



**Auditor of State
Betty Montgomery**

**VILLAGE OF MILAN
ERIE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Funds - For the Year Ended December 31, 2003.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary Funds - For the Year Ended December 31, 2003.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Funds - For the Year Ended December 31, 2002.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary Funds - For the Year Ended December 31, 2002.....	6
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	19
Schedule of Findings.....	21
Schedule of Prior Audit Findings	24

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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 Village of Milan, Erie County, (the Village) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As described in Note 9, the Village changed the classification of the Police Disability and Pension Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

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

Betty Montgomery
Auditor of State

July 27, 2004

**VILLAGE OF MILAN
ERIE COUNTY**

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 377,211	\$ 71,020	\$ 70,973	\$ 519,204
Intergovernmental Receipts	117,248	81,514	17,908	216,670
Charges for Services	100			100
Fines, Licenses, and Permits	40,909	383		41,292
Earnings on Investments	29,581	2,227		31,808
Miscellaneous	16,561	2,523		19,084
	<u>581,610</u>	<u>157,667</u>	<u>88,881</u>	<u>828,158</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	237,847	20,656		258,503
Leisure Time Activities	8,802			8,802
Community Environment	4,579			4,579
Transportation	114,217	60,599		174,816
General Government	102,000	1,282		103,282
Debt Service:				
Principal Payments			2,000	2,000
Interest Payments			4,200	4,200
Capital Outlay	12,492	20,009	882,109	914,610
	<u>479,937</u>	<u>102,546</u>	<u>888,309</u>	<u>1,470,792</u>
Total Receipts Over/(Under) Disbursements	<u>101,673</u>	<u>55,121</u>	<u>(799,428)</u>	<u>(642,634)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		13,656	348,000	361,656
Transfers-Out	(384,886)		(23,630)	(408,516)
	<u>(384,886)</u>	<u>13,656</u>	<u>324,370</u>	<u>(46,860)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(283,213)	68,777	(475,058)	(689,494)
Fund Cash Balances, January 1	909,215	235,031	698,776	1,843,022
Fund Cash Balances, December 31	<u>\$ 626,002</u>	<u>\$ 303,808</u>	<u>\$ 223,718</u>	<u>\$ 1,153,528</u>
Reserves for Encumbrances, December 31	<u>\$ 2,225</u>	<u>\$ 10,407</u>	<u>\$ 22,000</u>	<u>\$ 34,632</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF MILAN
ERIE COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,374,639
Total Operating Cash Receipts	1,374,639
Operating Cash Disbursements:	
Personal Services	336,202
Travel Transportation	2,458
Contractual Services	559,318
Supplies and Materials	47,624
Capital Outlay	24,232
Total Operating Cash Disbursements	969,834
Operating Income	404,805
Non-Operating Cash Receipts:	
Proceeds from Notes and Bonds	210,000
Other Non-Operating Receipts	4,229
Total Non-Operating Cash Receipts	214,229
Non-Operating Cash Disbursements:	
Debt Service	468,414
Other Non-Operating Cash Disbursements	9,046
Total Non-Operating Cash Disbursements	477,460
Excess of Receipts Over Disbursements	
Before Interfund Transfers and Advances	141,574
Transfers-In	121,860
Transfers-Out	(75,000)
Net Receipts Over Disbursements	188,434
Fund Cash Balances, January 1	1,312,864
Fund Cash Balances, December 31	\$ 1,501,298
Reserve for Encumbrances, December 31	\$ 40,692

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF MILAN
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 295,253	\$ 96,054	\$ 38,137	\$ 429,444
Special Assessments			7,448	7,448
Intergovernmental Receipts	156,493	65,698	156,451	378,642
Charges for Services	100			100
Fines, Licenses, and Permits	34,990	490		35,480
Earnings on Investments	58,176	4,379		62,555
Miscellaneous	17,907	12		17,919
Total Cash Receipts	562,919	166,633	202,036	931,588
Cash Disbursements:				
Current:				
Security of Persons and Property	220,379	17,017		237,396
Leisure Time Activities	15,317			15,317
Community Environment	2,986			2,986
Transportation	100,213	56,589		156,802
General Government	94,836	1,712		96,548
Debt Service:				
Principal Payments			2,000	2,000
Interest Payments			4,320	4,320
Capital Outlay	7,631	18,686	479,696	506,013
Total Cash Disbursements	441,362	94,004	486,016	1,021,382
Total Receipts Over/(Under) Disbursements	121,557	72,629	(283,980)	(89,794)
Other Financing Receipts and (Disbursements):				
Other Sources			1,500	1,500
Transfers-In		23,305	304,295	327,600
Transfers-Out	(347,355)	(4,379)	(13,784)	(365,518)
Total Other Financing Receipts/(Disbursements)	(347,355)	18,926	292,011	(36,418)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(225,798)	91,555	8,031	(126,212)
Restated Fund Cash Balances, January 1	1,135,013	143,476	690,745	1,969,234
Fund Cash Balances, December 31	\$ 909,215	\$ 235,031	\$ 698,776	\$ 1,843,022
Reserves for Encumbrances, December 31	\$ 200	\$ 10,000		\$ 10,200

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF MILAN
ERIE COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,385,021
Total Operating Cash Receipts	1,385,021
Operating Cash Disbursements:	
Personal Services	343,608
Travel Transportation	2,020
Contractual Services	528,615
Supplies and Materials	51,594
Capital Outlay	65,356
Total Operating Cash Disbursements	991,193
Operating Income	393,828
Non-Operating Cash Receipts:	
Miscellaneous	1,284
Proceeds from Notes and Bonds	230,000
Other Non-Operating Receipts	2,425
Total Non-Operating Cash Receipts	233,709
Non-Operating Cash Disbursements:	
Debt Service	554,009
Other Non-Operating Cash Disbursements	9,452
Total Non-Operating Cash Disbursements	563,461
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	64,076
Transfers-In	112,918
Transfers-Out	(75,000)
Net Receipts Over Disbursements	101,994
Fund Cash Balances, January 1	1,210,870
Fund Cash Balances, December 31	\$ 1,312,864
Reserve for Encumbrances, December 31	\$ 5,746

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Milan, Erie County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, electric utilities, park operations, and police services. The Village contracts with Milan Township to provide fire protection services.

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

Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1)

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

Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

The Village of Milan is a Non-Financing Participant and an Owner Participant with an ownership percentage of .55 percent and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$271,372 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the Village's Administrator.

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

The Village of Milan is a Financing Participant with an ownership percentage of .35 percent, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA JV5 Agreement, the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the OMEGA JV5 Agreement.

OMEGA JV5 was created to construct a run-of-the-river hydroelectric plant and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and receives electricity from its operations and to provide backup generation facilities for OMEGA JV5 Participants. The purpose of the OMEGA JV5 Project was 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 42 MW of distributed generation. On dissolution of OMEGA JV5, the net assets will be

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

shared by the financing participants on a percentage of ownership basis. OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV5. The net proceeds of the bond issues of \$134,302,799 from the 1993 issue and \$12,800,000 from the 2001 issue were contributed to OMEGA JV5. The Village's net obligation for these bonds at December 31, 2003 was \$472,413 for the 1993 issue and \$55,543 for the 2001 issue. The Village's net investment and its share of operating results of OMEGA JV5 are reported in the Village's electric fund (an enterprise fund). The Village's net investment in OMEGA JV5 was \$27,628 at December 31, 2003. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the Village's Administrator.

The Village's liability for the 1993 bonds is disclosed below:

Year	Principal	Interest	Total	Village's Share
2004	\$ 3,620,000	\$ 7,295,111	\$ 10,915,111	\$ 38,203
2005	3,800,000	7,110,491	10,910,491	38,187
2006	4,000,000	6,910,991	10,910,991	38,188
2007	4,215,000	6,695,991	10,910,991	38,188
2008	4,445,000	6,468,381	10,913,381	38,197
2009 - 2024	114,895,000	59,703,513	174,598,513	611,095
Total	<u>\$ 134,975,000</u>	<u>\$ 94,184,478</u>	<u>\$ 229,159,478</u>	<u>\$ 802,058</u>

The Village's obligation for principal and interest on the 2001 bonds begins in 2025. The Village's total liability for the 2001 bonds is disclosed below.

Years	Principal	Interest	Total Maturity
2025	\$ 10,620	\$ 27,583	\$ 38,203
2026	10,034	28,169	38,203
2027	9,478	28,725	38,203
2028	8,952	29,251	38,203
2029	8,105	28,523	36,628
2030	1,462	5,538	7,000
Total Liability	<u>\$ 48,651</u>	<u>\$ 147,789</u>	<u>\$ 196,440</u>

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

B. Basis of Accounting

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

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

3. Capital Project Funds

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

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

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

4. Enterprise Funds

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

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

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

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

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2003</u>	<u>2002</u>
Demand deposits	\$ 737,906	\$ 1,011,012
STAR Ohio	1,916,920	2,144,874
Total deposits and investments	<u>\$ 2,654,826</u>	<u>\$ 3,155,886</u>

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 617,063	\$ 581,610	\$ (35,453)
Special Revenue	274,020	171,323	(102,697)
Capital Projects	262,438	436,881	174,443
Enterprise	1,850,600	1,710,728	(139,872)
Total	\$ 3,004,121	\$ 2,900,542	\$ (103,579)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 691,594	\$ 867,048	\$ (175,454)
Special Revenue	306,106	112,953	193,153
Capital Projects	1,193,008	933,939	259,069
Enterprise	2,152,554	1,562,986	589,568
Total	\$ 4,343,262	\$ 3,476,926	\$ 866,336

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 618,500	\$ 562,919	\$ (55,581)
Special Revenue	181,153	189,938	8,785
Capital Projects	208,000	507,831	299,831
Enterprise	1,225,600	1,731,648	506,048
Total	<u>\$ 2,233,253</u>	<u>\$ 2,992,336</u>	<u>\$ 759,083</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 608,354	\$ 788,917	\$ (180,563)
Special Revenue	264,723	108,383	156,340
Capital Projects	789,125	499,800	289,325
Enterprise	2,253,723	1,635,400	618,323
Total	<u>\$ 3,915,925</u>	<u>\$ 3,032,500</u>	<u>\$ 883,425</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$175,454 as of December 31, 2003. As of December 31, 2002, expenditures exceeded appropriation authority in the General Fund by \$180,563, the Issue II Fund by \$166,522, and in the State Highway Fund by \$2,614. Also contrary to Ohio law appropriation authority exceeded estimated resources in the Utility Building Fund by \$438,996, Electric Fund Debt Service Fund by \$89,885, Special Assessments Fund by \$6,167, Police Pension Fund by \$3,297 and in the State Highway Fund by \$718 as of December 31, 2003. As of December 31, 2002, appropriation authority exceeded estimated resources in the Electric Fund by \$893,551, Utility Building Fund by \$160,201, Electric Fund Debt Service Fund by \$31,583, Special Assessments Fund by \$6,221, and in the Sewer Replacement Fund by \$3,800.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one-half percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Pursuant to the Village's Codified Ordinances, eighty percent of the revenue is allocated to the General fund and twenty percent is allocated to the Capital Improvement fund.

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

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$ 986,972	7.00%
Sewage System Improvement Notes	210,000	2.59%
AMP-Ohio Loan	108,829	3.50%
Lockwood Road Project Bond	68,000	6.00%
Total	<u>\$ 1,373,801</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan agreement was entered into during August 1992. The original loan amount was \$1,287,380. The loan will be repaid in semiannual installments of \$55,385, including interest, over 20 years. The Village was advised in July 2003 that the

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

OWDA was reducing the interest rate from 7.30 percent to 7.00 percent. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The semiannual payment of \$55,385 due January 1, 2004 was paid by the Village prior to December 31, 2003. The outstanding debt principal schedule above and the amortization schedule below have been adjusted to reflect that this payment had been made during 2003.

The Sewage System Improvement note is a bond anticipation debt and consists of \$210,000 of sewerage system improvement debt for sewerage system improvements.

The American Municipal Power-Ohio, Inc. (AMP-Ohio) loan relates to an electrical substation and distribution line construction project. The loan was entered into during January 1997, in the amount of \$700,000. In fiscal year 2001, an additional loan of \$422,000 was entered into to finance the construction of an electric service building and enter into OMEGA JV2 (Distributive Generation Project), a joint venture organized by AMP Ohio. The loans will be repaid in monthly installments over 10 years. Interest rates on the loans are adjusted annually. The interest rate for fiscal year 2004 will be at 1.40 percent. The amortization schedule below is based on an outstanding principal amount of \$655,109 at December 31, 2003, and final payment being made in December 2010.

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

Year ending December 31:	OWDA Loan	Sewage System Improvement Notes	AMP-Ohio Loan	Lockwood Road Bond
2004	\$ 55,385	\$ 210,000	\$ 97,639	\$ 7,080
2005	110,770		97,639	6,900
2006	110,770		97,639	6,720
2007	110,770		97,639	6,540
2008	110,770		97,639	6,360
2009 - 2013	553,850		203,414	32,740
2014 - 2018	553,850			34,140
2019 - 2023				7,420
Total	<u>\$ 1,606,165</u>	<u>\$ 210,000</u>	<u>\$ 691,609</u>	<u>\$ 107,900</u>

In fiscal year 2002, the Village entered into an agreement for the purchase of property for the construction of a building to house all Village Offices and the Village Police Station.

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

The Village signed a promissory note in the amount of \$190,000 for the purchase of property with a stated rate of interest at 4.5 percent. The note is to be paid in equal monthly installments commencing June 10, 2002. On May 10, 2007, the rate of the note shall be adjusted to the minimum applicable federal rate. The Village will then make equal monthly payments on the remaining balance such that the entire outstanding principal balance will be paid in full on May 10, 2012.

Amortization of the above promissory note, including interest, through December 31, 2006, is scheduled as follows:

<u>Year Ending December 31:</u>	<u>Promissory Note</u>
2004	\$ 23,630
2005	23,630
2006	23,630
Total	<u>\$ 70,890</u>

Payments totaling \$7,876 will be made from January 2007 through April 2007 at which time the payment schedule will be adjusted for the change in rate discussed above.

7. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. Members of OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

8. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self-

**VILLAGE OF MILAN
ERIE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

insurance risk management program and other administrative services to approximately 500 Ohio governments (Members).

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages, modified for each Member's needs. The Plan pays judgments, settlements, and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, the Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

	2003	2002
Assets	\$ 5,402,167	\$ 5,584,592
Liabilities	(1,871,123)	(2,441,793)
Members' Equity	\$ 3,531,044	\$ 3,142,799

9. FUND RECLASSIFICATION

In prior years, the Police Disability and Pension Fund has been reported as an Expendable Trust Fund. During fiscal year 2002, the Village determined that the Police Disability and Pension Fund should be reported as a special revenue fund in order to represent its intended purpose. The effect on fund balances at December 31, 2001, is as follows:

	Special Revenue	Expendable Trust
Fund Balance December 31, 2001	\$ 128,637	\$ 14,839
Adjustment for Fund Reclassification	14,839	(14,839)
Restated Fund Balance December 31, 2001	\$ 143,476	



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL 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 Village of Milan, Erie County, (the Village) as of and for the years ended December 31, 2003 and 2002 and have issued our report thereon dated July 27, 2004, in which we noted that the Village changed the classification of the Police Disability and Pension Fund. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001, 2003-002, and 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 27, 2004.

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



Betty Montgomery
Auditor of State

July 27, 2004

**VILLAGE OF MILAN
ERIE COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Our testing of budgetary compliance as of the dates indicated below identified the following instances in which expenditures exceeded appropriations in the following funds as of the fiscal year ends:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>Year ending December 31, 2003</u>			
General Fund	\$ 691,594	\$ 867,048	\$ (175,454)
 <u>Year ending December 31, 2002</u>			
General Fund	\$ 608,354	\$ 788,917	\$ (180,563)
Issue II Fund	190,000	356,522	(166,522)
Electric Fund Debt Service Fund	13,784	31,583	(17,799)
State Highway Fund	7,000	9,614	(2,614)

Management was advised that the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures to exceed available resources, further resulting in deficit spending practices.

Results of budgetary compliance testing also indicated the following funds had expenditures in excess of appropriations during the fiscal years ending December 31, 2003 and December 31, 2002: General, Utility Building, Electric, Street Construction, Electric, Police Pension, Issue II, Utility Building Water, Sewer and Electric Fund Debt Service Fund. The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. Our test of budgetary compliance at December 31, 2003 and 2002 indicated the following funds had appropriations in excess of estimated resources:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<u>Year ending December 31, 2003</u>			
Utility Building Fund	\$ 459,842	\$ 898,808	\$ (438,966)
Electric Fund Debt Service Fund		89,885	(89,885)
Special Assessments Fund	33	6,200	(6,167)
Police Pension Fund	18,359	21,656	(3,297)
State Highway Fund	12,282	13,000	(718)
<u>Year ending December 31, 2002</u>			
Electric Fund	\$ 70,000	\$ 963,551	\$ (893,551)
Utility Building Fund	290,000	468,000	(178,000)
Electric Fund Debt Service Fund		13,784	(13,784)
Special Assessments Fund	99	6,320	(6,221)
Sewer Replacement Fund	21,200	25,000	(3,800)

The failure to limit appropriations to estimated resources could lead to negative fund balances, ultimately resulting in deficit spending.

The Fiscal Officer may request Council to approve amending estimated resources, if necessary.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5735.28 states that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half percent of the amount paid to any municipal corporation pursuant to Ohio Revised Code § 4501.04, Ohio Revised Code § 5735.23, and Ohio Revised Code § 5735.27 shall be used by it for specified purposes related to maintenance and repair of such highways.

FINDING NUMBER 2003-003
(Continued)

The remaining ninety-two and one-half percent of funds are to be used for purposes related to maintenance and repair of streets within the Village. The following errors were noted in the recording of revenues derived under the above Revised Code sections:

- All fiscal year 2003 gas tax receipts in the amount of \$13,418 were improperly credited to the General Fund. Of this amount, \$12,412 should have been credited to the Street Construction Fund and \$1,006 should have been credited to the State Highway Fund.
- The September 2003 permissive tax receipt in the amount of \$490 was incorrectly posted to the General Fund rather than the Permissive Tax Fund.
- The State Highway portion of the May, 2003 gas tax receipt in the amount of \$764 was incorrectly posted to the Street Construction Fund.
- All fiscal year 2002 gas tax receipts from April, 2002 through the end of the fiscal year in the amount of \$4,825 were improperly credited to the General Fund. Of this amount, \$4,463 should have been credited to the Street Construction Fund and \$362 should have been credited to the State Highway Fund.

The failure to properly receipt monies into the proper fund could result in funds being expended for unallowable purposes. Upon our bringing these matters to managements attention, the Village has recorded adjustments in the financial accounting records to correct the errors noted.

**VILLAGE OF MILAN
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> :
2001-30522-001	Ohio Revised Code § 5705.39 appropriations limited by estimated resources	No	Not corrected. Reissued as Finding 2003-002.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF MILAN

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 24, 2004**