - Water Intake	157,581	2.94%
US Bank Loan - Golias Property	350,000	3.73%
Total	\$1,487,345	

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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Amortization

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

Year Ending December 31:	OWDA Water Treatment Plant Loan	USDA Water System Loan	US Bank Promissory Note - Sweetbriar Road	US Bank Promissory Note - Water Intake	US Bank Loan - Golias Property
2017	\$44,792	\$21,539	\$19,757	\$34,359	\$41,988
2018	44,792	21,553	19,757	161,292	41,988
2019	44,792	21,524	19,757		41,988
2020	44,792	21,552	19,757		41,988
2021	44,792	21,532	19,757		41,988
2022-2026	223,960	107,685	39,514		209,940
2027-2031	223,960	21,543			
2032	22,396				
Total	<u>\$694,276</u>	<u>\$236,928</u>	<u>\$138,299</u>	<u>\$195,651</u>	<u>\$419,880</u>

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

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.

Note 11 – Miscellaneous Receipts

During 2015, Permanent Fund miscellaneous receipts consisted of allocations from the sale of cemetery lots as authorized under Ohio Rev. Code § 759.12.

Note 12 - Compliance

Contrary to Ohio law, the Village did not post debt proceeds to the proper fund.

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, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts					
Property and Other Local Taxes	\$431,949	\$253,396			\$685,345
Intergovernmental	92,987	87,409			180,396
Special Assessments		16,776	\$29,129		45,905
Charges for Services	2,950	4,800			7,750
Fines, Licenses and Permits	28,643	5,807			34,450
Earnings on Investments	1,899	37		\$8	1,944
Miscellaneous	23,058	14,027		1,200	38,285
<i>Total Cash Receipts</i>	<u>581,486</u>	<u>382,252</u>	<u>29,129</u>	<u>1,208</u>	<u>994,075</u>
Cash Disbursements					
Current:					
Security of Persons and Property	200,553	31,240			231,793
Public Health Services	1,764	54,692			56,456
Leisure Time Activities	12	567			579
Community Environment	9,240				9,240
Transportation	45,505	113,982			159,487
General Government	310,477	1,644			312,121
Capital Outlay	20,648	72,820	5,100		98,568
Debt Service:					
Principal Retirement		46,230	41,117		87,347
Interest and Fiscal Charges			3,135		3,135
<i>Total Cash Disbursements</i>	<u>588,199</u>	<u>321,175</u>	<u>49,352</u>	<u>1,208</u>	<u>958,726</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(6,713)</u>	<u>61,077</u>	<u>(20,223)</u>	<u>1,208</u>	<u>35,349</u>
Other Financing Disbursements					
Other Financing Uses	(42)	(149)			(191)
<i>Net Changes in Fund Cash Balances</i>	(6,755)	60,928	(20,223)	1,208	35,158
<i>Fund Cash Balances, January 1</i>	<u>485,739</u>	<u>1,082,608</u>	<u>66,858</u>	<u>83,874</u>	<u>1,719,079</u>
Fund Cash Balances, December 31					
Nonspendable				85,082	85,082
Restricted		1,143,536	46,635		1,190,171
Assigned	478,984				478,984
<i>Fund Cash Balances, December 31</i>	<u>\$478,984</u>	<u>\$1,143,536</u>	<u>\$46,635</u>	<u>\$85,082</u>	<u>\$1,754,237</u>

See accompanying notes to the financial statements

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, 2015*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts			
Charges for Services	\$385,491		\$385,491
Fines, Licenses, and Permits		\$26,392	26,392
<i>Total Operating Cash Receipts</i>	<u>385,491</u>	<u>26,392</u>	<u>411,883</u>
Operating Cash Disbursements			
Personal Services	195,220		195,220
Travel Transportation	8,462		8,462
Contractual Services	112,459	26,292	138,751
Supplies and Materials	47,004		47,004
Capital Outlay	15,153		15,153
<i>Total Operating Cash Disbursements</i>	<u>378,298</u>	<u>26,292</u>	<u>404,590</u>
<i>Operating Income</i>	<u>7,193</u>	<u>100</u>	<u>7,293</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	41,540		41,540
Earnings on Investments	181		181
Miscellaneous Receipts	362		362
Principal Retirement	(58,466)		(58,466)
Interest and Other Fiscal Charges	(22,474)		(22,474)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(38,857)</u>		<u>(38,857)</u>
<i>Income (Loss) before Transfers</i>	<u>(31,664)</u>	<u>100</u>	<u>(31,564)</u>
Transfers In	19,731		19,731
Transfers Out	(19,731)		(19,731)
<i>Net Changes in Fund Cash Balances</i>	<u>(31,664)</u>	<u>100</u>	<u>(31,564)</u>
<i>Fund Cash Balances, January 1</i>	<u>303,702</u>	<u>4,386</u>	<u>308,088</u>
<i>Fund Cash Balances, December 31</i>	<u>\$272,038</u>	<u>\$4,486</u>	<u>\$276,524</u>

See accompanying notes to the financial statements

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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 to expenditure for specified purposes other than 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.

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

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:

Water Intake Fund The water intake fund receives special assessment revenues to pay off the debt service associated with a water intake improvement project.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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 Fund:

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 Rev. Code Section 117.38 and Ohio Admin. 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 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 Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 2015 budgetary activity appears in Note 3.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

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, 2015

Note 3 - Budgetary Activity

Budgetary activity for the year ended December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$549,543	\$581,486	\$31,943
Special Revenue	382,757	382,252	(505)
Capital Projects	1,052,400	29,129	(1,023,271)
Permanent	500	1,208	708
Enterprise	434,771	447,305	12,534
Total	\$2,419,971	\$1,441,380	(\$978,591)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$663,403	\$596,819	\$66,584
Special Revenue	1,180,963	581,057	599,906
Capital Projects	636,103	49,352	586,751
Enterprise	517,877	483,608	34,269
Total	\$2,998,346	\$1,710,836	\$1,287,510

Note 4 – Deposits

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

	2015
Demand deposits	(\$30,520)
Other time deposits (savings accounts)	1,050,838
STAR Plus	1,010,243
Cash on hand	200
Total deposits	\$2,030,761

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

Note 6 - Risk Management

Risk Pool Membership

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

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

The Village 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, 2015, 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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Financial Position

PEP’s financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015:

	<u>2015</u>
Assets	\$38,307,677
Liabilities	<u>(12,759,127)</u>
Net Position	<u>\$25,548,550</u>

At December 31, 2015, the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$11.0 million of unpaid claims to be billed. The Pool’s membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village’s share of these unpaid claims collectible in future years is approximately \$26,000.

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>2015 Contributions to PEP</u>
\$40,914

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

Some 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, 2015.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Social Security

Several of the Village's employees and officials 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, 2015.

Note 8 - Postemployment Benefits

OPERS offers 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 2.0 percent during calendar year 2015.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Water Treatment Plant Loan	\$652,551	1.50%
USDA Water System Loan	177,500	6.13%
USDA Airport Improvement Bonds	95,500	4.25%
US Bank Promissory Note - Sweetbriar Road	135,293	3.75%
US Bank Promissory Note - Water Intake	191,290	2.94%
Total	<u>\$1,252,134</u>	

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.

Village of Kelleys Island
Erie County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Amortization

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

Year Ending December 31:	OWDA Water Treatment Plant Loan	USDA Water System Loan	US Bank - Sweetbriar	US Bank - Water Intake
2016	\$44,792	\$21,588	\$19,757	\$34,358
2017	44,792	21,539	19,757	34,358
2018	44,792	21,553	19,756	161,292
2019	44,792	21,524	19,757	
2020	44,792	21,552	19,757	
2021-2025	223,960	107,704	59,271	
2026-2030	223,960	43,056		
2031-2032	67,188			
Total	<u>\$739,068</u>	<u>\$258,516</u>	<u>\$158,054</u>	<u>\$230,008</u>

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

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.

Note 11 – Miscellaneous Receipts

During 2015, Permanent Fund miscellaneous receipts consisted of allocations from the sale of cemetery lots as authorized under Ohio Rev. Code § 759.12.



Dave Yost • Auditor of State

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, Ohio
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 Village of Kelleys Island, Erie County, Ohio, (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated April 18, 2018 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

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 a 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. We consider findings 2016-001 and 2016-002 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-003 described in the accompanying schedule of findings to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Village's Response to Findings

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

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.



Dave Yost
Auditor of State

Columbus, Ohio

April 18, 2018

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015

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

FINDING NUMBER 2016-001

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(E) provides, in part, that all proceeds from the sale of public obligations as defined in section 133.01 of the Ohio Rev. Code, except premium and accrued interest, shall be paid into a special fund for the purpose of such issue.

Ohio Rev. Code § 133.01(GG) defines public obligations as:

- 1) Securities;
- 2) Obligations of a public issuer to make payments under installment sale, lease, lease purchase, or similar agreements, which obligations may bear interest or interest equivalent.

Ohio Rev. Code § 133.01(KK) defines "securities," in pertinent part, as bonds, notes, certificates of indebtedness, commercial paper, and other instruments in writing, including, unless the context does not admit, anticipatory securities, issued by an issuer to evidence its obligation to repay money borrowed, or to pay interest, by, or to pay at any future time other money obligations of, the issuer of the securities.

The Village entered into a loan in the amount of \$350,000 during the year ended December 31, 2016 for the purchase of property. However, the loan proceeds were incorrectly placed into the general fund rather than a separate capital projects fund.

This error was the result of inadequate policies and procedures over posting debt transactions. The accompanying financial statements and notes to the financial statements were adjusted to properly reflect the debt proceeds and corresponding capital outlay disbursement, including authorized budget amounts, in the Capital Project Fund Type. 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.

Officials' Response:

In 2018 proceeds from debt and debt payments will utilize debt service funds and capital projects will use capital projects funds.

FINDING NUMBER 2016-002

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, 2016:

**FINDING NUMBER 2016-002
(CONTINUED)**

- 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;
- Special Revenue Fund Type intergovernmental receipts, capital outlay disbursements, and related budgeted amounts for estimated receipts and appropriations each in the amount of \$160,000 were reduced in order to properly account for Ohio Public Works Commission grant activity in the Capital Projects Fund Type;
- Special Revenue Fund Type budgeted expenditures (appropriations) were increased in the amount of \$54,593 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and
- Agency Fund fines, licenses, and permits receipts in the amount of \$41,919 were improperly classified as miscellaneous receipts.

We also identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- 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;
- Special Revenue Fund Type budgeted expenditures (expenditures) were decreased in the amount of \$128,932 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts;
- Capital Projects Fund Type special assessments receipts in the amount of \$29,129 were improperly classified as sale of bonds receipts;
- Capital Projects Fund Type estimated receipts and budgeted expenditures (appropriations) were increased and decreased in the amount of \$272,000 and \$140,275, respectively, in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts;
- Enterprise Fund Type special assessments receipts in the amount of \$40,291 were improperly classified as miscellaneous receipts;
- Enterprise Fund Type budgeted expenditures were decreased in the amount of \$47,134 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and
- Agency Fund fines, licenses, and permits receipts in the amount of \$26,392 were improperly classified as miscellaneous receipts.

**FINDING NUMBER 2016-002
(CONTINUED)**

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, 2016 and 2015.

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>.

Officials' Response:

Find Balance classifications will be done for the 2018 Annual Report.

FINDING NUMBER 2016-003

Significant Deficiency – 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.

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 during 2015 or 2016. When the 2016 fiscal year-end reconciliation was audited, it was determined that outstanding checks were not reviewed to determine if they should be removed from listing, as checks remained on the outstanding check listing that had previously cleared the bank dating back to March of 2014. The total payroll and non-payroll checks incorrectly included in the December 31, 2016 reconciliation as outstanding checks totaled \$3,018 and \$8,410, respectively.

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.

**FINDING NUMBER 2016-003
(CONTINUED)**

We recommend the Clerk-Treasurer reconcile all bank accounts to the accounting system. This process should also include a detailed review of the outstanding check listing 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.

Officials' Response:

Realizing that more time was needed on bank reconciliations and in order to provide the Village with more than one person handling the budgetary accounts, a part-time position was created to do all the bank reconciliations except Mayor's Court. The position was staffed in April 2017.



Dave Yost • Auditor of State

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
MAY 10, 2018