



**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2000	3
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, 2000	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1999	5
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, 1999	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	19

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Kelleys Island
Erie County
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 (the Village) as of and for the years ended December 31, 2000 and 1999. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 as of December 31, 2000 and 1999, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of the audit committee, management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

September 6, 2001

**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, 2000**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property Tax and Other Local Taxes	\$309,963	\$164,999			\$474,962
Special Assessments		11,954			11,954
Intergovernmental Receipts	133,706	87,227		\$12,042	232,975
Charges for Services	1,600	7,467			9,067
Fines, Licenses, and Permits	69,442	10,379			79,821
Miscellaneous	65,587	3,835			69,422
	580,298	285,861		12,042	878,201
Cash Disbursements:					
Current:					
Security of Persons and Property	93,870	101,584			195,454
Public Health Services	2,801	28,201			31,002
Leisure Time Activities	1,241				1,241
Community Environment	20,765				20,765
Basic Utility Services	3,310				3,310
Transportation	85,205	45,063			130,268
General Government	209,854				209,854
Debt Service:					
Principal Payments		8,269	\$4,100		12,369
Interest Payments		1,073	344		1,417
Capital Outlay	38,820	176,936		26,445	242,201
	455,866	361,126	4,444	26,445	847,881
Total Receipts Over/(Under) Disbursements	124,432	(75,265)	(4,444)	(14,403)	30,320
Other Financing Receipts/(Disbursements):					
Transfers-In		16,576	4,444		21,020
Advances-In	25,193				25,193
Transfers-Out	(21,020)				(21,020)
Advances-Out		(25,193)			(25,193)
Other Financing Uses	(7)	(700)			(707)
	4,166	(9,317)	4,444		(707)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	128,598	(84,582)		(14,403)	29,613
Fund Cash Balances, January 1	489,649	623,482		64,938	1,178,069
Fund Cash Balances, December 31	\$618,247	\$538,900		\$50,535	\$1,207,682
Reserves for Encumbrances, December 31	\$25,630	\$5,526		\$58,452	\$89,608

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, 2000**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$188,465			\$188,465
Miscellaneous	30,830	\$3,088		33,918
Total Operating Cash Receipts	219,295	3,088		222,383
Operating Cash Disbursements:				
Personal Services	77,745			77,745
Fringe Benefits	832			832
Contractual Services	35,854			35,854
Supplies and Materials	25,624			25,624
Total Operating Cash Disbursements	140,055			140,055
Operating Income	79,240	3,088		82,328
Non-Operating Cash Receipts:				
Intergovernmental Receipts	400			400
Other Non-Operating Receipts	48,331		\$97,420	145,751
Total Non-Operating Cash Receipts	48,731		97,420	146,151
Non-Operating Cash Disbursements:				
Debt Service	62,869			62,869
Other Non-Operating Cash Disbursements			107,913	107,913
Total Non-Operating Cash Disbursements	62,869		107,913	170,782
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	65,102	3,088	(10,493)	57,697
Transfers-In	47,122			47,122
Transfers-Out	(47,122)			(47,122)
Net Receipts Over/(Under) Disbursements	65,102	3,088	(10,493)	57,697
Fund Cash Balances, January 1	291,691	39,947	15,152	346,790
Fund Cash Balances, December 31	\$356,793	\$43,035	\$4,659	\$404,487
Reserve for Encumbrances, December 31	\$937			\$937

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, 1999**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property Tax and Other Local Taxes	\$372,623	\$266,322			\$638,945
Special Assessments		18,812			18,812
Intergovernmental Receipts	132,788	84,297		\$28,557	245,642
Charges for Services	2,032	5,120			7,152
Fines, Licenses, and Permits	83,660	8,455			92,115
Miscellaneous	44,551	64,164			108,715
	635,654	447,170		28,557	1,111,381
Cash Disbursements:					
Current:					
Security of Persons and Property	88,771	82,290			171,061
Public Health Services		26,741			26,741
Leisure Time Activities	617				617
Community Environment	6,054				6,054
Transportation	56,484	55,423			111,907
General Government	181,675				181,675
Debt Service:					
Principal Payments		36,354	\$4,100		40,454
Interest Payments		2,182	665		2,847
Capital Outlay	27,147	56,558		33,619	117,324
	360,748	259,548	4,765	33,619	658,680
Total Receipts Over/(Under) Disbursements	274,906	187,622	(4,765)	(5,062)	452,701
Other Financing Receipts/(Disbursements):					
Transfers-In		9,106	4,765	70,000	83,871
Advances-In	10,000	27,193			37,193
Transfers-Out	(16,802)	(5,000)			(21,802)
Advances-Out	(25,193)	(12,000)			(37,193)
	(31,995)	19,299	4,765	70,000	62,069
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	242,911	206,921		64,938	514,770
Fund Cash Balances, January 1	246,738	416,561			663,299
Fund Cash Balances, December 31	\$489,649	\$623,482		\$64,938	\$1,178,069
Reserves for Encumbrances, December 31	\$9,093	\$2,836		\$15,804	\$27,733

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, 1999**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$278,323			\$278,323
Miscellaneous	33,262	\$1,959		35,221
Total Operating Cash Receipts	311,585	1,959		313,544
Operating Cash Disbursements:				
Personal Services	72,693			72,693
Fringe Benefits	1,552			1,552
Contractual Services	58,972			58,972
Supplies and Materials	17,716			17,716
Capital Outlay	48,055			48,055
Total Operating Cash Disbursements	198,988			198,988
Operating Income	112,597	1,959		114,556
Non-Operating Cash Receipts:				
Intergovernmental Receipts	2,586			2,586
Other Non-Operating Receipts	9,486		\$94,346	103,832
Total Non-Operating Cash Receipts	12,072		94,346	106,418
Non-Operating Cash Disbursements:				
Debt Service	62,843			62,843
Other Non-Operating Cash Disbursements			82,176	82,176
Total Non-Operating Cash Disbursements	62,843		82,176	145,019
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	61,826	1,959	12,170	75,955
Transfers-In	45,321			45,321
Transfers-Out	(107,390)			(107,390)
Net Receipts Over/(Under) Disbursements	(243)	1,959	12,170	13,886
Fund Cash Balances, January 1	291,934	37,988	2,982	332,904
Fund Cash Balances, December 31	\$291,691	\$39,947	\$15,152	\$346,790
Reserve for Encumbrances, December 31	\$157			\$157

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, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Kelleys Island, Erie County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to 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:

Police Levy Fund -This fund receives property tax money which is used for police department operations.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

Medical Service Fund - This fund receives tax money which is used for provision of medical emergency services in the Village.

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

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service fund:

Levy Debt Service Fund - This fund receives money transferred from the general fund to repay a commercial loan for maintenance on the Dwelle House.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

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

5. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Transfer Station Fund - This fund receives fees to be used for refuse removal from the Village.

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified 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 that are used for maintenance of the cemetery.

Health Insurance Agency - This fund receives transfers of money used to pay for employees health insurance.

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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 2000 and 1999 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

	<u>2000</u>	<u>1999</u>
Demand deposits	\$74,169	\$46,859
Certificates of deposit	<u>400,000</u>	<u>400,000</u>
Total deposits	474,169	446,859
Repurchase Agreement	<u>1,138,000</u>	<u>1,078,000</u>
Total deposits and investments	<u><u>\$1,612,169</u></u>	<u><u>\$1,524,859</u></u>

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

Investments: The repurchase agreements are held in book-entry form by the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000 and 1999 follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$805,470	\$580,298	(\$225,172)
Special Revenue	249,834	302,437	52,603
Debt Service	30,800	4,444	(26,356)
Capital Projects	237,759	12,042	(225,717)
Enterprise	1,382,595	315,148	(1,067,447)
Fiduciary	<u>600</u>	<u>3,088</u>	<u>2,488</u>
Total	<u><u>\$2,707,058</u></u>	<u><u>\$1,217,457</u></u>	<u><u>(\$1,489,601)</u></u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,010,727	\$502,523	\$508,204
Special Revenue	512,855	367,352	145,503
Debt Service	30,800	4,444	26,356
Capital Projects	302,564	84,897	217,667
Enterprise	<u>1,329,611</u>	<u>250,983</u>	<u>1,078,628</u>
Total	<u><u>\$3,186,557</u></u>	<u><u>\$1,210,199</u></u>	<u><u>\$1,976,358</u></u>

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$447,371	\$635,654	\$188,283
Special Revenue	431,186	456,276	25,090
Debt Service	5,102	4,765	(337)
Capital Projects		98,557	98,557
Enterprise	1,452,050	368,978	(1,083,072)
Fiduciary	3,000	1,959	(1,041)
Total	<u>\$2,338,709</u>	<u>\$1,566,189</u>	<u>(\$772,520)</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$495,804	\$386,643	\$109,161
Special Revenue	578,233	267,384	310,849
Debt Service	5,102	4,765	337
Capital Projects	110,000	49,423	60,577
Enterprise	1,341,651	369,378	972,273
Fiduciary	3,000	3,000	3,000
Total	<u>\$2,533,790</u>	<u>\$1,077,593</u>	<u>\$1,456,197</u>

The variances between budgeted receipts and actual receipts and appropriation authority and budgetary expenditures in the Enterprise fund type are associated with a significant project that the Village had anticipated being undertaken, however, no action was taken on this project during either of the fiscal years. The Village did not properly certify all expenditures as required by Ohio law.

4. PROPERTY TAX

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

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

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

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

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. DEBT

Debt outstanding at December 31, 2000 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$308,051	5.90%
Water System Loan 1	115,311	6.00%
Water System Loan 2	292,600	6.13%
Police Car Loan	1,893	9.25%
1997 Taurus Auto Loan	7,012	8.05%
Total	<u>\$724,867</u>	

The Ohio Water Development Authority (OWDA) loan relates to an assessed water line project. The loans will be repaid in semiannual installments of \$32,937, including interest, over 20 years. The two water system loans related to water system improvements for rural development. These loans were originally taken for a total of \$445,000 and will be repaid in annual installments over 40 years.

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

Year ending December 31:	OWDA Loan	Water System Loan 1	Water System Loan 2	Police Car Loan	1997 Taurus Auto Loan
2001	\$32,937	8,580	21,521	\$1,935	\$4,714
2002	32,937	8,590	21,501		2,750
2003	32,937	8,594	21,569		
2004	32,937	8,592	21,517		
2005	32,937	8,584	21,554		
Subsequent	296,433	214,170	538,603		
Total	<u>\$461,118</u>	<u>\$257,110</u>	<u>\$646,265</u>	<u>\$1,935</u>	<u>\$7,464</u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2000 and 1999, members of OP&F contributed 10% of their wages to the OP&F. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% and 10.84% of participants' gross salaries for 1999 and 2000, respectively. The Village has paid all contributions required through December 31, 2000.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

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 insurance 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 Insurance

PEP retains casualty risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured with APEEP 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.

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 Insurance

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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 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>2000</u>	<u>1999</u>
Assets	\$17,112,129	\$15,295,389
Liabilities	<u>7,715,035</u>	<u>6,636,543</u>
Retained earnings	<u>\$9,397,094</u>	<u>\$8,658,846</u>
<u>Property Coverage</u>	<u>2000</u>	<u>1999</u>
Assets	\$1,575,614	\$1,118,222
Liabilities	<u>281,561</u>	<u>279,871</u>
Retained earnings	<u>\$1,294,053</u>	<u>\$838,351</u>

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

8. COMPLIANCE

The Village Mayor's Court did not maintain a docket as required by Ohio law. The Village did not properly certify expenditures as required by Ohio law.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Kelleys Island
Erie County
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 (the Village) as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated September 6, 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30522-001 and 2000-30522-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated September 6, 2001.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Village in a separate letter dated September 6, 2001.

Village of Kelleys Island
Erie County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

September 6, 2001

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999

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

FINDING NUMBER 2000-30522-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

In 66% of the transactions selected for examination the certification was not made prior to the expenditure being incurred and neither exception provided for above was used. The failure to certify the availability of funds may result in funds being expended in excess of amounts available resulting in deficit fund balances.

FINDING NUMBER 2000-30522-002

Noncompliance Citation

Ohio Revised Code § 1905.21 states that the mayor of a mayor's court magistrate shall keep a docket. The mayor shall account for and dispose of all such fines, forfeitures, fees, and costs collected. All moneys collected shall be paid by the mayor into the municipality on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury. The results of our testing of the mayor's court indicated no docket was being maintained. The failure to maintain a proper docket may result in the inability of the court to adequately match payments to the proper cases.

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**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000 AND 1999**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-30522-001	Ohio Revised Code § 2743.70 failure to collect required court costs	Yes	
1998-30522-002	Ohio Revised Code § 2949.091 failure to collect required court costs	Yes	
1998-30522-003	Ohio Revised Code § 1905.21 failure to maintain a court docket	No	Not Corrected
1998-30522-004	Mayor's Court not performing monthly account reconciliations	Yes	



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OFFICE OF THE AUDITOR

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VILLAGE OF KELLEYS ISLAND

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 25, 2001**