

Village of Milan

Financial Condition

As of

December 31, 2006 and 2007

Together with Auditor's Report



Mary Taylor, CPA

Auditor of State

Mayor and Members of Council
Village of Milan
11 South Main Street
P.O. Box 1450
Milan, Ohio 44846

We have reviewed the *Independent Auditor's Report* of the Village of Milan, Erie County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Milan is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 18, 2008

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VILLAGE OF MILAN

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Independent Auditor's Report

Village of Milan
Erie County
11 South Main Street
Milan, Ohio 44846-1450

I have audited the accompanying financial statements of the Village of Milan (the Village), as of and for the year ended December 31, 2006 and 2007. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted our audit 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 I plan and perform the audit 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed 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. Although I cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, I 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, 2006 and 2007. Instead of the combined funds the accompanying financial statements present for 2006 and 2007, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2006 and 2007. While the Village does not follow GAAP, generally accepted auditing standards require 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 the Village does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. My opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In my opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above 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, 2006 and 2007, or its changes in financial position and cash flows for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Milan, Erie County, Ohio, as of December 31, 2006 and 2007 and its combined cash receipts and disbursements and reserves for encumbrances for the year then ended on the basis of accounting described in Note 1.

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, 2006 and 2007. 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, I have also issued my report dated May 5, 2008, on my consideration of the Village's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal controls over financial reporting and compliance and the results of testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards. You should read it in conjunction with this report in assessing the results of my audit.

Kevin L. Penn, Inc.

May 5, 2008

Village of Milan
 Erie County
 Combined Statement of Cash Receipts, Disbursements
 and Changes in Fund Cash Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2006

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 315,887	\$ 98,380	\$ 40,279	\$ 454,546
Intergovernmental Receipts	137,441	84,115	6,458	228,014
Fines, Licenses, and Penalties	107,055	205		107,260
Earnings on Investments	110,700	8,332		119,032
Other Revenue	12,719	6,655		19,374
Total Cash Receipts	683,802	197,687	46,737	928,226
Cash Disbursements:				
Current:				
Security of Persons and Property	261,177	26,625		287,802
Leisure Time Activities	9,184			9,184
Community Environment	5,227			5,227
Transportation	103,074	136,138		239,212
General Government	130,900	1,573		132,473
Debt Service:				
Principal Payments			3,000	3,000
Interest Payments			3,720	3,720
Capital Outlay	2,935	488	225,815	229,238
Total Cash Disbursements	512,497	164,824	232,535	909,856
Total Receipts Over/(Under) Disbursements	171,305	32,863	(185,798)	18,370
Other Financing Receipts/(Disbursements)				
Transfers-In	15,000	72,657	262	87,919
Transfers-Out	(134,709)			(134,709)
Advances-Out	(50,000)			(50,000)
Total Other Financing Receipts/(Disbursements)	(169,709)	72,657	262	(96,790)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,596	105,520	(185,536)	(78,420)
Fund Cash Balance - January 1, 2006	414,151	338,071	298,175	1,050,397
Fund Cash Balance - December 31, 2006	\$ 415,747	\$ 443,591	\$ 112,639	\$ 971,977
Reserves for Encumbrances, December 31, 2006	\$ -	\$ 75	\$ 8,290	\$ 8,365

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

Village of Milan
 Erie County
 Combined Statement of Cash Receipts, Disbursements
 and Changes in Fund Cash Balances - Enterprise Funds
 For the Year Ended December 31, 2006

Operating Cash Receipts	
Charges for Services	\$ 1,571,878
Other Revenue	57,206
Total Operating Cash Receipts	<u>1,629,084</u>
Operating Cash Disbursements:	
Personal Services	359,443
Transportation	4,430
Contractual Services	90,561
Supplies and Materials	701,280
Capital Outlay	224,242
Total Operating Cash Disbursements	<u>1,379,956</u>
Operating Income	<u>249,128</u>
Non-Operating Cash Receipts	
Other Financing Sources	3,730
Total Non-Operating Cash Receipts	<u>3,730</u>
Non-Operating Cash Disbursements	
Debt Service - Principal	181,361
Debt Service - Interest and Fiscal Charges	88,638
Other Financing Uses	3,470
Total Non-Operating Cash Disbursements	<u>273,469</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	(20,611)
Transfers-In	121,790
Transfers-Out	(75,000)
Advances-In	50,000
Net Disbursements Over Receipts	<u>76,179</u>
Fund Cash Balance - January 1, 2006	1,845,543
Fund Cash Balance - December 31, 2006	<u>\$ 1,921,722</u>
Reserves for Encumbrances, December 31, 2006	<u>\$ 29,720</u>

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

Village of Milan
 Erie County
 Combined Statement of Cash Receipts, Disbursements
 and Changes in Fund Cash Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2007

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 325,783	\$ 92,512	\$ 41,453	\$ 459,748
Intergovernmental Receipts	194,678	92,107	6,965	293,750
Fines, Licenses, and Penalties	77,158	35		77,193
Earnings on Investments	120,169	9,045		129,214
Other Revenue	12,225	2,611		14,836
Total Cash Receipts	730,013	196,310	48,418	974,741
Cash Disbursements:				
Current:				
Security of Persons and Property	290,953	25,921		316,874
Leisure Time Activities	5,787			5,787
Community Environment	4,072			4,072
Transportation	110,604	183,180		293,784
General Government	148,719	1,584		150,303
Debt Service:				
Principal Payments			3,000	3,000
Interest Payments			3,540	3,540
Capital Outlay	14,805	8,998	35,913	59,716
Total Cash Disbursements	574,940	219,683	42,453	837,076
Total Receipts Over/(Under) Disbursements	155,073	(23,373)	5,965	137,665
Other Financing Receipts/(Disbursements)				
Transfers-In		77,729		77,729
Transfers-Out	(124,588)			(124,588)
Total Other Financing Receipts/(Disbursements)	(124,588)	77,729	-	(46,859)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements				
	30,485	54,356	5,965	90,806
Fund Cash Balance - January 1, 2007	415,747	443,591	112,639	971,977
Fund Cash Balance - December 31, 2007	\$ 446,232	\$ 497,947	\$ 118,604	\$ 1,062,783
Reserves for Encumbrances, December 31, 2007	\$ 32,421	\$ -	\$ 5,700	\$ 38,121

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

Village of Milan
 Erie County
 Combined Statement of Cash Receipts, Disbursements
 and Changes in Fund Cash Balances - Enterprise
 Funds
 For the Year Ended December 31, 2007

Operating Cash Receipts	
Charges for Services	\$ 1,544,945
Other Revenue	59,104
Total Operating Cash Receipts	<u>1,604,049</u>
Operating Cash Disbursements:	
Personal Services	384,925
Transportation	5,867
Contractual Services	94,561
Supplies and Materials	690,054
Capital Outlay	137,862
Total Operating Cash Disbursements	<u>1,313,269</u>
Operating Income	<u>290,780</u>
Non-Operating Cash Receipts	
Total Non-Operating Cash Receipts	<u>-</u>
Non-Operating Cash Disbursements	
Debt Service - Principal	187,636
Debt Service - Interest and Fiscal Charges	81,236
Other Financing Uses	2,955
Total Non-Operating Cash Disbursements	<u>271,827</u>
Excess of Receipts Under Disbursements	
Before Interfund Transfers and Advances	18,953
Transfers-In	121,859
Transfers-Out	(75,000)
Other Financing Sources	3,235
Net Disbursements Over Receipts	<u>69,047</u>
Fund Cash Balance - January 1, 2007	<u>1,921,722</u>
Fund Cash Balance - December 31, 2007	<u>\$ 1,990,769</u>
Reserves for Encumbrances, December 31, 2007	<u>\$ 8,200</u>

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

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Milan, 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 water and sewer utilities, electric utilities, park operations, and police services. The Village contracts with Milan Township to provide fire protection services.

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

Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1)

The Village is a participant with twenty-one subdivisions within the State of Ohio in a joint venture to provide a source of supplemental capacity to the participants. On dissolution of the joint venture, the net assets of the JV1 will be shared by the participants on a percentage basis. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The Village's net investment and its share of the operating results of JV1 ownership share of the project is .71 percent. Complete financial statements for JV1 can be obtained from AMP-Ohio at 2600 Airport Drive, Columbus, Ohio 43219 or from the Village's Administrator.

Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

The Village of Milan is a Non-Financing Participant and an Owner Participant with an ownership percentage of .55 percent and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants. Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement. OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity (continued)

Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$216,296 at December 31, 2007. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV 5)

The Village of Milan is a Financing Participant with an ownership percentage of .39 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2007 and 2006, Milan has met their debt coverage obligation.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity (continued)

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV 5)

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$34,903 at December 31, 2007 and \$42,132 at December 31, 2006. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

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.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

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:

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

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 funds:

Utility Building Fund - This fund receives transfers from the general fund to be used for the construction of a new utility building.

Capital Project Issue II Fund - This fund receives Issue II monies to be used for various projects within the Village.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

4. Enterprise Funds (continued)

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.

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

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

E. Budgetary Process

The Ohio Revised Code requires that each fund 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 Village 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 Village 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 2007 and 2006 budgetary activity appears in Note 6.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

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. DEPOSITS AND INVESTMENTS

The Village maintains a cash and investment pool. The balance of this pool is displayed on the "Combined Statement of Cash, Investments, and Fund Cash Balances, Governmental Fund Type - (General Fund), As of December 31, 2006 and 2007."

Legal Requirements

State statutes classify monies held by the Village into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Village Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

2. DEPOSITS AND INVESTMENTS (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

The Village may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, Village, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the Village.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Village, and be purchased within the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No.3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

At year-end, the Village had \$160 in undeposited cash on hand which is included as part of "Pooled Cash and Cash Investments". This amount is uninsured and uncollateralized.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

2. DEPOSITS AND INVESTMENTS (continued)

Deposits. At year-end, the carrying amount of the Village's deposits was \$843,090 for 2007 and \$791,772 for 2006 and the bank balance was \$945,231 for 2007 and \$868,703 for 2006. Of the bank balance, \$100,000 was covered by federal depository insurance for 2007 and 2006, and \$845,231 for 2007 and \$768,703 for 2006 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments. Statutory provisions require that the Village hold all securities acquired by the Village or deposit them with a qualified trustee pursuant to Section 135.18, Revised Code. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the Village for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the Village withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The Village does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

The Village has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio), during 2007 and 2006. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes.

STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2007 and 2006. At year end, the carrying amount of the Village's deposits with Star Ohio was \$2,210,302 for 2007 and \$2,101,767 for 2006 and the market value was \$2,210,302 for 2007 and \$2,101,767 for 2006.

GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments, classified by risk. Category 1 includes investments that are insured or registered, or securities held by the Village or its agent in Village name. Category 2 includes uninsured and unregistered, with securities held by the counter-party trust department or agent in the Village. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Village. STAR Ohio is unclassified investments since they are not evidenced by securities that exist in physical or book entry form. Since STAR Ohio is the only investments, the categories described above do not apply.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

3. 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.

4. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

5. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance coverage to full time employees through a private carrier.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

6. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2006 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,734,758	\$ 698,802	\$(1,035,956)
Special Revenue	392,088	270,344	(121,744)
Capital Projects	332,755	46,999	(285,756)
Enterprise	3,251,653	1,804,604	(1,447,049)
Total	\$ 5,711,254	\$ 2,820,749	\$(2,890,505)

2006 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 707,255	\$ 697,206	\$ 10,049
Special Revenue	278,185	164,899	113,286
Capital Projects	233,580	240,825	(7,245)
Enterprise	2,285,229	1,758,145	527,084
Total	\$ 3,504,249	\$ 2,861,075	\$ 643,174

2007 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,874,542	\$ 730,013	\$(1,144,529)
Special Revenue	500,972	274,039	(226,933)
Capital Projects	358,675	48,418	(310,257)
Enterprise	3,336,929	1,729,143	1,607,786)
Total	6,071,118	\$ 2,781,613	(3,289,505)

2007 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 781,735	\$ 731,949	\$ 49,786
Special Revenue	278,185	219,683	58,502
Capital Projects	233,580	48,153	185,427
Enterprise	2,285,229	1,668,296	616,933
Total	\$ 3,578,729	\$ 2,668,081	\$ 910,648

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

7. DEBT

Debt outstanding at December 31, 2007 was as follows:

Ohio Water Development Authority Loan	\$ 803,139	7.03%
Sewage System Improvement Notes	30,000	3.25%
AMP - Ohio Loan	318,213	3.50%
Lockwood Road Project Bond	<u>56,000</u>	6.00%
Total	<u>\$1,207,352</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan agreement was entered into during August 1992. The original loan amount was \$1,287,380. The loan will be repaid in semiannual installments of \$55,385, including interest over 20 years. The Village was advised in July 2003 that the OWDA was reducing the interest rate from 7.30 to 7.00 percent. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Sewage System Improvement note is a bond anticipation debt and consists of \$100,000 of sewerage system improvement debt for sewerage system improvements. Interest rate on bond anticipation debt is 3.25% annum.

The American Municipal Power-Ohio, Inc. (AMP-Ohio) loan relates to an electrical substation and distribution line construction project. The loan was entered into during January 1997, in the amount of \$700,000. In fiscal year 2001, an additional loan of \$472,000 was entered into to finance the construction of an electric service building and enter into OMEGA JV2 (Distributive Generation Project), a joint venture organized by AMP Ohio. The loans will be repaid in monthly installments over 10 years. Interest rates on the loans are adjusted annually.

The aggregate amounts of long-term debt maturities for the five years following 2007 are as follows:

Year	Principal	Interest	Total
2008	\$ 179,584	\$ 65,821	\$ 245,405
2009	154,598	59,668	214,266
2010	160,891	54,182	215,073
2011	100,187	49,093	149,280
2012	72,848	44,322	117,170
Thereafter	<u>539,244</u>	<u>157,721</u>	<u>696,966</u>
Total	<u>\$ 1,207,352</u>	<u>\$ 430,807</u>	<u>\$ 1,638,160</u>

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

7. DEBT (continued)

In fiscal year 2002, the Village entered into an agreement for the purchase of property for the construction of a building to house all Village Offices and the Village Police Station. The Village signed a promissory note in the amount of \$190,000 for the purchase of property with a stated rate of interest at 4.5 percent. The note is to be paid in equal monthly installments commencing June 10, 2002. On May 10, 2007, the rate of the note was adjusted to the minimum applicable federal rate. The Village will then make equal monthly payments on the remaining balance such that the entire outstanding principal balance will be paid in full on May 10, 2012.

The aggregate amounts of payments for the five years following 2007 are as follows:

Year	Principal	Interest	Total
2008	\$ 19,782	\$ 3,847	\$ 23,629
2009	20,691	2,938	23,629
2010	21,642	1,988	23,630
2011	22,636	994	23,630
2012	9,736	110	9,846
Total	<u>\$ 94,487</u>	<u>\$ 9,877</u>	<u>\$ 104,364</u>

8. PENSION PLAN

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.

Ohio Public Employees Retirement System

All Village full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

8. PENSION PLAN (continued)

- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Ohio Public Employees Retirement System

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Village to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory Village for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Village was 13.70 percent for 2006 and 13.85 percent for 2007 of covered payroll. The Village's required contributions to OPERS for the fiscal years ended December 31, 2007, 2006, and 2005 were \$60,755, \$57,497, and \$51,662 respectively.

9. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

9. POST-EMPLOYMENT BENEFITS (continued)

Ohio Public Employees Retirement System

The Ohio Revised Code provides statutory Village for employer contributions. The employer pension contribution rate for the Village was 13.70 percent for 2006 and 13.85 percent for 2007 of covered payroll, 4.5% for 2006 and 5% for 2007 was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2006 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

11. INTERFUND TRANSFERS

The following transfers are made annually within the Enterprise Fund:

\$ 35,000	From the Electric Fund to the Electric Replacement Fund
20,000	From the Water Fund to the Water Replacement Fund
<u>20,000</u>	From the Sewer Fund to the Sewer Replacement Fund
<u>\$ 75,000</u>	

10. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Village of Milan
Erie County
115 East Main Street
Milan, Ohio 44851-1201

I have audited the financial statements of Village of Milan as of and for the years ended December 31, 2006 and 2007, and have issued my report thereon dated May 5, 2008. I conducted my audit in accordance with generally accepted auditing standards 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. My report on the financial statements disclosed that, as described in Note 1 to the financial statements, the Village prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Ohio, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Village of Milan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Milan's internal control over financial reporting. Accordingly, I do not express an opinion on the effective ness of the Village of Milan's internal control over financial reporting.

A control deficiency exists when the design or operation of control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Village of Milan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with a comprehensive basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Village of Milan's financial statements that is more than inconsequential will not be prevented or detected by Village of Milan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Village of Milan's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Milan's 's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of Village of Milan in a separate letter dated May 5, 2008.

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

Kevin L. Penn, Inc.

May 5, 2008

Village of Milan
Erie County

Schedule of Prior Audit Findings
December 31, 2006 and 2007

2005-1

Finding Summary:

Ohio Revised Code § 5705.41(8) states that no subdivision or taxing unit is to expend money unless it has been appropriated. For fiscal year 2004, budgetary expenditures exceeded appropriations in five funds. For fiscal year 2005, budgetary expenditures exceeded appropriations in five funds. Several instances of budgetary expenditures exceeding appropriations were also noted during the fiscal year at the legal level of control. The failure to limit expenditures to appropriated amounts may result in the Village expending funds in excess of available resources. The Village should periodically compare expenditures and encumbrances to appropriations to determine if a modification to appropriations is necessary.

Fully Corrected?

No. Will be reported in the management letter.

Current Status:

There were four instances noted, whereby, expenditures exceeded appropriations.

2005-2

Finding Summary:

Ohio Revised Code Section 5735.28 states that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half percent of the amount paid to any municipal corporation pursuant to Ohio Revised Code Section 4501.04, Ohio Revised Code Section 5735.23, and Ohio Revised Code Section 5735.27 shall be used by it for specified purposes related to maintenance and repair of such highways. The remaining ninety-two and one-half percent of funds are to be used for purposes related to maintenance and repair of streets within the Village. The errors were noted in the recording of revenues under the above Revised Code sections:

During the 2005 fiscal year gas tax receipts in the amount of \$19,356 were improperly credited to the General Fund. Of the amount, \$17,905 should have been credited to the Street Fund and \$1,451 should have been recorded to the State Highway Fund.

Village of Milan
Erie County

Schedule of Prior Audit Findings
December 31, 2006 and 2007

2005-2 (continued)

During the 2004 fiscal year gas tax receipts in the amount of \$23,838 were improperly credited to the General Fund. Of the amount, \$22,050 should have been credited to the Street Fund and \$1,788 should have been recorded to the State Highway Fund. In addition, during the 2004 fiscal year permissive tax receipts in the amount of \$431 was improperly credited to the General Fund.

Fully Corrected?

Yes.

Current Status:

Has been corrected.

2005-3

Finding Summary:

The Village did not properly certify the availability of funds prior to purchase commitment for 53 percent of expenditures selected for examination and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Fully Corrected?

Yes.

Current Status:

The Village has made significant improvement, regarding the certification of the availability of funds.



Mary Taylor, CPA
Auditor of State

VILLAGE OF MILAN

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
AUGUST 28, 2008**