



Dave Yost • Auditor of State

VILLAGE OF MILAN
ERIE COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|---|------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets – Cash Basis..... | 11 |
| Statement of Activities – Cash Basis..... | 12 |
| Fund Financial Statements: | |
| Statement of Assets and Fund Balances – Cash Basis..... | 14 |
| Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis - Governmental Funds..... | 15 |
| Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual - Budget Basis - General Fund..... | 16 |
| Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual - Budget Basis – Street Fund..... | 17 |
| Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual - Budget Basis – Street Levy Fund..... | 18 |
| Statement of Net Assets – Cash Basis - Proprietary Funds..... | 19 |
| Statement of Receipts, Disbursements, and Changes in Fund Net Assets – Cash Basis – Proprietary Funds..... | 20 |
| Notes to the Financial Statements..... | 21 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 43 |
| Schedule of Findings..... | 45 |
| Schedule of Prior Audit Findings..... | 49 |

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Milan
Erie County
11 South Main Street, P.O. Box 1450
Milan, Ohio 44846-1450

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Milan, Erie County, Ohio (the Village), as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

As described in Note 3, during 2011 the Village of Milan adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Milan, Erie County, Ohio, as of December 31, 2011, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General, Street, and Street Levy funds thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the Village's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 8, 2013

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

This discussion and analysis of the Village of Milan's (the Village's) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2011 are as follows:

- Net assets of governmental activities increased \$193,715, or 22 percent, a significant change from the prior year. The funds most affected by the increase in cash and cash equivalents were the General and Capital Improvement funds, which realized the greatest increase of revenues in 2011; however, revenue increases affected most funds.
- The Village's general receipts are primarily property and income taxes. These receipts represent 20 and 42 percent, respectively, of the total cash received for governmental activities during the year. Income tax receipts for 2011 increased compared to 2010 due to 2011 being the first full year of the income tax rate increase from one-half percent to one percent.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Reporting the Village as a Whole

This annual report includes all activities for which the Village is fiscally responsible. These activities, defined as the Village's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of the Village.

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, streets and parks. State grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activity. The Village has three business-type activities, the provision of water, sewer, and electric. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into two categories: governmental and proprietary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General, Street, Street Levy, and Capital Improvement funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has five enterprise funds, the Water, Sewer, Electric, Electric Fund Debt Service and the Guaranteed Utilities funds. When the services are provided to other department of the Village, the service is reported as an internal service fund. The Village has no internal service funds.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2011 compared to 2010 on a cash basis:

(Table 1)

Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---------------------------|--------------------------------|------------------|---------------------------------|--------------------|--------------------|--------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Assets | | | | | | |
| Cash and Cash Equivalents | <u>\$1,055,466</u> | <u>\$861,751</u> | <u>\$1,766,224</u> | <u>\$1,726,813</u> | <u>\$2,821,690</u> | <u>\$2,588,564</u> |
| Net Assets | | | | | | |
| Restricted for: | | | | | | |
| Capital Outlay | \$249,110 | \$178,228 | | | \$249,110 | \$178,228 |
| Debt Service | 1,757 | 1,535 | | | 1,757 | 1,535 |
| Other Purposes | 557,006 | 505,941 | | | 557,006 | 505,941 |
| Unrestricted | <u>247,593</u> | <u>176,047</u> | <u>1,766,224</u> | <u>1,726,813</u> | <u>2,013,817</u> | <u>1,902,860</u> |
| Total Net Assets | <u>\$1,055,466</u> | <u>\$861,751</u> | <u>\$1,766,224</u> | <u>\$1,726,813</u> | <u>\$2,821,690</u> | <u>\$2,588,564</u> |

As mentioned previously, net assets of governmental activities increased \$193,715 or 22 percent during 2011. The primary reasons contributing to the decreases in cash balances is in 2010 the Village increased its income tax rate from one-half percent to one percent. Income tax receipts in 2011 increased \$157,101 from 2010. The remaining increase is attributable to a general decrease in expenditures not specifically related to any line item.

Net assets of business-type activities increased \$39,411 or two percent during 2011. The primary reason contributing to the increase in cash balances is associated with an increase in electric rates.

Table 2 reflects the changes in net assets on a cash basis in 2011 and 2010 for governmental activities, business-type activities and total primary government.

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

| | Governmental | | Business-Type | | Total | |
|--|--------------|-----------|---------------|-------------|-------------|-------------|
| | Activities | | Activities | | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Receipts: | | | | | | |
| Program Receipts: | | | | | | |
| Charges for Services and Sales | \$46,100 | \$73,298 | \$1,805,087 | \$1,600,599 | \$1,851,187 | \$1,673,897 |
| Operating Grants and Contributions | 90,163 | 85,476 | | | 90,163 | 85,476 |
| Capital Grants and Contributions | 10,180 | 120,500 | | | 10,180 | 120,500 |
| Total Program Receipts | 146,443 | 279,274 | 1,805,087 | 1,600,599 | 1,951,530 | 1,879,873 |
| General Receipts: | | | | | | |
| Property and Other Local Taxes | 192,342 | 213,376 | | | 192,342 | 213,376 |
| Income Taxes | 399,259 | 242,158 | | | 399,259 | 242,158 |
| Grants and Entitlements Not Restricted to Specific Programs | 191,738 | 147,238 | | | 191,738 | 147,238 |
| Cable Franchise Fees | 13,970 | 13,191 | | | 13,970 | 13,191 |
| Interest | 3,022 | 4,611 | | | 3,022 | 4,611 |
| Miscellaneous | 3,772 | | 96,954 | 34,242 | 100,726 | 34,242 |
| Total General Receipts | 804,103 | 620,574 | 96,954 | 34,242 | 901,057 | 654,816 |
| Total Receipts | 950,546 | 899,848 | 1,902,041 | 1,634,841 | 2,852,587 | 2,534,689 |
| Disbursements: | | | | | | |
| General Government | 100,279 | 129,152 | | | 100,279 | 129,152 |
| Security of Persons and Property: | 361,700 | 371,822 | | | 361,700 | 371,822 |
| Leisure Time Activities | 14,311 | | | | 14,311 | |
| Community Environment | 2,644 | | | | 2,644 | |
| Transportation | 237,077 | 258,582 | | | 237,077 | 258,582 |
| Capital Outlay | 3,198 | 113,352 | | | 3,198 | 113,352 |
| Principal Retirement | 26,636 | 25,563 | | | 26,636 | 25,563 |
| Interest and Fiscal Charges | 3,754 | 5,067 | | | 3,754 | 5,067 |
| Water | | | 374,955 | 323,829 | 374,955 | 323,829 |
| Sewer | | | 237,038 | 162,023 | 237,038 | 162,023 |
| Electric | | | 1,254,867 | 1,120,706 | 1,254,867 | 1,120,706 |
| Other Enterprise | | | 3,002 | 2,950 | 3,002 | 2,950 |
| Total Disbursements | 749,599 | 903,538 | 1,869,862 | 1,609,508 | 2,619,461 | 2,513,046 |
| Excess (Deficiency) Before Transfers | 200,947 | (3,690) | 32,179 | 25,333 | 233,126 | 21,643 |
| Transfers | (7,232) | (7,182) | 7,232 | 7,182 | | |
| Increase (Decrease) in Net Assets | 193,715 | (10,872) | 39,411 | 32,515 | 233,126 | 21,643 |
| Net Assets, January 1, 2011 | 861,751 | 872,623 | 1,726,813 | 1,694,298 | 2,588,564 | 2,566,921 |
| Net Assets, December 31, 2011 | \$1,055,466 | \$861,751 | \$1,766,224 | \$1,726,813 | \$2,821,690 | \$2,588,564 |

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Program receipts represent 68 percent of total receipts and are primarily comprised of water, sewer, and electric utility user fees.

General receipts represent 32 percent of the Village's total receipts, and of this amount, over 66 percent are local taxes. State grants and entitlements make up the largest remaining balance of the Village's general receipts (21 percent).

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, and the mayor, the fiscal officer, the village administrator, the mayor's court, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs of police protection; Leisure Time Activities are the costs of maintaining the parks; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 32 and 48 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 13 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

| | Governmental Activities | | | |
|----------------------------------|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | 2011 | 2011 | 2010 | 2010 |
| General Government | \$100,279 | \$54,239 | \$129,152 | \$55,854 |
| Security of Persons and Property | 361,700 | 361,640 | 371,822 | 371,822 |
| Leisure Time Activities | 14,311 | 14,311 | | |
| Community Environment | 2,644 | 2,644 | | |
| Transportation | 237,077 | 146,914 | 258,582 | 173,106 |
| Capital Outlay | 3,198 | | 113,352 | |
| Principal Retirement | 26,636 | 22,505 | 25,563 | 21,478 |
| Interest and Fiscal Charges | 3,754 | 903 | 5,067 | 2,004 |
| Total Expenses | \$749,599 | \$603,156 | \$903,538 | \$624,264 |

The dependence upon property and income tax receipts is apparent as over 80 percent of governmental activities are supported through these general receipts.

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Business-type Activities

The Village has three major business type activities, the provision of water, sewer, and electric, which are accounted for in the Water Fund, Sewer Fund, and Electric Fund. Charges for services almost completely supported the business type activity disbursements. The Village regularly reviews its water, sewer, and electric rates and makes necessary adjustments to align the revenues with anticipated expenditures.

The Village's Funds

Total governmental funds had receipts and other financing sources of \$970,606 and disbursements and other financing uses of \$776,891. The greatest changes within governmental funds occurred within the General and Capital Improvement funds. Increases in receipts for income taxes resulted in increases in fund balances of \$71,564 and \$70,882, respectively.

Expenditures for maintenance, construction, and repair of streets resulted in deficit spending in the Street Fund in the amount of \$29,552.

Cash in the Street Levy Fund increased \$65,169, which can be attributed to a decrease of \$105,412 in transportation expenditures.

Cash in the amount of \$15,670 increased in the Other Governmental Funds, which can be attributed to Police Pension Fund Transfers In of \$20,000.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2011, the Village did not amend its General Fund budget. Receipts were budgeted at \$605,921 while actual receipts were \$678,003.

Disbursements and other financing uses were budgeted at \$643,055 while actual disbursements and other financing uses were \$609,089.

The Village employs a conservative approach to budgeting by estimating receipts low and appropriations high.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2011, the Village's outstanding debt included \$561,901 in Ohio Water Development Authority Loans for water system improvements, \$42,000 in bonds for Lockwood Road improvements, \$9,815 in Notes Payable for the Village Offices land purchase, and \$334,965 in JV 5 loans related to a distributive generation project. For further information regarding the Village's debt, refer to Notes 11 and 12 to the basic financial statements.

**VILLAGE OF MILAN
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Current Issues

The challenge for all Villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes. The Village is constantly looking at ways to cut costs without cutting services.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mary Bruno, Fiscal Officer, Village of Milan, 11 South Main St., Milan, Ohio 44846.

This page intentionally left blank.

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Net Assets - Cash Basis
December 31, 2011*

| | Governmental Activities | Business - Type Activities | Total |
|---|----------------------------|-------------------------------|--------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$1,055,466</u> | <u>\$1,766,224</u> | <u>\$2,821,690</u> |
| Net Assets | | | |
| Restricted for: | | | |
| Capital Projects | \$249,110 | | \$249,110 |
| Debt Service | 1,757 | | 1,757 |
| Other Purposes | 557,006 | | 557,006 |
| Unrestricted | <u>247,593</u> | <u>1,766,224</u> | <u>2,013,817</u> |
| <i>Total Net Assets</i> | <u>\$1,055,466</u> | <u>\$1,766,224</u> | <u>\$2,821,690</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2011*

| | Program Cash Receipts | | | |
|---------------------------------------|-----------------------|--------------------------------------|--|-------------------------------------|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | |
| Current: | | | | |
| Security of Persons and Property | \$361,700 | \$60 | | |
| Leisure Time Activities | 14,311 | | | |
| Community Environment | 2,644 | | | |
| Transportation | 237,077 | | \$90,163 | |
| General Government | 100,279 | 46,040 | | |
| Capital Outlay | 3,198 | | | \$3,198 |
| Debt Service: | | | | |
| Principal Retirement | 26,636 | | | 4,131 |
| Interest and Fiscal Charges | 3,754 | | | 2,851 |
| <i>Total Governmental Activities</i> | <u>749,599</u> | <u>46,100</u> | <u>90,163</u> | <u>10,180</u> |
| Business-Type Activities | | | | |
| Water | 374,955 | 312,848 | | |
| Sewer | 237,038 | 193,830 | | |
| Electric | 1,254,867 | 1,294,494 | | |
| Non-Major | 3,002 | 3,915 | | |
| <i>Total Business-Type Activities</i> | <u>1,869,862</u> | <u>1,805,087</u> | | |
| <i>Total Primary Government</i> | <u>\$2,619,461</u> | <u>\$1,851,187</u> | <u>\$90,163</u> | <u>\$10,180</u> |

General Receipts:
Property Taxes Levied for:
 General Purposes
 Street Services
 Police Pension
Income Taxes Levied for:
 General Purposes
 Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Cable Franchise Fees
Earnings on Investments
Miscellaneous
Transfers

Total General Receipts and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--------------------|
| (\$361,640) | | (\$361,640) |
| (14,311) | | (14,311) |
| (2,644) | | (2,644) |
| (146,914) | | (146,914) |
| (54,239) | | (54,239) |
| (22,505) | | (22,505) |
| <u>(903)</u> | | <u>(903)</u> |
| <u>(603,156)</u> | | <u>(603,156)</u> |
| | (62,107) | (62,107) |
| | (43,208) | (43,208) |
| | 39,627 | 39,627 |
| | <u>913</u> | <u>913</u> |
| | <u>(64,775)</u> | <u>(64,775)</u> |
| <u>(603,156)</u> | <u>(64,775)</u> | <u>(667,931)</u> |
| 121,811 | | 121,811 |
| 62,409 | | 62,409 |
| 8,122 | | 8,122 |
| 328,377 | | 328,377 |
| 70,882 | | 70,882 |
| 191,738 | | 191,738 |
| 13,970 | | 13,970 |
| 3,022 | | 3,022 |
| 3,772 | 96,954 | 100,726 |
| <u>(7,232)</u> | <u>7,232</u> | |
| <u>796,871</u> | <u>104,186</u> | <u>901,057</u> |
| 193,715 | 39,411 | 233,126 |
| <u>861,751</u> | <u>1,726,813</u> | <u>2,588,564</u> |
| <u>\$1,055,466</u> | <u>\$1,766,224</u> | <u>\$2,821,690</u> |

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
December 31, 2011*

| | General | Street | Street Levy | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|--|------------------|------------------|------------------|------------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$247,593 | \$231,791 | \$231,290 | \$204,779 | \$140,013 | \$1,055,466 |
| Fund Balances | | | | | | |
| Restricted | | \$231,791 | \$231,290 | \$204,779 | \$140,013 | \$807,873 |
| Assigned | \$2,632 | | | | | 2,632 |
| Unassigned | 244,961 | | | | | 244,961 |
| <i>Total Fund Balances</i> | <u>\$247,593</u> | <u>\$231,791</u> | <u>\$231,290</u> | <u>\$204,779</u> | <u>\$140,013</u> | <u>\$1,055,466</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Receipts, Disbursements and Changes Fund Balances - Cash Basis
Governmental Funds
For the Year Ended December 31, 2011*

| | General | Street | Street Levy | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|--|------------------|------------------|------------------|------------------------|--------------------------------|--------------------------------|
| Receipts | | | | | | |
| Municipal Income Taxes | \$328,377 | | | \$70,882 | | \$399,259 |
| Property Taxes | 121,811 | | \$62,409 | | \$8,122 | 192,342 |
| Intergovernmental | 166,745 | \$71,679 | 23,862 | | 22,813 | 285,099 |
| Special Assessments | | | | | 6,982 | 6,982 |
| Fines, Licenses and Permits | 58,260 | | | | 1,810 | 60,070 |
| Earnings on Investments | 2,810 | 115 | | | 97 | 3,022 |
| Miscellaneous | | 3,772 | | | | 3,772 |
| <i>Total Receipts</i> | <u>678,003</u> | <u>75,566</u> | <u>86,271</u> | <u>70,882</u> | <u>39,824</u> | <u>950,546</u> |
| Disbursements | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 335,046 | | | | 26,654 | 361,700 |
| Leisure Time Activities | 14,311 | | | | | 14,311 |
| Community Environment | 2,644 | | | | | 2,644 |
| Transportation | 104,655 | 105,178 | 19,849 | | 7,395 | 237,077 |
| General Government | 98,879 | | 1,253 | | 147 | 100,279 |
| Capital Outlay | | | | | 3,198 | 3,198 |
| Debt Service: | | | | | | |
| Principal Retirement | 22,636 | | | | 4,000 | 26,636 |
| Interest and Fiscal Charges | 994 | | | | 2,760 | 3,754 |
| <i>Total Disbursements</i> | <u>579,165</u> | <u>105,178</u> | <u>21,102</u> | | <u>44,154</u> | <u>749,599</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>98,838</u> | <u>(29,612)</u> | <u>65,169</u> | <u>70,882</u> | <u>(4,330)</u> | <u>200,947</u> |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | | 60 | | | 20,000 | 20,060 |
| Transfers Out | (27,292) | | | | | (27,292) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(27,292)</u> | <u>60</u> | | | <u>20,000</u> | <u>(7,232)</u> |
| <i>Net Change in Fund Balances</i> | 71,546 | (29,552) | 65,169 | 70,882 | 15,670 | 193,715 |
| <i>Fund Balances Beginning of Year</i> | <u>176,047</u> | <u>261,343</u> | <u>166,121</u> | <u>133,897</u> | <u>124,343</u> | <u>861,751</u> |
| <i>Fund Balances End of Year</i> | <u>\$247,593</u> | <u>\$231,791</u> | <u>\$231,290</u> | <u>\$204,779</u> | <u>\$140,013</u> | <u>\$1,055,466</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2011*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Municipal Income Taxes | \$293,465 | \$293,465 | \$328,377 | \$34,912 |
| Property Taxes | 108,861 | 108,861 | 121,811 | 12,950 |
| Intergovernmental | 149,018 | 149,018 | 166,745 | 17,727 |
| Fines, Licenses and Permits | 52,066 | 52,066 | 58,260 | 6,194 |
| Earnings on Investments | 2,511 | 2,511 | 2,810 | 299 |
| <i>Total Receipts</i> | <u>605,921</u> | <u>605,921</u> | <u>678,003</u> | <u>72,082</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 350,300 | 350,300 | 337,652 | 12,648 |
| Leisure Time Activities | 15,000 | 15,000 | 14,311 | 689 |
| Community Environment | 3,250 | 3,250 | 2,644 | 606 |
| Transportation | 111,750 | 111,750 | 104,655 | 7,095 |
| General Government | 111,000 | 111,000 | 98,905 | 12,095 |
| Debt Service: | | | | |
| Principal Retirement | 22,636 | 22,636 | 22,636 | |
| Interest and Fiscal Charges | 994 | 994 | 994 | |
| <i>Total Disbursements</i> | <u>614,930</u> | <u>614,930</u> | <u>581,797</u> | <u>33,133</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(9,009)</u> | <u>(9,009)</u> | <u>96,206</u> | <u>105,215</u> |
| Other Financing Sources Uses | | | | |
| Transfers Out | <u>(28,125)</u> | <u>(28,125)</u> | <u>(27,292)</u> | <u>833</u> |
| <i>Net Change in Fund Balance</i> | <u>(37,134)</u> | <u>(37,134)</u> | <u>68,914</u> | <u>106,048</u> |
| <i>Unencumbered Fund Balance Beginning of Year</i> | <u>176,047</u> | <u>176,047</u> | <u>176,047</u> | |
| <i>Unencumbered Fund Balance End of Year</i> | <u>\$138,913</u> | <u>\$138,913</u> | <u>\$244,961</u> | <u>\$106,048</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Street Fund
For the Year Ended December 31, 2011*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------------|-------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Intergovernmental | \$98,098 | \$98,098 | \$71,679 | (\$26,419) |
| Earnings on Investments | 157 | 157 | 115 | (42) |
| Miscellaneous | 5,162 | 5,162 | 3,772 | (1,390) |
| <i>Total Receipts</i> | <u>103,417</u> | <u>103,417</u> | <u>75,566</u> | <u>(27,851)</u> |
| Disbursements | | | | |
| Current: | | | | |
| Transportation | 189,500 | 189,500 | 118,145 | 71,355 |
| <i>Excess of Disbursements Over Receipts</i> | <u>(86,083)</u> | <u>(86,083)</u> | <u>(42,579)</u> | <u>43,504</u> |
| Other Financing Sources | | | | |
| Transfers In | 83 | 83 | 60 | (23) |
| <i>Net Change in Fund Balance</i> | (86,000) | (86,000) | (42,519) | 43,481 |
| <i>Unencumbered Fund Balance Beginning of Year</i> | <u>261,343</u> | <u>261,343</u> | <u>261,343</u> | |
| <i>Unencumbered Fund Balance End of Year</i> | <u><u>\$175,343</u></u> | <u><u>\$175,343</u></u> | <u><u>\$218,824</u></u> | <u><u>\$43,481</u></u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Street Levy Fund
For the Year Ended December 31, 2011*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Property Taxes | \$65,225 | \$65,225 | \$62,409 | (\$2,816) |
| Intergovernmental | 24,939 | 24,939 | 23,862 | (1,077) |
| <i>Total Receipts</i> | <u>90,164</u> | <u>90,164</u> | <u>86,271</u> | <u>(3,893)</u> |
| Disbursements | | | | |
| Current: | | | | |
| General Government | 2,000 | 2,000 | 1,253 | 747 |
| Transportation | 135,000 | 135,000 | 19,849 | 115,151 |
| <i>Total Disbursements</i> | <u>137,000</u> | <u>137,000</u> | <u>21,102</u> | <u>115,898</u> |
| <i>Net Change in Fund Balance</i> | (46,836) | (46,836) | 65,169 | 112,005 |
| <i>Unencumbered Fund Balance Beginning of Year</i> | <u>166,121</u> | <u>166,121</u> | <u>166,121</u> | |
| <i>Unencumbered Fund Balance End of Year</i> | <u>\$119,285</u> | <u>\$119,285</u> | <u>\$231,290</u> | <u>\$112,005</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Net Assets - Cash Basis
Proprietary Funds
December 31, 2011*

| | Business-Type Activities | | | | |
|---|--------------------------|------------------|------------------|---------------------------|---------------------------|
| | Water | Sewer | Electric | Other Enterprise Funds | Total Enterprise Funds |
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$296,584</u> | <u>\$547,752</u> | <u>\$909,705</u> | <u>\$12,183</u> | <u>\$1,766,224</u> |
| Net Assets | | | | | |
| Unrestricted | <u>\$296,584</u> | <u>\$547,752</u> | <u>\$909,705</u> | <u>\$12,183</u> | <u>\$1,766,224</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

*Statement of Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2011*

| | Business-Type Activities | | | | Total Enterprise Funds |
|--|--------------------------|------------------|------------------|---------------------------|---------------------------|
| | Water | Sewer | Electric | Other Enterprise Funds | |
| Operating Receipts | | | | | |
| Charges for Services | \$312,848 | \$193,830 | \$1,294,494 | \$3,915 | \$1,805,087 |
| Miscellaneous | 355 | | 96,599 | | 96,954 |
| <i>Total Operating Receipts</i> | <u>313,203</u> | <u>193,830</u> | <u>1,391,093</u> | <u>3,915</u> | <u>1,902,041</u> |
| Operating Disbursements | | | | | |
| Personal Services | 88,740 | 64,072 | 142,311 | | 295,123 |
| Employee Fringe Benefits | 52,291 | 51,801 | 51,218 | | 155,310 |
| Contractual Services | 31,977 | 53,225 | 971,148 | | 1,056,350 |
| Supplies and Materials | 42,751 | 42,851 | 30,498 | | 116,100 |
| Other | 296 | 708 | 679 | | 1,683 |
| <i>Total Operating Disbursements</i> | <u>216,055</u> | <u>212,657</u> | <u>1,195,854</u> | | <u>1,624,566</u> |
| <i>Operating Income (Loss)</i> | <u>97,148</u> | <u>(18,827)</u> | <u>195,239</u> | <u>3,915</u> | <u>277,475</u> |
| Non-Operating Disbursements | | | | | |
| Capital Outlay | (48,319) | (24,381) | (18,152) | | (90,852) |
| Principal Retirement | (66,587) | | (18,260) | | (84,847) |
| Interest and Other Fiscal Charges | (43,994) | | (22,601) | | (66,595) |
| Other Financing Uses | | | | (3,002) | (3,002) |
| <i>Total Non-Operating Disbursements</i> | <u>(158,900)</u> | <u>(24,381)</u> | <u>(59,013)</u> | <u>(3,002)</u> | <u>(245,296)</u> |
| <i>Income (Loss) before Transfers</i> | <u>(61,752)</u> | <u>(43,208)</u> | <u>136,226</u> | <u>913</u> | <u>32,179</u> |
| Transfers In | | | 7,232 | | 7,232 |
| <i>Change in Net Assets</i> | <u>(61,752)</u> | <u>(43,208)</u> | <u>143,458</u> | <u>913</u> | <u>39,411</u> |
| <i>Net Assets Beginning of Year</i> | <u>358,336</u> | <u>590,960</u> | <u>766,247</u> | <u>11,270</u> | <u>1,726,813</u> |
| <i>Net Assets End of Year</i> | <u>\$296,584</u> | <u>\$547,752</u> | <u>\$909,705</u> | <u>\$12,183</u> | <u>\$1,766,224</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 – REPORTING ENTITY

The Village of Milan, Erie County, Ohio (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member council elected at large for four year terms. The Mayor is elected to a four-year term and votes only to break a tie.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Village. The primary government of the Village of Milan provides the following services to its citizens: general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services. Council has direct responsibility for these services.

B. Joint Ventures and Public Entity Risk Pool

The Village is a member of JV2 and JV5 which are joint ventures with several other governments to produce electric power. These joint ventures are managed by American Municipal Power (AMP-Ohio). Note 16 to the financial statements provides additional information for these joint ventures. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Village does not report assets for equity interests in joint ventures.

The Village participates in a public entity risk pool. This organization is presented in Note 8 to the financial statements. This entity is the Ohio Plan Risk Management.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the *modified* cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. The statements distinguish between those activities of the Village that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each program or function of the Village's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program or business activity is self-financing on a cash basis or draws from the general receipts of the Village.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented in two categories: governmental and proprietary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Village are financed. The Village has four major governmental funds including the General Fund, Street Fund, Street Levy Fund, and Capital Improvement Fund.

- The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.
- The Street Fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Street Levy Fund receives property tax money for constructing, maintaining, and repairing Village roads and bridges.
- The Capital Improvement Fund receives income tax money for capital acquisitions and projects.

The other governmental funds of the Village account for and report grants and other resources, whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise funds.

Enterprise Funds -Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Village's major enterprise funds:

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Electric Fund - The sewer fund accounts for the provision of electric services to the residents and commercial users within the Village.

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Village Council may appropriate. The appropriations ordinance is Village Council's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by Village Council. The legal level of control has been established by Village Council at the fund, department, and object level for all funds.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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 negative receipts (contra revenue), respectively.

During 2011, the Village invested in nonnegotiable certificates of deposit, a savings account and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 20CY.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2011 was \$2,810 which includes \$2,573 assigned from other Village funds.

F. Inventory and Prepaid Items

The Village reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Accumulated Leave

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

VILLAGE OF MILAN
ERIE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for street improvements, police pension and computerization of the mayor's court.

The Village's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

VILLAGE OF MILAN
ERIE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Village Council. Those committed amounts cannot be used for any other purpose unless Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

For 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on fund balances of the major governmental funds and all other governmental funds as previously reported.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund, Street Fund, and Street Levy Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$2,632 for the General Fund and \$12,967 for the Street Fund.

NOTE 5 – DEPOSITS AND INVESTMENTS

Monies held by the Village are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the Village treasury. Active 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 Council has identified as not required for use within the current five 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 held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided 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 the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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 must be purchased with 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 represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Village had \$200 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$308,218 of the Village's bank balance of \$2,097,541 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2011 the Village had \$774,583 invested in STAR Ohio. STAR Ohio has a maturity of approximately one month.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

NOTE 6 – INCOME TAXES

The Village levies a one percent income tax on substantially all income earned in the Village. Employers within the Village withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

The Village's income tax ordinance requires twenty percent of the income tax receipts to be used to finance capital improvements. As a result, this portion of the receipts is allocated to the Capital Improvement capital projects fund each year. The remaining income tax receipts are to be used to pay the cost of administering the tax and general fund operations. In 2011, the receipts were allocated to the General Fund and the Capital Improvement Fund.

NOTE 7 – PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2011, was \$88.85 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

| | |
|-----------------------|---------------------|
| Real Property: | |
| Residential | \$22,946,300 |
| Agricultural | 290,780 |
| Other | 4,095,870 |
| Public Utility | |
| Personal | 879,270 |
| Total Assessed Values | <u>\$28,212,220</u> |

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 7 – PROPERTY TAXES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

NOTE 8 – RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (41.5% effective November 1, 2011, 40% through October 31, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-----------------|--------------------|--------------------|
| Assets | \$12,501,280 | \$12,036,541 |
| Liabilities | (5,328,761) | (4,845,056) |
| Members' Equity | <u>\$7,172,519</u> | <u>\$7,191,485</u> |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description – The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is 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 the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, 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.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The Village's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the Village's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The Village's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$49,228, \$62,475, and \$53,427, respectively. 88.25 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers. The Village's contributions to OP&F for police pension for the years ended December 31, 2011, 2010, and 2009 were \$18,268, \$17,535 and \$26,797 respectively. 95.40 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 for 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Village's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$19,691, \$14,857, and \$47,176, respectively. 88.25 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan. OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions to OP&F which were allocated to fund post-employment health care benefits for police was \$9,671 for the year ended December 31, 2011, \$9,283 for the year ended December 31, 2010, and \$26,797 for the year ended December 31, 2009. 95.40 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

NOTE 11 – NOTES PAYABLE

The changes in the Village's notes payable during 2011 were as follows:

| | Interest Rate | Balance 12/31/10 | Additions | Deletions | Balance 12/31/11 |
|---------------------------------------|---------------|---------------------|-----------|-----------|---------------------|
| <u>Governmental Activities</u> | | | | | |
| 2002 Land Purchase Note | 4.50% | \$32,451 | | \$22,636 | \$9,815 |

In 2002 the Village entered into an agreement for the purchase of property for the construction of a building to house all Village offices. The note will be repaid in monthly installments, including interest, over 10 years.

Principal and interest requirements to retire notes payable outstanding at December 31, 2011, were as follows:

| Year | Land Purchase Note | |
|------|--------------------|----------|
| | Principal | Interest |
| 2012 | \$9,815 | \$110 |

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 12 - DEBT

The changes in the Village's long-term debt during 2011 was as follows:

| | | Amount Outstanding 12/31/10 | Additions | Deletions | Amount Outstanding 12/31/11 | Amounts Due in One Year |
|---------------------------------|---------------|-----------------------------------|-----------|-----------|-----------------------------------|-------------------------------|
| | Interest Rate | | | | | |
| <u>Governmental Activities</u> | | | | | | |
| Lockwood Road Project Bond | | | | | | |
| 1999 Issue | | | | | | |
| Original Amount \$75,000 | 6% | \$46,000 | | \$4,000 | \$42,000 | \$4,000 |
| <u>Business-type Activities</u> | | | | | | |
| 1992 OWDA Loan | | | | | | |
| Original Amount \$1,061,767 | 7.03% | 628,488 | | 66,587 | 561,901 | 71,268 |
| 1993 OMEGA JV5 Loan | | | | | | |
| Original Amount \$437,946 | 2-5% | 353,225 | | 18,260 | 334,965 | 18,861 |
| Total Business-type Activities | | \$981,713 | | \$84,847 | \$896,866 | \$90,129 |

The Lockwood Road Project Bond relates to a road improvement project. The bond will be repaid in semiannual installments over 20 years. The Village levies special assessments to pay the annual debt service.

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan will be repaid in semiannual installments, including interest, over 25 years. The loan is secured by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OMEGA JV5 loan relates to the purchase of Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA-JV5). OMEGA-JV5 is a distributive generation project.

The following is a summary of the Village's future annual debt service requirements:

| Year | Lockwood Road Project Bond | | OWDA Loan | | OMEGA JV5 Loan | |
|-----------|-------------------------------|----------|-----------|-----------|----------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$4,000 | \$2,520 | \$71,268 | \$39,333 | \$18,861 | \$21,992 |
| 2013 | 4,000 | 2,280 | 76,279 | 34,344 | 19,812 | 21,050 |
| 2014 | 5,000 | 2,040 | 81,641 | 29,005 | 20,783 | 20,057 |
| 2015 | 5,000 | 1,740 | 87,380 | 23,290 | 21,850 | 19,022 |
| 2016 | 5,000 | 1,440 | 93,523 | 17,173 | 23,480 | 18,010 |
| 2017-2021 | 19,000 | 2,340 | 151,810 | 14,284 | 133,194 | 71,096 |
| 2022-2024 | | | | | 96,985 | 25,590 |
| Total | \$42,000 | \$12,360 | \$561,901 | \$157,429 | \$334,965 | \$196,817 |

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 12 – DEBT (Continued)

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2011, were an overall debt margin of \$2,916,283 and an unvoted debt margin of \$1,505,672.

NOTE 13 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below

| Fund Balances | General Fund | Street Fund | Street Levy Fund | Capital Improvement Fund | Other Governmental Funds | Total |
|----------------------------|------------------|------------------|------------------|--------------------------|--------------------------|--------------------|
| Restricted for | | | | | | |
| Road Improvements | | \$231,791 | \$231,290 | | \$75,149 | \$538,230 |
| Capital Improvements | | | | \$204,779 | | 204,779 |
| Police Operations | | | | | 687 | 687 |
| Police Pension | | | | | 12,831 | 12,831 |
| Mayor's Court Computer | | | | | 5,258 | 5,258 |
| Debt Service | | | | | 1,757 | 1,757 |
| Issue II Projects | | | | | 44,331 | 44,331 |
| <i>Total Restricted</i> | | <u>231,791</u> | <u>231,290</u> | <u>204,779</u> | <u>140,013</u> | <u>807,873</u> |
| Assigned to | | | | | | |
| Police Operations | \$2,606 | | | | | 2,606 |
| Other Purposes | 26 | | | | | 26 |
| <i>Total Assigned</i> | <u>2,632</u> | | | | | <u>2,632</u> |
| Unassigned: | 244,961 | | | | | 244,961 |
| <i>Total Fund Balances</i> | <u>\$247,593</u> | <u>\$231,791</u> | <u>\$231,290</u> | <u>\$204,779</u> | <u>\$140,013</u> | <u>\$1,055,466</u> |

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 – INTERFUND TRANSFERS

During 2011 the following transfers were made:

| Transfers To | Transfers From |
|---------------------------------|-----------------------|
| | General |
| Major Governmental Fund | |
| Street Fund | \$60 |
| Other Governmental Funds | |
| Police Pension Fund | 20,000 |
| Major Business-Type Fund | |
| Electric Fund | 7,232 |
| Total | \$27,292 |

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 15 – CONTINGENT LIABILITIES

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Village's financial condition.

NOTE 16 – JOINT VENTURES

A. Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2)

The Village is a Non-Financing Participant and an Owner Participant with an ownership percentage of .55% 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 and to pay or incur the costs of the same in accordance with the JV2 Agreement.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 16 – JOINT VENTURES (Continued)

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. 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, which acts as the joint venture's agent. During 2001, AMP 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. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2011, the outstanding debt was \$23,633,931. The Village's net investment in OMEGA JV2 was \$160,496 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us. The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 are:

| Municipality | Percent Ownership | Kw Entitlement | Municipality | Percent Ownership | Kw Entitlement |
|----------------|-------------------|----------------|----------------|-------------------|----------------|
| Hamilton | 23.87% | 32,000 | Grafton | 0.79% | 1,056 |
| Bowling Green | 14.32% | 19,198 | Brewster | 0.75% | 1,000 |
| Niles | 11.49% | 15,400 | Monroeville | 0.57% | 764 |
| Cuyahoga Falls | 7.46% | 10,000 | Milan | 0.55% | 737 |
| Wadsworth | 5.81% | 7,784 | Oak Harbor | 0.55% | 737 |
| Painesville | 5.22% | 7,000 | Elmore | 0.27% | 364 |
| Dover | 5.22% | 7,000 | Jackson Center | 0.22% | 300 |
| Galion | 4.29% | 5,753 | Napoleon | 0.20% | 264 |
| Amherst | 3.73% | 5,000 | Lodi | 0.16% | 218 |
| St. Mary's | 2.98% | 4,000 | Genoa | 0.15% | 199 |
| Montpelier | 2.98% | 4,000 | Pemberville | 0.15% | 197 |
| Shelby | 1.89% | 2,536 | Lucas | 0.12% | 161 |
| Versailles | 1.24% | 1,660 | South Vienna | 0.09% | 123 |
| Edgerton | 1.09% | 1,460 | Bradner | 0.09% | 119 |
| Yellow Springs | 1.05% | 1,408 | Woodville | 0.06% | 81 |
| Oberlin | 0.91% | 1,217 | Haskins | 0.05% | 73 |
| Pioneer | 0.86% | 1,158 | Arcanum | 0.03% | 44 |
| Seville | 0.79% | 1,066 | Custar | 0.00% | 4 |
| | <u>95.20%</u> | <u>127,640</u> | | <u>4.80%</u> | <u>6,441</u> |
| | | | Grand Total | <u>100.00%</u> | <u>134,081</u> |

B. Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)

The Village 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.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 16 – JOINT VENTURES (Continued)

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.

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, 2011 the Village has met its debt coverage obligation.

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, which acts as the joint venture's agent. During 1993 and 2001 AMP 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 \$41,422 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 – SEGMENT INFORMATION FOR ENTERPRISE FUND

Included in the services provided by the Village financed primarily by user charges are water treatment and distribution, wastewater collection and treatment and electric utility services. The key financial information for the electric utility services for the year ended December 31, 2011 is indicated below.

| | Electric | Other | Total |
|---|-----------|------------|------------|
| | Fund | Enterprise | Enterprise |
| | Fund | Funds | Funds |
| As of December 31, 2011: | | | |
| Operating Cash Receipts | 1,391,093 | 510,948 | 1,902,041 |
| Operating Cash Disbursements | 1,195,854 | 428,712 | 1,624,566 |
| Operating Income | 195,239 | 82,236 | 277,475 |
| Capital Outlay | 18,152 | 72,700 | 90,852 |
| Debt Service | 40,861 | 110,581 | 151,442 |
| Other Non-Operating | | 3,002 | 3,002 |
| Transfers In | 7,232 | | 7,232 |
| Fund Cash Balance at 12/31/11 | 909,705 | 856,519 | 1,766,224 |
| Net Receipts Over/(Under) Disbursements | 136,226 | (96,815) | 39,411 |

NOTE 18 – AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The Village is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 18 – AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT (Continued)

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to the Village of 1,259 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village has a potential stranded cost obligation of \$205,916 for the AMPGS Project. The Village does not have any payments on deposit with AMP at December 31, 2011.

Recording of Stranded Costs

The Village has not recorded stranded costs for the AMPGS Project.

The Village has not requested an invoice from AMP for the potential stranded costs identified in the memos AMP sent in November and December of 2011. The Village is not intending to request an invoice from AMP until such time as the litigation with the EPC contractor is finalized.

Had the Village chosen to expense the potential stranded costs the Village believes it would not have violated its debt covenant obligation with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon its Village Solicitor, information provided by AMP and its legal counsel with respect to the data, as well as the Village's audit team and Village management.

This page intentionally left blank.



Dave Yost • Auditor of State

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

Village of Milan
Erie County
11 South Main Street, P.O. Box 1450
Milan, Ohio 44846-1450

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Milan, Erie County, Ohio (the Village), as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements and have issued our report thereon dated March 8, 2013, wherein we noted the Village uses a comprehensive accounting basis other than generally accepted accounting principles and the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-002 through 2011-004 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-001 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 and 2011-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated March 8, 2013.

We intend this report solely for the information and use of management, the audit committee, the Village Council, and others within the Village. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

March 8, 2013

VILLAGE OF MILAN
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-001

Noncompliance Citation / Significant Deficiency

Ohio Revised Code § 1907.261(B)(1) states in part that a court may determine that, for the efficient operation of the court, additional funds are required to computerize the office of the clerk of the court and, upon that determination, may include in its schedule of fees and costs under section 1907.24 of the Revised Code an additional fee not to exceed ten dollars on the filing of each cause of action or appeal, on the filing, docketing, and endorsing of each certificate of judgment, or on the docketing and indexing of each aid in execution or petition to vacate, revive, or modify a judgment. All monies collected under this section shall be placed into a separate fund.

The Village has not established a separate fund to account for the additional fees collected under this section. The financial statements and Village accounting records have been adjusted to reflect \$1,750 in Mayor's Court receipts collected under this section as being deposited into the Mayor's Court Computer Fund. Previously these monies were deposited into the General Fund.

The Village should establish a Mayor's Court Computer Fund to account for monies received under this section.

FINDING NUMBER 2011-002

Material Weakness – Recording Grant Activity

The Village was the beneficiary of \$3,198 of Ohio Public Works Commission (OPWC) grant monies sent directly to the vendors by OPWC. The Fiscal Officer did not record the receipt and disbursement of this activity. Auditor of State Bulletins 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements in a capital project fund when the Village applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect these amounts in the OPWC Issue II Capital Projects Fund.

Sound financial reporting is the responsibility of the Fiscal Officer and Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. The Fiscal Officer can review Auditor of State Bulletins 2000-008 and 2002-004 for accounting guidance for certain on-behalf-of grants or improvement projects.

FINDING NUMBER 2011-003

Noncompliance Citation / Material Weakness

Ohio Revised Code, § 5705.10(D), states in part all revenues derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

**FINDING NUMBER 2011-003
 (Continued)**

The Fiscal Officer posted rollbacks, real estate, permissive motor vehicle license, public utility reimbursement, state and local government highway distribution, electric company income tax, dealers in intangibles, and gasoline excess tax monies to improper funds. The following table identifies the amounts recorded in error:

| <u>Fund Type/Fund</u> | <u>Amount</u> |
|--------------------------|---------------|
| Major Funds: | |
| General Fund | (\$9,970) |
| Street Fund | (8,796) |
| Street Levy Fund | 9,091 |
| Capital Improvement Fund | 687 |
| Electric Fund | (4,694) |
| Non-Major Funds: | |
| State Highway Fund | (95) |
| Permissive Tax Fund | 12,646 |
| Police Pension Fund | 1,131 |

The accompanying financial statements and Village accounting records have been adjusted to reflect these changes.

Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the Village Council, to identify and correct errors and omissions, as well as recording correct budgetary information. Also, the Fiscal Officer can refer to the Ohio Village Officer's Handbook available from the following web address for guidance on the posting of transactions:
<http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/Village%20Officers%20Handbook%202012.pdf>

FINDING NUMBER 2011-004

Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Fiscal Officer and Village Council and is essential to ensure the information provided to readers of the financial statements is complete and accurate. Material audit adjustments and reclassifications ranging in amount from \$994 to \$100,659 were recorded to the financial statements. In addition, errors were noted in the classification of certain receipt and disbursement transactions ranging in amount from \$800 to \$35,809. These amounts have been posted to our Summary of Unadjusted Differences and the financial statements do not reflect these amounts. Additionally, various adjustments/revisions were required to correct incomplete and/or inaccurate disclosures in the notes to the financial statements originally submitted for audit.

FINDING NUMBER 2011-004
(Continued)

To ensure the Village's financial statements are complete and accurate the Fiscal Officer should review the coding of accounts included in the Village Officer's Handbook at:

<http://www.ohioauditor.gov/services/lgs/publications/LocalGovernmentManualsHandbooks/Village%20Officers%20Handbook%202012.pdf>

The Fiscal Officer should also utilize the Other Comprehensive Basis of Accounting (OCBOA) financial statements and notes available at:

<http://www.ohioauditor.gov/services/lgs/AICPAInterpretation/default.htm>

Officials' Response:

We did not receive a response from Officials to the findings reported above.

This page intentionally left blank.

**VILLAGE OF MILAN
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|---|
| 2010-001 | Recording on-behalf-of grant activity. | No | Not corrected. Repeated as Finding 2011-002 in this report. |
| 2010-002 | Ohio Revised Code § 5705.39 – Appropriations exceeding certified resources. | Yes | |
| 2010-003 | Ohio Revised Code § 5705.10(D) – Distribution of revenue. | No | Not corrected. Repeated as Finding 2011-003 in this report. |
| 2010-004 | Joint Venture Agreement Among the Municipalities Listed Regarding Ohio Municipal Electric Aggregation Agency Joint Venture 5 Belleville Hydroelectric Project dated January 1, 1993, Section 17 for the failure to establish rates sufficient to meet revenue coverage requirement. | Yes | |
| 2010-005 | Errors in the classification of receipts and expenditures. | No | Not corrected. Repeated as Finding 2011-004 in this report. |

This page intentionally left blank.



Dave Yost • 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
MARCH 26, 2013