



**Auditor of State
Betty Montgomery**

VILLAGE OF KELLEYS ISLAND
ERIE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002.....	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, 2002.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2001.....	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, 2001.....	6
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Prior Audit Findings	17

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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, 2002 and 2001. 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, 2002 and 2001, 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 June 12, 2003 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.

Village of Kelleys Island
Erie County
Independent Accountants' Report
Page 2

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.

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

Betty Montgomery
Auditor of State

June 12, 2003

**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, 2002**

	<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	\$238,689	\$213,577		\$452,266
Special Assessments		499,904		499,904
Intergovernmental Receipts	109,366	4,041	\$204,994	318,401
Charges for Services	2,500	6,100		8,600
Fines, Licenses, and Permits	52,430	6,832		59,262
Earnings on Investments	12,301	1,088		13,389
Miscellaneous	7,558	1,600		9,158
Total Cash Receipts	<u>422,844</u>	<u>733,142</u>	<u>204,994</u>	<u>1,360,980</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	113,003	38,805		151,808
Public Health Services		28,282		28,282
Leisure Time Activities	549			549
Community Environment	20,945			20,945
Transportation	63,894	26,823		90,717
General Government	183,668			183,668
Debt Service:				
Principal Payments		35,118		35,118
Interest Payments		8,330		8,330
Capital Outlay	21,779	784,286	204,994	1,011,059
Total Cash Disbursements	<u>403,838</u>	<u>921,644</u>	<u>204,994</u>	<u>1,530,476</u>
Total Receipts Over/(Under) Disbursements	<u>19,006</u>	<u>(188,502)</u>		<u>(169,496)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		1,359		1,359
Advances-In	5,000	50,000		55,000
Transfers-Out	(1,359)			(1,359)
Advances-Out	(50,000)	(5,000)		(55,000)
Other Financing Uses	(20)	(300)		(320)
Total Other Financing Receipts/(Disbursements)	<u>(46,379)</u>	<u>46,059</u>		<u>(320)</u>
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts and Other Financing Receipts	(27,373)	(142,443)		(169,816)
Fund Cash Balances, January 1	589,690	571,746	10,670	1,172,106
Fund Cash Balances, December 31	<u><u>\$562,317</u></u>	<u><u>\$429,303</u></u>	<u><u>\$10,670</u></u>	<u><u>\$1,002,290</u></u>
Reserves for Encumbrances, December 31	<u><u>\$6,454</u></u>	<u><u>\$25,319</u></u>		<u><u>\$31,773</u></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, 2002**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$240,607			\$240,607
Miscellaneous		\$1,600		1,600
Total Operating Cash Receipts	240,607	1,600		242,207
Operating Cash Disbursements:				
Personal Services	125,313			125,313
Fringe Benefits	1,256			1,256
Contractual Services	48,051		\$297	48,348
Supplies and Materials	24,222			24,222
Capital Outlay	799,925			799,925
Total Operating Cash Disbursements	998,767		297	999,064
Operating Income/(Loss)	(758,160)	1,600		(756,857)
Non-Operating Cash Receipts:				
Intergovernmental Receipts	918,243			918,243
Other Non-Operating Receipts	36,703	2,795	82,835	122,333
Total Non-Operating Cash Receipts	954,946	2,795	82,835	1,040,576
Non-Operating Cash Disbursements:				
Debt Service	97,943			97,943
Other Non-Operating Cash Disbursements			81,142	81,142
Total Non-Operating Cash Disbursements	97,943		81,142	179,085
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	98,843	4,395	1,693	104,634
Transfers-In	12,548			12,548
Transfers-Out	(12,548)			(12,548)
Net Receipts Over Disbursements	98,843	4,395	1,693	104,634
Fund Cash Balances, January 1	140,770	43,620	(906)	183,484
Fund Cash Balances, December 31	\$239,613	\$48,015	\$787	\$288,118
Reserve for Encumbrances, December 31	\$10,607			\$10,607

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, 2001**

	<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	\$193,606	\$256,598		\$450,204
Special Assessments		3,286		3,286
Intergovernmental Receipts	151,021	136,314	\$72,307	359,642
Charges for Services	2,100	4,690		6,790
Fines, Licenses, and Permits	40,269	8,737		49,006
Earnings on Investments	34,197	1,834		36,031
Miscellaneous	1,696	2,462		4,158
	<u>422,889</u>	<u>413,921</u>	<u>72,307</u>	<u>909,117</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	88,253	58,346		146,599
Public Health Services		22,801		22,801
Leisure Time Activities	366			366
Community Environment	36,398			36,398
Transportation	89,826	41,953		131,779
General Government	178,158			178,158
Debt Service:				
Principal Payments		6,199		6,199
Interest Payments		381		381
Capital Outlay	47,312	431,846	132,295	611,453
	<u>440,313</u>	<u>561,526</u>	<u>132,295</u>	<u>1,134,134</u>
Total Cash Disbursements				
Total Disbursements Over Receipts	<u>(17,424)</u>	<u>(147,605)</u>	<u>(59,988)</u>	<u>(225,017)</u>
Other Financing Receipts and (Disbursements):				
Sale of Bonds or Notes		170,000		170,000
Transfers-In		6,151	20,123	26,274
Advances-In	12,000	17,000		29,000
Transfers-Out	(6,151)			(6,151)
Advances-Out	(17,000)	(12,000)		(29,000)
Other Financial Sources	18			18
Other Financial Uses		(700)		(700)
	<u>(11,133)</u>	<u>180,451</u>	<u>20,123</u>	<u>189,441</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(28,557)	32,846	(39,865)	(35,576)
Fund Cash Balances, January 1	618,247	538,900	50,535	1,207,682
Fund Cash Balances, December 31	<u>\$589,690</u>	<u>\$571,746</u>	<u>\$10,670</u>	<u>\$1,172,106</u>
Reserves for Encumbrances, December 31	<u>\$10,740</u>	<u>\$3,098</u>	<u>\$403,352</u>	<u>\$417,190</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, 2001**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$205,343			\$205,343
Miscellaneous		\$585		585
Total Operating Cash Receipts	205,343	585		205,928
Operating Cash Disbursements:				
Personal Services	79,807			79,807
Fringe Benefits	925			925
Contractual Services	37,500			37,500
Supplies and Materials	20,158			20,158
Capital Outlay	215,215			215,215
Total Operating Cash Disbursements	353,605			353,605
Operating Income/(Loss)	(148,262)	585		(147,677)
Non-Operating Cash Receipts:				
Intergovernmental Receipts	114,539			114,539
Other Non-Operating Receipts	46,588		\$55,497	102,085
Total Non-Operating Cash Receipts	161,127		55,497	216,624
Non-Operating Cash Disbursements:				
Debt Service	208,765			208,765
Other Non-Operating Cash Disbursements			61,062	61,062
Total Non-Operating Cash Disbursements	208,765		61,062	269,827
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(195,900)	585	(5,565)	(200,880)
Transfers-In	173,478			173,478
Transfers-Out	(193,601)			(193,601)
Net Receipts Over/(Under) Disbursements	(216,023)	585	(5,565)	(221,003)
Fund Cash Balances, January 1	356,793	43,035	4,659	404,487
Fund Cash Balances, December 31	\$140,770	\$43,620	(\$906)	\$183,484
Reserve for Encumbrances, December 31	\$592,148			\$592,148

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, 2002 AND 2001**

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 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 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

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.

Certificates of deposit and repurchase agreements are valued at cost.

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:

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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.

3. 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 funds). The Village had the following significant capital project fund:

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

4. 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 Fund:

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

5. 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 and interest to be 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 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, 2002 AND 2001
(Continued)**

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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 2002 and 2001 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. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

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:

	2002	2001
Demand deposits	\$1,290,408	(\$4,410)
Certificates of deposit		442,000
Total deposits	1,290,408	437,590
 Repurchase agreement		 918,000
Total investments		918,000
 Total deposits and investments	 \$1,290,408	 \$1,355,590

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$585,449	\$422,844	(\$162,605)
Special Revenue	864,508	734,501	(130,007)
Capital Projects	542,682	204,994	(337,688)
Enterprise	1,063,746	1,208,101	144,355
Fiduciary	380	4,395	4,015
Total	\$3,056,765	\$2,574,835	(\$481,930)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$769,105	\$411,671	\$357,434
Special Revenue	1,233,421	947,263	286,158
Capital Projects	674,999	204,994	470,005
Enterprise	1,175,099	1,119,865	55,234
Total	\$3,852,624	\$2,683,793	\$1,168,831

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$536,796	\$422,907	(\$113,889)
Special Revenue	606,277	590,072	(16,205)
Capital Projects	1,071,264	92,430	(978,834)
Enterprise	1,347,150	539,948	(807,202)
Fiduciary	3,000	585	(2,415)
Total	\$3,564,487	\$1,645,942	(\$1,918,545)

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$996,775	\$457,204	\$539,571
Special Revenue	995,139	565,324	429,815
Capital Projects	1,118,714	535,647	583,067
Enterprise	1,539,796	1,348,119	191,677
Total	\$4,650,424	\$2,906,294	\$1,744,130

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.

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
OWDA Water Line Project Loan	\$277,657	5.90%
OWDA Water Treatment Plant Loan	1,050,530	1.50%
USDA Water System Loan	255,200	6.13%
USDA Fire Truck Loan	139,200	1.50%
OPWC Road Project Loan	55,304	0.00%
Total	\$1,777,891	

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. 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.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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

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
2003	\$32,937	\$44,807	\$21,569	\$39,186	\$4,809
2004	32,937	44,807	21,517	39,121	4,809
2005	32,937	44,807	21,554	39,154	4,809
2006	32,937	44,807	21,572	39,118	4,809
2007	32,937	44,807	21,572		4,809
2008-2012	164,685	224,035	107,811		24,045
2013-2017	65,874	224,035	107,642		7,214
2018-2022		224,035	107,699		
2023-2027		224,035	107,740		
2028-2032		179,228	64,572		
Total	<u>\$395,244</u>	<u>\$1,299,403</u>	<u>\$603,248</u>	<u>\$156,579</u>	<u>\$55,304</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. 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 2002 and 2001, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. Members of OPERS 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, 2002.

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 Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. 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.

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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 \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed 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 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>2002</u>	<u>2001</u>
Assets	\$20,174,977	\$19,358,458
Liabilities	8,550,749	8,827,588
Retained Earnings	<u>\$11,624,228</u>	<u>\$10,530,870</u>
 <u>Property Coverage</u>	 <u>2002</u>	 <u>2001</u>
Assets	\$2,565,408	\$1,890,323
Liabilities	655,318	469,100
Retained Earnings	<u>\$1,910,090</u>	<u>\$1,421,223</u>

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL 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 accompanying financial statements of the Village of Kelleys Island, Erie County, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 12, 2003. 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 12, 2003.

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 management of the Village in a separate letter dated June 12, 2003.

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

This report is intended solely 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.

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

Betty Montgomery
Auditor of State

June 12, 2003

**VILLAGE OF KELLEYS ISLAND
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-30522-001	Ohio Revised Code § 5705.41 (D) certification of expenditures	Yes	
2000-30522-002	Ohio Revised Code § 1905.21 failure of Mayor's court to maintain docket	Yes	



**Auditor of State
Betty Montgomery**

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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
JULY 15, 2003**