



**Auditor of State
Betty Montgomery**

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

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**Auditor of State
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 20, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Kelleys Island, Erie County, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audits to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village

has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Kelleys Island, Erie County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.



Betty Montgomery
Auditor of State

September 20, 2005

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$349,345	\$210,223		\$559,568
Special Assessments		2,867		2,867
Intergovernmental Receipts	131,172	79,876	\$90,095	301,143
Charges for Services	1,750	17,350		19,100
Fines, Licenses, and Permits	71,921	9,014		80,935
Earnings on Investments	10,573	1,204		11,777
Miscellaneous	22,881	1,603	30	24,514
	<u>587,642</u>	<u>322,137</u>	<u>90,125</u>	<u>999,904</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	159,186	12,462		171,648
Public Health Services		35,780		35,780
Leisure Time Activities	199			199
Community Environment	9,122			9,122
Transportation	66,679	44,377		111,056
General Government	228,655			228,655
Debt Service:				
Principal Payments		43,916		43,916
Capital Outlay	46,542	35,219	88,605	170,366
	<u>510,383</u>	<u>171,754</u>	<u>88,605</u>	<u>770,742</u>
Total Receipts Over/(Under) Disbursements	<u>77,259</u>	<u>150,383</u>	<u>1,520</u>	<u>229,162</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		398		398
Advances-In			20,000	20,000
Transfers-Out	(398)			(398)
Advances-Out		(20,000)		(20,000)
Other (Uses)		(2,125)		(2,125)
	<u>(398)</u>	<u>(21,727)</u>	<u>20,000</u>	<u>(2,125)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	76,861	128,656	21,520	227,037
Fund Cash Balances, January 1	585,960	436,041		1,022,001
Fund Cash Balances, December 31	<u>\$662,821</u>	<u>\$564,697</u>	<u>\$21,520</u>	<u>\$1,249,038</u>
Reserves for Encumbrances, December 31	<u>\$10,304</u>	<u>\$73</u>	<u>\$40,804</u>	<u>\$51,181</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$278,991			\$278,991
Miscellaneous		\$5,600		5,600
Total Operating Cash Receipts	<u>278,991</u>	<u>5,600</u>		<u>284,591</u>
Operating Cash Disbursements:				
Personal Services	122,283			122,283
Travel Transportation	1,726			1,726
Contractual Services	53,021		\$63,190	116,211
Supplies and Materials	24,571			24,571
Capital Outlay	48,494			48,494
Total Operating Cash Disbursements	<u>250,095</u>		<u>63,190</u>	<u>313,285</u>
Operating Income/(Loss)	<u>28,896</u>	<u>5,600</u>	<u>(63,190)</u>	<u>(28,694)</u>
Non-Operating Cash Receipts:				
Special Assessments	34,368			34,368
Intergovernmental Receipts	20,352			20,352
Earnings on Investment	1,460	546		2,006
Other Sources	81		67,955	68,036
Total Non-Operating Cash Receipts	<u>56,261</u>	<u>546</u>	<u>67,955</u>	<u>124,762</u>
Non-Operating Cash Disbursements:				
Debt Service	<u>97,424</u>			<u>97,424</u>
Total Non-Operating Cash Disbursements	<u>97,424</u>			<u>97,424</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(12,267)	6,146	4,765	(1,356)
Transfers-In	19,731			19,731
Transfers-Out	<u>(19,731)</u>			<u>(19,731)</u>
Net Receipts Over/(Under) Disbursements	(12,267)	6,146	4,765	(1,356)
Fund Cash Balances, January 1	<u>171,831</u>	<u>50,445</u>	<u>2,644</u>	<u>224,920</u>
Fund Cash Balances, December 31	<u>\$159,564</u>	<u>\$56,591</u>	<u>\$7,409</u>	<u>\$223,564</u>
Reserve for Encumbrances, December 31	<u>\$2,621</u>			<u>\$2,621</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$215,449	\$198,256		\$413,705
Special Assessments		3,082		3,082
Intergovernmental Receipts	98,797	75,058		173,855
Charges for Services	1,750	3,200		4,950
Fines, Licenses, and Permits	58,673	7,656		66,329
Earnings on Investments	8,423	900		9,323
Miscellaneous	17,842	1,812		19,654
	<u>400,934</u>	<u>289,964</u>		<u>690,898</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	137,432	20,510		157,942
Public Health Services		32,607		32,607
Leisure Time Activities	144			144
Community Environment	10,737			10,737
Transportation	73,258	37,311		110,569
General Government	174,123			174,123
Debt Service:				
Principal Payments		41,591		41,591
Capital Outlay	30,994	101,819		132,813
	<u>426,688</u>	<u>233,838</u>		<u>660,526</u>
Total Receipts Over/(Under) Disbursements	<u>(25,754)</u>	<u>56,126</u>		<u>30,372</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		612		612
Advances-In	50,000			50,000
Transfers-Out	(612)		(\$10,670)	(11,282)
Advances-Out		(50,000)		(50,000)
Other Sources	9			9
	<u>49,397</u>	<u>(49,388)</u>	<u>(10,670)</u>	<u>(10,661)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	23,643	6,738	(10,670)	19,711
Fund Cash Balances, January 1	562,317	429,303	10,670	1,002,290
Fund Cash Balances, December 31	<u>\$585,960</u>	<u>\$436,041</u>		<u>\$1,022,001</u>
Reserves for Encumbrances, December 31	<u>\$12,111</u>	<u>\$4,378</u>		<u>\$16,489</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$256,475			\$256,475
Miscellaneous	1,851	\$2,064		3,915
Total Operating Cash Receipts	<u>258,326</u>	<u>2,064</u>		<u>260,390</u>
Operating Cash Disbursements:				
Personal Services	118,062			118,062
Travel Transportation	875			875
Contractual Services	61,864		\$35,058	96,922
Supplies and Materials	36,261			36,261
Capital Outlay	56,653			56,653
Total Operating Cash Disbursements	<u>273,715</u>		<u>35,058</u>	<u>308,773</u>
Operating Income/(Loss)	<u>(15,389)</u>	<u>2,064</u>	<u>(35,058)</u>	<u>(48,383)</u>
Non-Operating Cash Receipts:				
Special Assessments	32,208			32,208
Intergovernmental Receipts	400			400
Earnings on Investment	1,986	366		2,352
Other Non-Operating Receipts			74,213	74,213
Total Non-Operating Cash Receipts	<u>34,594</u>	<u>366</u>	<u>74,213</u>	<u>109,173</u>
Non-Operating Cash Disbursements:				
Debt Service	97,658			97,658
Other Non-Operating Cash Disbursements			37,001	37,001
Total Non-Operating Cash Disbursements	<u>97,658</u>		<u>37,001</u>	<u>134,659</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(78,453)	2,430	2,154	(73,869)
Transfers-In	36,144			36,144
Transfers-Out	(25,474)			(25,474)
Net Receipts Over/(Under) Disbursements	(67,783)	2,430	2,154	(63,199)
Fund Cash Balances, January 1	<u>239,614</u>	<u>48,015</u>	<u>490</u>	<u>288,119</u>
Fund Cash Balances, December 31	<u>\$171,831</u>	<u>\$50,445</u>	<u>\$2,644</u>	<u>\$224,920</u>
Reserve for Encumbrances, December 31	<u>\$4,580</u>			<u>\$4,580</u>

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Kelleys Island, Erie County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general governmental services, including water utilities, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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

B. Basis of Accounting

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

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant special revenue funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

Road Construction Fund -This fund receives tax and special assessment funds for construction and repair of roads within the Village.

Fireman's Levy Fund -This fund receives tax revenue to provide fire protection services for the Village.

Medical Service Fund -This fund receives tax revenue to provide emergency medical service protection services for the Village.

3. Capital Project Funds

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

OPWC Issue II Fund - This fund is used to account for revenues and expenditures associated with an Issue II road project within the Village.

Airport Resurfacing Fund - This fund receives grant revenue to provide for airport improvement.

4. Enterprise Funds

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

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

5. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Cemetery Trust Fund - This fund receives donations and interest to be used for maintenance of the cemetery.

Mayor's Court Agency - This fund is used to account for the activity of the Mayor's Court.

E. Budgetary Process

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, department level for the General Fund and fund level for all other funds, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$1,472,602	\$1,246,921

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$449,999	\$587,642	\$137,643
Special Revenue	259,451	322,535	63,084
Capital Projects	150,000	90,125	(59,875)
Enterprise	318,763	354,983	36,220
Fiduciary	2,500	6,146	3,646
Total	<u>\$1,180,713</u>	<u>\$1,361,431</u>	<u>\$180,718</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$808,111	\$521,085	\$287,026
Special Revenue	365,818	173,952	191,866
Capital Projects	150,000	129,409	20,591
Enterprise	409,069	369,871	39,198
Total	<u>\$1,732,998</u>	<u>\$1,194,317</u>	<u>\$538,681</u>

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$461,206	\$400,943	(\$60,263)
Special Revenue	319,890	290,576	(29,314)
Capital Projects	150,000	0	(150,000)
Enterprise	305,025	329,064	24,039
Fiduciary	4,500	2,430	(2,070)
Total	<u>\$1,240,621</u>	<u>\$1,023,013</u>	<u>(\$217,608)</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$799,804	\$439,411	\$360,393
Special Revenue	398,926	238,216	160,710
Capital Projects	160,670	10,670	150,000
Enterprise	455,620	401,427	54,193
Fiduciary	2,500	0	2,500
Total	<u>\$1,817,520</u>	<u>\$1,089,724</u>	<u>\$727,796</u>

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX

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

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Water Line Project Loan	\$243,570	5.90%
OWDA Water Treatment Plant Loan	991,775	1.50%
USDA Water System Loan	246,800	6.125%
USDA Fire Truck Loan	72,900	5%
OPWC Road Project Loan	48,090	0%
Total	<u>\$1,603,135</u>	

The Ohio Water Development Authority (OWDA) water line project loan will be repaid in semiannual installments of \$32,937, including interest, over 20 years. The OWDA loan for the water treatment plant water line project loan will be repaid in semiannual installments of \$22,404, including interest over 30 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The USDA water system loan relates to water system improvements for rural development. The loan was originally taken for \$317,000 and will be repaid in annual installments over 40 years. The USDA fire truck loan was obtained for the purchase of a new fire truck and will be repaid in annual installments over 5 years. The OPWC loan relates to a road improvement project and will be repaid in semiannual installments of \$2.405 over 12 years.

The Village's taxing authority collateralizes General Obligation Bonds.

Amortization of the above debt, including interest, follows:

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

Year ending December 31:	OWDA Water Line Project Loan	OWDA Water Treatment Plant Loan	USDA Water System Loan	USDA Fire Truck Loan	OPWC Road Project Loan
2005	\$25,752	\$37,369	\$19,717	\$39,154	\$4,809
2006	32,936	44,807	19,735	39,118	4,809
2007	32,937	44,807	19,735		4,809
2008	32,936	44,807	19,716		4,809
2009	32,937	44,807	19,679		4,809
2010-2014	164,682	224,035	98,577		24,045
2015-2019		224,035	98,493		
2020-2024		224,235	98,514		
2025-2029		224,037	88,798		
2030-2032		89,615			
Total	<u>\$322,180</u>	<u>\$1,202,554</u>	<u>\$482,964</u>	<u>\$78,272</u>	<u>\$48,090</u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Risk Pool Membership

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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	(16,989,918)	(12,872,985)
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	(544,771)	(792,061)
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>

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**Auditor of State
Betty Montgomery**

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

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

To the Village Council:

We have audited the financial statements of the Village of Kelleys Island, Erie County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 20, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated September 20, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express an opinion. The results of our tests disclosed

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

no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated September 20, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 20, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
OCTOBER 11, 2005**