

***VILLAGE OF MILAN***

**ERIE COUNTY, OHIO**

**AUDIT REPORT**

**For the Years Ended December 31, 2017 and 2016**





# OHIO AUDITOR OF STATE KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Village of Milan, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

## **Finding for Recovery**

The Village of Milan sick leave policy states in part, "Employees may use sick leave, upon the approval of Council, for absences due to illness, injury, exposure to contagious diseases which could be communicated to other employees...". An employee in sick leave status is presumed to be unable to perform their job duties and subsequently unable to earn compensatory time.

Mary Bruno, former fiscal officer for the Village, was responsible for processing payroll for all Village employees including her own. She was also the sole signatory on all payroll checks. Ms. Bruno was on requested medical sick leave from October 30, 2016 through December 10, 2016. She was verbally permitted to work from home during this time, but was advised to charge regular time during the hours she worked rather than use sick leave.

During the pay period November 13, 2016 through November 26, 2016, while on medical leave, Ms. Bruno accrued 68 hours of compensatory time which converted to 102 hours of compensatory time earned at the rate of time and a half. Ms. Bruno should not have been paid at time and one half for hours worked at home, but should have charged regular time rather than sick leave. Therefore, the additional 34 hours of compensatory time, in the amount of \$1,033 should not have been earned.

In addition during this pay period, Ms. Bruno was in sick leave status and paid out at 100% for 64 sick leave hours totaling \$1,946. This results in a total overpayment of 64 hours for her being paid during the pay period for both sick leave and compensatory time in addition to being paid for 34 hours of inappropriately calculated compensatory time, outlined above, resulting in a total overpayment of 98 hours and totaling \$2,979.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Mary Bruno in the amount of \$2,979 and in favor of the Village's General Fund, Water Fund, Sewer Fund, and Electric Fund in the following amounts, respectively, \$1,489, \$447, \$447 and \$596.

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



Keith Faber  
Auditor of State  
Columbus, Ohio

May 10, 2019



**VILLAGE OF MILAN  
 ERIE COUNTY  
 Audit Report  
 For the Years Ended December 31, 2017 and 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

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

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the governmental activities, 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 years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

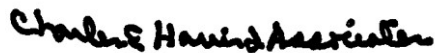
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Milan, Erie County, Ohio, as of December 31, 2017 and 2016, and the respective changes in cash financial position and the budgetary comparison for the General and Street Levy funds thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



*Charles E. Harris & Associates, Inc.*  
April 12, 2019

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Net Position - Cash Basis*  
*December 31, 2017*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in pooled cash and cash equivalents	\$ 1,441,995	\$ 1,880,396	\$ 3,322,391
<b>Net Position</b>			
Restricted for:			
Capital projects	499,831	-	499,831
Debt service	3,520	-	3,520
Other purposes	446,520	-	446,520
Unrestricted	492,124	1,880,396	2,372,520
Total net position	\$ 1,441,995	\$ 1,880,396	\$ 3,322,391

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2017*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
			Contributions and Interest				
<b>Governmental Activities</b>							
Current:							
General government	\$ 94,779	\$ 100,149	\$ -	\$ -	\$ 5,370	\$ -	\$ 5,370
Security of persons and property	382,810	2,254	450	-	(380,106)	-	(380,106)
Leisure time activities	7,666	-	-	-	(7,666)	-	(7,666)
Community environment	11,599	-	-	-	(11,599)	-	(11,599)
Transportation	324,916	9,106	84,868	8,183	(222,759)	-	(222,759)
Debt service:							
Principal retirement	6,000	-	-	-	(6,000)	-	(6,000)
Interest and fiscal charges	1,140	-	-	-	(1,140)	-	(1,140)
Total governmental activities	<u>828,910</u>	<u>111,509</u>	<u>85,318</u>	<u>8,183</u>	<u>(623,900)</u>	<u>-</u>	<u>(623,900)</u>
<b>Business-Type Activities</b>							
Water	461,202	344,400	-	-	-	(116,802)	(116,802)
Sewer	279,324	261,573	-	-	-	(17,751)	(17,751)
Electric	1,492,101	1,627,408	-	-	-	135,307	135,307
Guaranteed utilities	4,894	7,175	-	-	-	2,281	2,281
Total business-type activities	<u>2,237,521</u>	<u>2,240,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,035</u>	<u>3,035</u>
Total government	<u>\$ 3,066,431</u>	<u>\$ 2,352,065</u>	<u>\$ 85,318</u>	<u>\$ 8,183</u>	<u>(623,900)</u>	<u>3,035</u>	<u>(620,865)</u>
<b>General Receipts</b>							
Municipal income taxes levied for:							
General purposes					429,962	-	429,962
Capital improvements					100,402	-	100,402
Property taxes levied for:							
General purposes					101,318	-	101,318
Street services					63,224	-	63,224
Police pension					6,839	-	6,839
Grants and entitlements not restricted to specific programs					70,926	-	70,926
Interest					10,905	-	10,905
Miscellaneous					78	-	78
Total general receipts					<u>783,654</u>	<u>-</u>	<u>783,654</u>
Change in net position					159,754	3,035	162,789
Net position beginning of year					<u>1,282,241</u>	<u>1,877,361</u>	<u>3,159,602</u>
Net position end of year					<u>\$ 1,441,995</u>	<u>\$ 1,880,396</u>	<u>\$ 3,322,391</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Fund Net Position - Cash Basis*  
*Governmental Funds*  
*December 31, 2017*

	<u>General</u>	<u>Street Levy</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in pooled cash and cash equivalents	\$ 500,093	\$ 233,654	\$ 499,831	\$ 208,417	\$ 1,441,995
<b>Fund Balances</b>					
Restricted	-	233,654	499,831	216,386	949,871
Assigned	15,224	-	-	-	15,224
Unassigned	484,869	-	-	(7,969)	476,900
Total fund balances	<u>\$ 500,093</u>	<u>\$ 233,654</u>	<u>\$ 499,831</u>	<u>\$ 208,417</u>	<u>\$ 1,441,995</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2017*

	General	Street Levy	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Municipal income taxes	\$ 429,962	\$ -	\$ 100,402	\$ -	\$ 530,364
Property and other local taxes	101,318	63,224	-	6,839	171,381
Fines, licenses and permits	97,883	-	-	2,716	100,599
Intergovernmental	70,926	9,106	-	85,107	165,139
Special assessments	-	-	-	8,183	8,183
Interest	10,905	-	-	818	11,723
Miscellaneous	75	-	-	1,200	1,275
Total receipts	711,069	72,330	100,402	104,863	988,664
<b>Disbursements</b>					
Current:					
General government	94,779	-	-	-	94,779
Security of persons and property	336,920	-	-	45,890	382,810
Leisure time activities	7,666	-	-	-	7,666
Community environment	11,599	-	-	-	11,599
Transportation	164,003	59,626	-	101,287	324,916
Debt service:					
Principal retirement	-	-	-	6,000	6,000
Interest and fiscal charges	-	-	-	1,140	1,140
Total disbursements	614,967	59,626	-	154,317	828,910
Excess of receipts over (under) disbursements	96,102	12,704	100,402	(49,454)	159,754
<b>Other financing sources (uses)</b>					
Transfers in	-	-	12,000	15,000	27,000
Transfers out	(27,000)	-	-	-	(27,000)
Total other financing sources (uses)	(27,000)	-	12,000	15,000	-
Net change in fund balance	69,102	12,704	112,402	(34,454)	159,754
Fund balances beginning of year	430,991	220,950	387,429	242,871	1,282,241
Fund balances end of year	<u>\$ 500,093</u>	<u>\$ 233,654</u>	<u>\$ 499,831</u>	<u>\$ 208,417</u>	<u>\$ 1,441,995</u>

See accompanying notes to the financial statements.



**Village of Milan**  
**Erie County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*General Fund*  
*For the Year Ended December 31, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<b>Receipts</b>				
Municipal income taxes	\$ 454,183	\$ 454,183	\$ 429,962	\$ (24,221)
Property and other local taxes	120,000	120,000	101,318	(18,682)
Fines, licenses and permits	103,397	103,397	97,883	(5,514)
Intergovernmental	74,921	74,921	70,926	(3,995)
Interest	11,519	11,519	10,905	(614)
Miscellaneous	79	79	75	(4)
Total receipts	<u>764,100</u>	<u>764,100</u>	<u>711,069</u>	<u>(53,031)</u>
<b>Disbursements</b>				
Current:				
General government	160,850	160,850	103,619	57,231
Security of persons and property	390,550	390,550	338,267	52,283
Leisure time activities	20,000	20,000	9,477	10,523
Community environment	13,600	13,600	11,599	2,001
Transportation	188,050	188,050	167,229	20,821
Total disbursements	<u>773,050</u>	<u>773,050</u>	<u>630,191</u>	<u>142,859</u>
Excess of receipts over disbursements	(8,950)	(8,950)	80,878	89,828
<b>Other financing uses</b>				
Transfers out	<u>(77,000)</u>	<u>(77,000)</u>	<u>(27,000)</u>	<u>50,000</u>
Net change in fund balance	(85,950)	(85,950)	53,878	139,828
Fund balance at beginning of year	<u>430,991</u>	<u>430,991</u>	<u>430,991</u>	<u>-</u>
Fund balance at end of year	<u>\$ 345,041</u>	<u>\$ 345,041</u>	<u>\$ 484,869</u>	<u>\$ 139,828</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*Street Levy Fund*  
*For the Year Ended December 31, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<b>Receipts</b>				
Property and other local taxes	\$ 65,558	\$ 65,558	\$ 63,224	\$ (2,334)
Intergovernmental	<u>9,442</u>	<u>9,442</u>	<u>9,106</u>	<u>(336)</u>
Total receipts	75,000	75,000	72,330	(2,670)
<b>Disbursements</b>				
Current:				
General government	2,000	2,000	-	2,000
Transportation	<u>180,000</u>	<u>180,000</u>	<u>62,626</u>	<u>117,374</u>
Total disbursements	<u>182,000</u>	<u>182,000</u>	<u>62,626</u>	<u>119,374</u>
Net change in fund balance	(107,000)	(107,000)	9,704	116,704
Fund balance at beginning of year	<u>220,950</u>	<u>220,950</u>	<u>220,950</u>	<u>-</u>
Fund balance at end of year	<u>\$ 113,950</u>	<u>\$ 113,950</u>	<u>\$ 230,654</u>	<u>\$ 116,704</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Fund Net Position - Cash Basis*  
*Proprietary Funds*  
*December 31, 2017*

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>					
Equity in pooled cash and cash equivalents	\$ 167,364	\$ 432,097	\$ 1,261,494	\$ 19,441	\$ 1,880,396
Total assets	167,364	432,097	1,261,494	19,441	1,880,396
<b>Net position</b>					
Unrestricted	<u>167,364</u>	<u>432,097</u>	<u>1,261,494</u>	<u>19,441</u>	<u>1,880,396</u>
Total net position	<u>\$ 167,364</u>	<u>\$ 432,097</u>	<u>\$ 1,261,494</u>	<u>\$ 19,441</u>	<u>\$ 1,880,396</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position*  
*Proprietary Funds*  
*December 31, 2017*

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
<b>Operating Receipts</b>					
Charges for services	\$ 344,400	\$ 261,573	\$ 1,621,268	\$ 7,175	\$ 2,234,416
Other operating receipts	-	-	6,140	-	6,140
Total operating receipts	344,400	261,573	1,627,408	7,175	2,240,556
<b>Operating Disbursements</b>					
Personal services	98,018	73,674	196,948	-	368,640
Employee fringe benefits	69,406	53,039	113,164	-	235,609
Travel and transportation	792	307	902	-	2,001
Contractual services	34,561	56,307	24,325	-	115,193
Supplies and materials	45,346	45,554	44,204	-	135,104
Generation purchase	-	-	1,065,140	-	1,065,140
Miscellaneous	-	-	9,519	4,894	14,413
Total operating disbursements	248,123	228,881	1,454,202	4,894	1,936,100
Operating income (loss)	96,277	32,692	173,206	2,281	304,456
<b>Non-operating disbursements</b>					
Capital outlay	(106,909)	(50,443)	(2,827)	-	(160,179)
Principal retirement	(100,098)	-	(32,917)	-	(133,015)
Interest and fiscal charges	(6,072)	-	(2,155)	-	(8,227)
Total non-operating disbursements	(213,079)	(50,443)	(37,899)	-	(301,421)
Change in net position	(116,802)	(17,751)	135,307	2,281	3,035
Net position beginning of year	284,166	449,848	1,126,187	17,160	1,877,361
Net position end of year	\$ 167,364	\$ 432,097	\$ 1,261,494	\$ 19,441	\$ 1,880,396

See accompanying notes to the financial statements.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 1 – Reporting Entity**

The Village of Milan, Erie County (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 operates under a council/mayor form of government. Elected officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including police protection, recreation (including parks), street maintenance and repair, utility (including water, sewer and electric) and general administrative services. The Village contracts with Milan Township to provide fire protection services.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

***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 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.

***Component Units***

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resource; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village does not have any component units.

***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 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). For more information on joint ventures see Note 14.

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

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 2 – Summary of Significant Accounting Policies**

As discussed further in the “Basis of Accounting” section of this note, 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 cash basis of accounting. Following are the more significant of the Village’s accounting policies.

***Basis of Presentation***

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

*Government-Wide Financial Statements*

The statement of net position and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental 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 position 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 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 and 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 function or business-type 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 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. Fiduciary funds are reported by type.

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.

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*Notes to the Financial Statements*  
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**Note 2 – Summary of Significant Accounting Policies (continued)**

***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 following are the Village's major governmental funds:

*General* - The general fund accounts for and reports all financial resources not accounted for and reported 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.

*Street Levy* – This fund receives tax levy funds which are for the purpose of general construction, reconstruction, resurfacing and repair of streets, roads and bridges.

*Capital Improvement* – This fund accounts for resources which are for the purpose of acquisition or construction of major capital facilities.

The other governmental funds of the Village account for and report grants and other resources, whose use is restricted, committed or assigned 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 either enterprise funds or internal service funds. The Village does not have an internal service fund.

*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* – This fund receives charges for services from residents to cover the cost of providing this utility.

*Village of Milan  
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Notes to the Financial Statements  
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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Basis of Accounting***

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, 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. Any such modifications made by the Village are described in the appropriate section in this note.

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.

***Budgetary Process***

All funds, except agency 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 the 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.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. 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 appropriation were passed by the 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.

***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 receipt), respectively.



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**Note 2 – Summary of Significant Accounting Policies (continued)**

During 2017, the Village invested in negotiable certificates of deposit (CDARS) 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, 2017.

For 2017, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2017 were \$10,905, which included \$9,326 assigned from other Village funds.

***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or by laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the Village are reported as nonspendable. Restricted assets in the enterprise funds represent amounts set aside to satisfy bond indenture requirements for current and future debt payments and the replacement and improvement of capital assets originally acquired with bond proceeds. The Village had no restricted assets.

***Inventory and Prepaid Items***

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

***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.

***Interfund Receivables/Payables***

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

***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.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Employer Contributions to Cost-Sharing Pension Plans***

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***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 capital outlay expenditure is reported at inception. Lease payments are reported when paid.

***Net Position***

Net position is 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.

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

***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.

***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.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a 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. 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.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*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. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year appropriated budget in the General Fund.

*Unassigned* Unassigned fund balance is the residual classification for the general fund and includes all 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***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.

**Note 3 – 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 and Street Levy Fund is 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 that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as assigned or restricted fund balance (cash basis). For 2017, there were \$15,224 and \$3,000 outstanding encumbrances at year end (budgetary basis) for the General or Street Levy funds, respectively.

**Note 4 – Deposits and Investments**

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

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Notes to the Financial Statements  
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**Note 4 – Deposits and Investments (continued)**

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

*Inactive deposits* are public deposits that 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 may 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;
3. 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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40% of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities listed described in (1) or (2) 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;

**Village of Milan**  
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**Note 4 – Deposits and Investments (continued)**

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

***Deposits***

At year end, the Village had \$400 in undeposited cash on hand, which is included on the balance sheet of the Village as part of “Equity in Pooled Cash and Cash Equivalents.”

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, none of the Village’s bank balance of \$1,743,701 was exposed to custodial credit risk.

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 105% of the deposits being secured.

***Investments***

As of December 31, the Village had the following investments:

<u>Investment Type</u>	<u>2017 Value</u>
Star Ohio - NAV	\$ 789,084
CDARS - Fair Value	842,724
Total Investments	<u>\$ 1,631,808</u>

*Interest rate risk* arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Village’s investment policy addresses interest rate risk by requiring that the Village’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

*Credit risk* is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. STAR Ohio carries a rating of AAAM by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

***Village of Milan***  
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**Note 4 – Deposits and Investments (continued)**

*Custodial credit risk* is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, “Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee.”

**Note 5 – Income Taxes**

The Village levies a 1% income tax on substantially all income earned in the Village. In addition, Village residents employed in municipalities having an income tax less than 1% must pay the difference to the Village. Additional increases in income tax rate require voter approval. Employers within the Village withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

Income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. During 2017, the receipts were allocated to the general fund and the capital improvement fund.

**Note 6 – Property Taxes**

Property taxes include amounts levied against all real property and public utility property located in the Village. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes, respectively.

2018 real property taxes are levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017 and are collected in 2018 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2017, was \$8.80 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2017 property tax receipts were based are as follows:

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**Note 6 – Property Taxes (continued)**

	2017
Real property	
Residential and agricultural	\$ 21,887,850
Other	4,103,890
Public utility	1,254,560
Total assessed value	\$ 27,246,300

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 7 – Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees. The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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. Effective November 1, 2016 the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% 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 764 members as of December 31, 2017.

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 equity at December 31, 2017.

Assets	\$14,853,620
Liabilities	(9,561,108)
Members’ Equity	\$5,292,512

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**Note 7 – Risk Management (continued)**

You can read the complete audited financial statements for OPRM at the Plan’s website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description – Village employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined benefit features. While members (e.g. Village employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.



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**Note 8 – Defined Benefit Pension Plans (continued)**

When a benefit recipient has received benefits for 12 months, an annual cost-of-living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Village’s contractually required contribution was \$97,665 for year 2017.

***Ohio Police and Fire Pension Fund***

Plan Description – Village full-police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

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**Note 8 – Defined Benefit Pension Plans (continued)**

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Fire Fighters
<b>2017 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2017 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	12.25 %	12.25 %

Employer contributions rates are expressed as a percentage of covered payroll. The Village’s contractually required contribution to OPF was \$32,061 for 2017.

**Note 9 - Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – The Ohio Public Employees Retirement System (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. The combined plan is a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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**Note 9 - Postemployment Benefits (continued)**

OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients 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.

In order to qualify for post-employment health care coverage, aged-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 benefits is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, the Village contributed at a rate of 14.00% of earnable salary for state and local employees. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund the OPEB Plan.

OPERS' post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. For 2016, the portion of employer contributions allocated to health care for members in the traditional pension and combined plans was 2%. Effective January 1, 2017, the portion of employer contributions allocated to healthcare was decreased to 1% for both plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2017, 2016, and 2015 were \$7,513, \$12,003, and \$11,656 respectively, 100% has been contributed for 2017, 2016, and 2015.

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2017*

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**Note 9 - Postemployment Benefits (continued)**

***Ohio Police and Fire Pension Fund***

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OPF. OPF 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.

OPF provides access post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OPF to provide OPEB benefits. Authority for the OPF 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.

OPF 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 OPF, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OPF's website at [www.op-f.org](http://www.op-f.org).

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer unit. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One fund is for health care benefits under an IRS Code Section 115 trust and one fund is 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 OPF 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. The portion of employer contributions allocated to health care was 0.5% of covered payroll for 2017. 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 OPF 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 OPF allocated to the health care plan for the years ending December 31, 2017, 2016, and 2015 were \$822, \$599, and \$1,167 respectively. 100% has been contributed for 2017, 2016, and 2015.

**Village of Milan**  
**Erie County**  
*Notes to the Financial Statements*  
For the Year Ended December 31, 2017

**Note 10 – Debt**

The Village’s long-term debt activity for the year ended December 31, 2017 was as follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Ohio Water Development Authority (OWDA) Loan	7.03%	\$ 1,061,767	July 1, 2018
OMEGA JV5 Loan	2.50%	437,946	February 15, 2024
Lockwood Road Improvement Bonds	6.00%	75,000	December 1, 2019

<i>Governmental Activities</i>	Balance at 1/1/2017	Increase	Decrease	Balance at 12/31/2017	Due within one year
Lockwood Bonds	\$ 19,000	\$ -	\$ (6,000)	\$ 13,000	\$ 6,000
	<u>\$ 19,000</u>	<u>\$ -</u>	<u>\$ (6,000)</u>	<u>\$ 13,000</u>	<u>\$ 6,000</u>

<i>Business-Type Activities</i>	Balance at 1/1/2017	Increase	Decrease	Balance at 12/31/2017	Due within one year
OWDA Loan	\$ 151,810	\$ -	\$ (100,098)	\$ 51,712	\$ 51,712
OMEGA JV5 Loan	196,248	-	(32,917)	163,331	-
	<u>\$ 348,058</u>	<u>\$ -</u>	<u>\$ (133,015)</u>	<u>\$ 215,043</u>	<u>\$ 51,712</u>

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan agreement was entered into during August 1992. The original loan amount was \$1,287,380. The loan will be repaid in semiannual installments of \$55,385, including interest over 20 years. The Village was advised in July 2003 that the OWDA was reducing the interest rate from 7.30 to 7.03%. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

Year Ending December 31:	Lockwood Road GO Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2018	\$ 6,000	\$ 780	\$ 51,712	\$ 3,673
2019	7,000	420	-	-
Total	<u>\$ 13,000</u>	<u>\$ 1,200</u>	<u>\$ 51,712</u>	<u>\$ 3,673</u>

No amortization schedule is available for the OMEGA JV5 loan.

**Village of Milan**  
**Erie County**  
*Notes to the Financial Statements*  
For the Year Ended December 31, 2017

**Note 11 - 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:

<i>2017 Fund Balances</i>	<i>General</i>	<i>Street Levy</i>	<i>Capital Improvements</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b><u>Restricted for</u></b>					
Law enforcement	-	-	-	5,567	5,567
Street and highway repair	-	233,654	-	191,414	425,068
Computer	-	-	-	15,885	15,885
Special assessment	-	-	-	3,520	3,520
Capital improvements	-	-	499,831	-	499,831
Total restricted	-	233,654	499,831	216,386	949,871
<b><u>Assigned to</u></b>					
Encumbrances	15,224	-	-	-	15,224
Total assigned	15,224	-	-	-	15,224
<b>Unassigned (Deficit)</b>	484,869	-	-	(7,969)	476,900
Total fund balances	<u>\$ 500,093</u>	<u>\$ 233,654</u>	<u>\$ 499,831</u>	<u>\$ 208,417</u>	<u>\$ 1,441,995</u>

**Note 12 - Interfund Transactions**

The following is a reconciliation of the Village's transfers:

Fund	2017	
	Transfers In	Transfers Out
General	\$ -	\$ 27,000
Capital Improvements	12,000	-
Other Governmental Funds	15,000	-
Total	<u>\$ 27,000</u>	<u>\$ 27,000</u>

Transfers are made from the general fund to subsidize operations of other funds. Transfers were in accordance with budgetary authorizations and Ohio Revised Code provisions.

**Note 13 – Contingent Liabilities**

Management believes there are no pending claims or lawsuits.

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2017*

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**Note 14 – Joint Ventures**

***AMP Generating Station (AMPGS) Project***

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,259 kilowatts of a total 771,281 kilowatts, giving the Village a .16 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All projects incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs was \$219,909. The Village received a credit of \$56,938 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired cost balance of \$162,971. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$43,324 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$2,593 and interest expense incurred on AMP's line-of-credit is \$6,922, resulting in a net impaired cost estimate at December 31, 2017 of \$129,162. The Village does have a potential PHFU liability of \$59,618 resulting in a net total potential liability of \$188,780, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include such negative items as property taxes as well as positive items such as revenue from leases or sale of all or a portion of the Meigs County site property.

The Village intends to recover these costs and repay AMP over the next 5 years through a power cost adjustment.

***OMEGA 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 participant. On dissolution of the joint venture, the net assets of OMEGA JV1 will be shared by the participants on a percentage basis. The OMEGA JV1 is managed by AMP who acts as the joint venture's agent. The Village's net investment and its share of the operating results of the OMEGA JV1 ownership share of the project is .71%. Complete financial statements for OMEGA JV1 can be obtained from AMP at 1111 Schrock Road, Columbus, Ohio 43229, or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2017*

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**Note 14 – Joint Ventures (continued)**

***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.

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 position 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. The Village's net investment in OMEGA JV2 was \$55,237 at December 31, 2017. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).



**Village of Milan**  
**Erie County**  
*Notes to the Financial Statements*  
For the Year Ended December 31, 2017

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**Note 14 – Joint Ventures (continued)**

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2017 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
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	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<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>

Under the Village's cash basis of accounting, the equity interest in OMEGA JV2 is not reported as an asset in the accompanying cash basis financial statements.

**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.

Pursuant to 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 Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2017*

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**Note 14 – Joint Ventures (continued)**

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 & Management 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 position 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 the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2017 the Village of Milan has met their 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-Ohio issued \$153,415,000 and \$13,899,981 respectively of the 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the Beneficial Interest Certificates (2016 Certificates) in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$11,653 at December 31, 2016. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

***Prairie State Energy Campus***

On December 20, 2007, AMP acquired 368,000 kW or an effective 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("AMP 368 LLC"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 14 – Joint Ventures (continued)**

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “Prairie State Power Sales Contract”) with 68 Members (the “Prairie State Participants”). The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

AMP’s share of the total Project costs, including AMP’s share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt. These costs include (i) AMP’s costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project. As of December 31, 2017 the outstanding obligation on Prairie State project is \$1,576,845,000.

The Village of Milan has executed a take-or-pay power sales contract with AMP for 995 kW or .27% kW of capacity and associated energy from the Prairie State facility.

***Combined Hydroelectric Projects***

AMP owns and operates three hydroelectric facilities, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “Combined Hydroelectric Project”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Project, including associated transmission facilities, are operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Project.

The Cannelton Hydro facility, 88MW, in operation as of June 7, 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro facility, 44MW, in operation as of February 4, 2016, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro facility, 76MW, in operation as of September 1, 2017, is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 14 – Joint Ventures (continued)**

To provide financing for the Combined Hydroelectric Project, in 2009 and 2010 AMP issued in seven series \$2,045,425,000 of its Combined Hydroelectric Project Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

In addition, AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$209,530,000 on October 6, 2016. The bonds were used to finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to construction, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

As of December 31, 2017, the total outstanding Hydro Project debt on AMP’s books is approximately \$2,176,669,118. The Village of Milan has executed a take-or-pay power sales contract with AMP for 100 kW or .05% of capacity and associated energy from the Combined hydro facilities.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Net Position - Cash Basis*  
*December 31, 2016*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in pooled cash and cash equivalents	\$ 1,282,241	\$ 1,877,361	\$ 3,159,602
<b>Net Position</b>			
Restricted for:			
Capital projects	387,429	-	387,429
Debt service	2,477	-	2,477
Other purposes	461,344	-	461,344
Unrestricted	430,991	1,877,361	2,308,352
Total net position	<u>\$ 1,282,241</u>	<u>\$ 1,877,361</u>	<u>\$ 3,159,602</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2016*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
Current:							
General government	\$ 125,420	\$ 93,174	\$ -	\$ -	\$ (32,246)	\$ -	\$ (32,246)
Security of persons and property	384,912	1,980	400	-	(382,532)	-	(382,532)
Public health	355	-	-	-	(355)	-	(355)
Leisure time activities	13,184	-	-	-	(13,184)	-	(13,184)
Community environment	10,209	-	-	-	(10,209)	-	(10,209)
Transportation	358,888	-	73,856	6,801	(278,231)	-	(278,231)
Capital outlay	81,781	-	-	-	(81,781)	-	(81,781)
Debt service:							
Principal retirement	5,000	-	-	-	(5,000)	-	(5,000)
Interest and fiscal charges	1,587	-	-	-	(1,587)	-	(1,587)
<b>Total governmental activities</b>	<b>981,336</b>	<b>95,154</b>	<b>74,256</b>	<b>6,801</b>	<b>(805,125)</b>	<b>-</b>	<b>(805,125)</b>
<b>Business-Type Activities</b>							
Water	356,476	369,852	-	-	-	13,376	13,376
Sewer	261,338	254,139	-	-	-	(7,199)	(7,199)
Electric	1,592,701	1,602,398	-	-	-	9,697	9,697
Guaranteed Utilities	2,083	4,025	-	-	-	1,942	1,942
<b>Total business-type activities</b>	<b>2,212,598</b>	<b>2,230,414</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,816</b>	<b>17,816</b>
<b>Total government</b>	<b>\$ 3,193,934</b>	<b>\$ 2,325,568</b>	<b>\$ 74,256</b>	<b>\$ 6,801</b>	<b>(805,125)</b>	<b>17,816</b>	<b>(787,309)</b>
<b>General Receipts</b>							
Municipal income taxes levied for:							
General purposes					444,477	-	444,477
Capital improvements					92,993	-	92,993
Property taxes levied for:							
General purposes					104,236	-	104,236
Street services					64,632	-	64,632
Police pension					7,020	-	7,020
Grants and entitlements not restricted to specific programs					85,502	-	85,502
Sale of capital assets					8,500	-	8,500
Interest					6,290	-	6,290
Transfers					(6,590)	6,590	-
<b>Total general receipts and transfers</b>					<b>807,060</b>	<b>6,590</b>	<b>813,650</b>
Change in net position					1,935	24,406	26,341
Net position beginning of year, restated					1,280,306	1,852,955	3,133,261
Net position end of year					<b>\$ 1,282,241</b>	<b>\$ 1,877,361</b>	<b>\$ 3,159,602</b>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Fund Net Position - Cash Basis*  
*Governmental Funds*  
*December 31, 2016*

	<u>General</u>	<u>Street Levy</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in pooled cash and cash equivalents	\$ 430,991	\$ 220,950	\$ 387,429	\$ 242,871	\$ 1,282,241
<b>Fund Balances</b>					
Restricted	-	220,950	387,429	242,871	851,250
Assigned	13,222	-	-	-	13,222
Unassigned	417,769	-	-	-	417,769
Total fund balances	<u>\$ 430,991</u>	<u>\$ 220,950</u>	<u>\$ 387,429</u>	<u>\$ 242,871</u>	<u>\$ 1,282,241</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2016*

	General	Street Levy	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Municipal income taxes	\$ 444,477	\$ -	\$ 92,993	\$ -	\$ 537,470
Property and other local taxes	104,236	64,632	-	7,020	175,888
Fines, licenses and permits	90,047	-	-	3,527	93,574
Intergovernmental	75,498	8,963	-	74,457	158,918
Special assessments	-	-	-	6,801	6,801
Interest	6,290	-	-	370	6,660
Miscellaneous	-	-	-	2,050	2,050
Total receipts	720,548	73,595	92,993	94,225	981,361
<b>Disbursements</b>					
Current:					
General government	123,998	1,282	-	140	125,420
Security of persons and property	354,787	-	-	30,125	384,912
Public health services	355	-	-	-	355
Leisure time activities	13,184	-	-	-	13,184
Community environment	10,209	-	-	-	10,209
Transportation	165,674	70,723	-	122,491	358,888
Capital outlay	-	-	81,781	-	81,781
Debt service:					
Principal retirement	-	-	-	5,000	5,000
Interest and fiscal charges	-	-	-	1,587	1,587
Total disbursements	668,207	72,005	81,781	159,343	981,336
Excess of receipts over (under) disbursements	52,341	1,590	11,212	(65,118)	25
<b>Other financing sources (uses)</b>					
Sale of capital assets	8,500	-	-	-	8,500
Transfers in	-	-	18,000	39,520	57,520
Transfers out	(64,110)	-	-	-	(64,110)
Total other financing sources (uses)	(55,610)	-	18,000	39,520	1,910
Net change in fund balance	(3,269)	1,590	29,212	(25,598)	1,935
Fund balances beginning of year, restated	434,260	219,360	358,217	268,469	1,280,306
Fund balances end of year	\$ 430,991	\$ 220,950	\$ 387,429	\$ 242,871	\$ 1,282,241

See accompanying notes to the financial statements.



**Village of Milan**  
**Erie County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*General Fund*  
*For the Year Ended December 31, 2016*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Municipal income taxes	\$ 385,302	\$ 385,302	\$ 444,477	\$ 59,175
Property and other local taxes	118,119	118,119	104,236	(13,883)
Fines, licenses and permits	78,059	78,059	90,047	11,988
Intergovernmental	65,447	65,447	75,498	10,051
Interest	5,453	5,453	6,290	837
Total receipts	<u>652,379</u>	<u>652,379</u>	<u>720,548</u>	<u>68,169</u>
<b>Disbursements</b>				
Current:				
General government	158,150	163,879	131,847	32,032
Security of persons and property	404,050	431,078	355,953	75,125
Public health services	-	355	355	-
Leisure time activities	20,000	20,000	14,684	5,316
Community environment	9,800	12,800	10,209	2,591
Transportation	242,850	240,350	168,381	71,969
Total disbursements	<u>834,850</u>	<u>868,462</u>	<u>681,429</u>	<u>187,033</u>
Excess of receipts over disbursements	(182,471)	(216,083)	39,119	255,202
<b>Other financing uses</b>				
Sale of capital assets	-	-	8,500	8,500
Transfers out	(23,125)	(47,625)	(64,110)	(16,485)
Net change in fund balance	(205,596)	(263,708)	(16,491)	247,217
Fund balance at beginning of year	427,648	427,648	427,648	-
Prior year encumbrances appropriated	6,612	6,612	6,612	-
Fund balance at end of year	<u>\$ 228,664</u>	<u>\$ 170,552</u>	<u>\$ 417,769</u>	<u>\$ 247,217</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*Street Levy Fund*  
*For the Year Ended December 31, 2016*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Property and other local taxes	\$ 77,473	\$ 77,473	\$ 64,632	\$ (12,841)
Intergovernmental	9,391	9,391	8,963	(428)
Total receipts	86,864	86,864	73,595	(13,269)
<b>Disbursements</b>				
Current:				
General government	2,000	2,000	1,282	718
Transportation	180,000	180,000	73,723	106,277
Total disbursements	182,000	182,000	75,005	106,995
Net change in fund balance	(95,136)	(95,136)	(1,410)	93,726
Fund balance at beginning of year	219,360	219,360	219,360	-
Fund balance at end of year	<u>\$ 124,224</u>	<u>\$ 124,224</u>	<u>\$ 217,950</u>	<u>\$ 93,726</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Fund Net Position - Cash Basis*  
*Proprietary Funds*  
*December 31, 2016*

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>					
Equity in pooled cash and cash equivalents	\$ 284,166	\$ 449,848	\$ 1,126,187	\$ 17,160	\$ 1,877,361
Total assets	\$ 284,166	\$ 449,848	\$ 1,126,187	\$ 17,160	\$ 1,877,361
<b>Net position</b>					
Unrestricted	284,166	449,848	1,126,187	17,160	1,877,361
Total net position	<u>\$ 284,166</u>	<u>\$ 449,848</u>	<u>\$ 1,126,187</u>	<u>\$ 17,160</u>	<u>\$ 1,877,361</u>

See accompanying notes to the financial statements.

**Village of Milan**  
**Erie County, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position*  
*Proprietary Funds*  
*December 31, 2016*

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
<b>Operating Receipts</b>					
Charges for services	\$ 361,050	\$ 254,139	\$ 1,592,602	\$ 4,025	\$ 2,211,816
Other operating receipts	-	-	9,796	-	9,796
Total operating receipts	361,050	254,139	1,602,398	4,025	2,221,612
<b>Operating Disbursements</b>					
Personal services	101,658	83,129	184,754	-	369,541
Employee fringe benefits	55,281	51,719	95,203	-	202,203
Travel and transportation	405	865	2,471	-	3,741
Contractual services	31,991	50,091	22,419	-	104,501
Supplies and materials	38,833	38,965	54,713	-	132,511
Generation purchase	-	-	1,157,726	-	1,157,726
Miscellaneous	-	-	-	2,083	2,083
Total operating disbursements	228,168	224,769	1,517,286	2,083	1,972,306
Operating income (loss)	132,882	29,370	85,112	1,942	249,306
<b>Non-operating disbursements</b>					
Intergovernmental	8,802	-	-	-	8,802
Capital outlay	(20,527)	(36,569)	(40,902)	-	(97,998)
Principal retirement	(93,523)	-	(32,705)	-	(126,228)
Interest and fiscal charges	(14,258)	-	(1,808)	-	(16,066)
Total non-operating disbursements	(119,506)	(36,569)	(75,415)	-	(231,490)
Income (loss) before transfers	13,376	(7,199)	9,697	1,942	17,816
<b>Transfers</b>					
Transfers in	-	-	6,590	-	6,590
Total transfers	-	-	6,590	-	6,590
Change in net position	13,376	(7,199)	16,287	1,942	24,406
Net position beginning of year	270,790	457,047	1,109,900	15,218	1,852,955
Net position end of year	\$ 284,166	\$ 449,848	\$ 1,126,187	\$ 17,160	\$ 1,877,361

See accompanying notes to the financial statements.

***Village of Milan***  
***Erie County***  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 1 – Reporting Entity**

The Village of Milan, Erie County (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 operates under a council/mayor form of government. Elected officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including police protection, recreation (including parks), street maintenance and repair, utility (including water, sewer and electric) and general administrative services. The Village contracts with Milan Township to provide fire protection services.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

***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 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.

***Component Units***

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resource; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village does not have any component units.

***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 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). For more information on joint ventures see Note 14.

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

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies**

As discussed further in the “Basis of Accounting” section of this note, 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 cash basis of accounting. Following are the more significant of the Village’s accounting policies.

***Basis of Presentation***

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

*Government-Wide Financial Statements*

The statement of net position and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental 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 position 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 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 and 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 function or business-type 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 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. Fiduciary funds are reported by type.

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.

**Village of Milan**  
**Erie County**  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***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 following are the Village's major governmental funds:

*General* - The general fund accounts for and reports all financial resources not accounted for and reported 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.

*Street Levy* – This fund receives tax levy funds which are for the purpose of general construction, reconstruction, resurfacing and repair of streets, roads and bridges.

*Capital Improvement* – This fund accounts for resources which are for the purpose of acquisition or construction of major capital facilities.

The other governmental funds of the Village account for and report grants and other resources, whose use is restricted, committed or assigned 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 either enterprise funds or internal service funds. The Village does not have an internal service fund.

*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* – This fund receives charges for services from residents to cover the cost of providing this utility.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Basis of Accounting***

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, 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. Any such modifications made by the Village are described in the appropriate section in this note.

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.

***Budgetary Process***

All funds, except agency 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 the 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.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. 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 appropriation were passed by the 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.

***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 receipt), respectively.



*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

During 2016, the Village invested in negotiable certificates of deposit (CDARS) 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, 2016.

For 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2016 were \$6,290, which included \$5,479 assigned from other Village funds.

***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or by laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the Village are reported as nonspendable. Restricted assets in the enterprise funds represent amounts set aside to satisfy bond indenture requirements for current and future debt payments and the replacement and improvement of capital assets originally acquired with bond proceeds. The Village had no restricted assets.

***Inventory and Prepaid Items***

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

***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.

***Interfund Receivables/Payables***

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

***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 Financial Statements  
For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Employer Contributions to Cost-Sharing Pension Plans***

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***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 capital outlay expenditure is reported at inception. Lease payments are reported when paid.

***Net Position***

Net position is 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.

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

***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.

***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.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a 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. 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.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

*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. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year appropriated budget in the General Fund.

*Unassigned* Unassigned fund balance is the residual classification for the general fund and includes all 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***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.

**Note 3 – 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 and Street Levy Fund is 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 that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as assigned or restricted fund balance (cash basis). For 2016, there were \$13,222 and \$3,000 outstanding encumbrances at year end (budgetary basis) for the General or Street funds, respectively.

**Note 4 – Deposits and Investments**

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

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**Note 4 – Deposits and Investments (continued)**

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

*Inactive deposits* are public deposits that 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 may 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;
3. 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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40% of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities listed described in (1) or (2) 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;

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**Note 4 – Deposits and Investments (continued)**

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

***Deposits***

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

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, none of the Village’s bank balance of \$1,142,820 was exposed to custodial credit risk.

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 105% of the deposits being secured.

***Investments***

As of December 31, the Village had the following investments:

Investment Type	2016 Value
Star Ohio - NAV	\$ 780,713
CDARS - Fair Value	1,258,923
Total Investments	\$ 2,039,636

*Interest rate risk* arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Village’s investment policy addresses interest rate risk by requiring that the Village’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

*Credit risk* is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. STAR Ohio carries a rating of AAAM by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

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**Note 4 – Deposits and Investments (continued)**

*Custodial credit risk* is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, “Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee.”

**Note 5 – Income Taxes**

The Village levies a 1% income tax on substantially all income earned in the Village. In addition, Village residents employed in municipalities having an income tax less than 1% must pay the difference to the Village. Additional increases in income tax rate require voter approval. Employers within the Village withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

Income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. During 2016, the receipts were allocated to the general fund and the capital improvement fund.

**Note 6 – Property Taxes**

Property taxes include amounts levied against all real property and public utility property located in the Village. Property tax revenue received during 2016 for real and public utility property taxes represents collections of 2015 taxes, respectively.

2017 real property taxes are levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016 and are collected in 2017 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2016, was \$5.22 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2016 property tax receipts were based are as follows:

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**Note 6 – Property Taxes (continued)**

	<u>2016</u>
Real property	
Residential and agricultural	\$ 21,570,210
Other	4,030,520
Public utility	1,200,130
Total assessed value	<u>\$ 26,800,860</u>

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 7 – Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees. The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016 the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% 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 762 members as of December 31, 2016.

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 equity at December 31, 2016.

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**Note 7 – Risk Management (continued)**

	<b>2016</b>
Assets	\$14,765,712
Liabilities	(9,531,506)
Members' Equity	\$5,234,206

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description – Village employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined benefit features. While members (e.g. Village employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35



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**Note 8 – Defined Benefit Pension Plans (continued)**

Final average salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost-of-living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Village’s contractually required contribution was \$84,022 for year 2016.

***Ohio Police and Fire Pension Fund***

Plan Description – Village full-police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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**Note 8 – Defined Benefit Pension Plans (continued)**

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police		Firefighters	
<b>2016 Statutory Maximum Contribution Rates</b>				
Employer	19.50	%	24.00	%
Employee:	12.25	%	12.25	%
<b>2016 Actual Contribution Rates</b>				
Employer:				
Pension	19.00	%	23.50	%
Post-employment Health Care Benefits	0.50		0.50	
<b>Total Employer</b>	<b>19.50</b>	<b>%</b>	<b>24.00</b>	<b>%</b>

Employer contributions rates are expressed as a percentage of covered payroll. The Village’s contractually required contribution to OPF was \$22,747 for 2016.

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**Note 9 - Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – The Ohio Public Employees Retirement System (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. The combined plan is 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, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients 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.

In order to qualify for post-employment health care coverage, aged-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 benefits is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, the Village contributed at a rate of 14.00% of earnable salary for state and local employees. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund the OPEB Plan.

OPERS' post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. For 2016, the portion of employer contributions allocated to healthcare was 2% for both the traditional and combined plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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**Note 9 - Postemployment Benefits (continued)**

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2016, 2015, and 2014 were \$12,003, \$11,656, and \$10,749 respectively, 100% has been contributed for 2016, 2015, and 2014.

***Ohio Police and Fire Pension Fund***

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OPF. OPF 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.

OPF provides access post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OPF to provide OPEB benefits. Authority for the OPF 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.

OPF 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 OPF, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OPF's website at [www.op-f.org](http://www.op-f.org).

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer unit. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One fund is for health care benefits under an IRS Code Section 115 trust and one fund is 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 OPF 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. The portion of employer contributions allocated to health care was 0.5% of covered payroll for 2016. 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 OPF 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.

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**Note 9 - Postemployment Benefits (continued)**

The Village's contributions to OPF allocated to the health care plan for the years ending December 31, 2016, 2015, and 2014 were \$599, \$1,167, and \$989 respectively. 100% has been contributed for 2016, 2015, and 2014.

**Note 10 – Debt**

The Village's long-term debt activity for the year ended December 31, 2016 was as follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Ohio Water Development Authority (OWDA) Loan	7.03%	\$ 1,061,767	July 1, 2018
OMEGA JV5 Loan	2.50%	437,946	February 15, 2024
Lockwood Road Improvement Bonds	6.00%	75,000	December 1, 2019

<i>Governmental Activities</i>	Balance at 1/1/2016	Increase	Decrease	Balance at 12/31/2016	Due within one year
Lockwood Bonds	\$ 24,000	\$ -	\$ (5,000)	\$ 19,000	\$ 6,000
	<u>\$ 24,000</u>	<u>\$ -</u>	<u>\$ (5,000)</u>	<u>\$ 19,000</u>	<u>\$ 6,000</u>

<i>Business-Type Activities</i>	Balance at 1/1/2016	Increase	Decrease	Balance at 12/31/2016	Due within one year
OWDA Loan	\$ 245,333	\$ -	\$ (93,523)	\$ 151,810	\$ 100,098
OMEGA JV5 Loan	228,953	-	(32,705)	196,248	-
	<u>\$ 474,286</u>	<u>\$ -</u>	<u>\$ (126,228)</u>	<u>\$ 348,058</u>	<u>\$ 100,098</u>

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan agreement was entered into during August 1992. The original loan amount was \$1,287,380. The loan will be repaid in semiannual installments of \$55,385, including interest over 20 years. The Village was advised in July 2003 that the OWDA was reducing the interest rate from 7.30 to 7.03%. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

Year Ending December 31:	Lockwood Road GO Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2017	\$ 6,000	\$ 1,140	\$ 100,098	\$ 10,672
2018	6,000	780	51,712	3,673
2019	7,000	420	-	-
Total	<u>\$ 19,000</u>	<u>\$ 2,340</u>	<u>\$ 151,810</u>	<u>\$ 14,345</u>

No amortization schedule is available for the OMEGA JV5 loan.

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**Note 11 - 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:

<b>2016 Fund Balances</b>	<u>General</u>	<u>Street Levy</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Restricted for</u></b>					
Law enforcement	\$ -	\$ -	\$ -	\$ 18,942	\$ 18,942
Street and highway repair	-	220,950	-	207,833	428,783
Computer	-	-	-	13,619	13,619
Special assessment	-	-	-	2,477	2,477
Capital improvements	-	-	387,429	-	387,429
Total restricted	<u>-</u>	<u>220,950</u>	<u>387,429</u>	<u>242,871</u>	<u>851,250</u>
<b><u>Assigned for</u></b>					
Capital improvements	<u>13,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,223</u>
Total assigned	<u>13,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>845,531</u>
<b>Unassigned</b>	<u>417,768</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,768</u>
Total fund balances	<u>\$ 430,991</u>	<u>\$ 220,950</u>	<u>\$ 387,429</u>	<u>\$ 242,871</u>	<u>\$ 1,282,241</u>

**Note 12 - Interfund Transactions**

The following is a reconciliation of the Village's transfers:

<u>Fund</u>	<u>2016</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 64,110
Capital Improvements	18,000	-
Other Governmental Funds	39,520	-
<i>Total Governmental Funds</i>	<u>57,520</u>	<u>-</u>
Electric	6,590	-
<i>Total Enterprise Funds</i>	<u>6,590</u>	<u>-</u>
Total	<u>\$ 64,110</u>	<u>\$ 64,110</u>

Transfers are made from the general fund to subsidize operations of other funds. Transfers are also made from other funds to move money for the payment of debt and capital disbursements. Transfers were in accordance with budgetary authorizations and Ohio Revised Code provisions.

**Note 13 – Contingent Liabilities**

Management believes there are no pending claims or lawsuits.

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**Note 14 – Joint Ventures**

***AMP Generating Station (AMPGS) Project***

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,259 kilowatts of a total 771,281 kilowatts, giving the Village a .16 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All projects incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs was \$219,909. The Village received a credit of \$56,938 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired cost balance of \$162,971. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$26,256 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$2,195 and interest expense incurred on AMP's line-of-credit is \$4,390, resulting in a net impaired cost estimate at December 31, 2016 of \$143,300. The Village does have a potential PHFU liability of \$58,562 resulting in a net total potential liability of \$201,862, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include such negative items as property taxes as well as positive items such as revenue from leases or sale of all or a portion of the Meigs County site property.

The Village intends to recover these costs and repay AMP over the next 5 years through a power cost adjustment.

***OMEGA 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 participant. On dissolution of the joint venture, the net assets of OMEGA JV1 will be shared by the participants on a percentage basis. The OMEGA JV1 is managed by AMP who acts as the joint venture's agent. The Village's net investment and its share of the operating results of the OMEGA JV1 ownership share of the project is .71%. Complete financial statements for OMEGA JV1 can be obtained from AMP at 1111 Schrock Road, Columbus, Ohio 43229, or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2016*

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**Note 14 – Joint Ventures (continued)**

***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.

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 position 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, 2016, the outstanding debt was \$4,142,633. The Village's net investment in OMEGA JV2 was \$73,188 at December 31, 2016. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).



**Village of Milan**  
**Erie County**  
*Notes to the Financial Statements*  
For the Year Ended December 31, 2016

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**Note 14 – Joint Ventures (continued)**

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2016 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
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	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<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>

Under the Village's cash basis of accounting, the equity interest in OMEGA JV2 is not reported as an asset in the accompanying cash basis financial statements.

**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.

Pursuant to 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 Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 14 – Joint Ventures (continued)**

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 & Management 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 position 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 the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2016 the Village of Milan has met their 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-Ohio issued \$153,415,000 and \$13,899,981 respectively of the 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the Beneficial Interest Certificates (2016 Certificates) in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$11,653 at December 31, 2016. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

***Prairie State Energy Campus***

On December 20, 2007, AMP acquired 368,000 kW or an effective 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("AMP 368 LLC"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

*Village of Milan*  
*Erie County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 14 – Joint Ventures (continued)**

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “Prairie State Power Sales Contract”) with 68 Members (the “Prairie State Participants”). The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

AMP’s share of the total Project costs, including AMP’s share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt. These costs include (i) AMP’s costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project. As of December 31, 2016 the outstanding obligation on Prairie State project is \$1,576,845,000.

The Village of Milan has executed a take-or-pay power sales contract with AMP for 995 kW or .27% kW of capacity and associated energy from the Prairie State facility.

***Combined Hydroelectric Projects***

AMP recently completed construction of three hydroelectric facilities, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “Combined Hydroelectric Project”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Project facilities entailed the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Project, including associated transmission facilities, are operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Project.

The Cannelton Hydro facility, 88MW, in operation as of June 7, 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro facility, 44MW, in operation as of February 4, 2016, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro facility, 76MW, in operation as of September 1, 2017, is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh.

*Village of Milan  
Erie County  
Notes to the Financial Statements  
For the Year Ended December 31, 2016*

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**Note 14 – Joint Ventures (continued)**

To provide financing for the Combined Hydroelectric Project, in 2009 and 2010 AMP issued in seven series \$2,045,425,000 of its Combined Hydroelectric Project Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

In addition, AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$209,530,000 on October 6, 2016. The bonds were used to finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to construction, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

As of December 31, 2016, the total outstanding Hydro Project debt on AMP’s books is approximately \$2,176,669,118. The Village of Milan has executed a take-or-pay power sales contract with AMP for 100 kW or .05% of capacity and associated energy from the Combined hydro facilities.

**Note 15 – Prior Period Adjustment**

A prior period adjustment was necessary to adjust revenues posted to an incorrect account in a prior period and to adjust for a reconciliation issue in a prior period. The following table shows the changes to beginning fund balance:

	Water Fund	Other Governmental	Capital Improvements
Fund Balance, January 1, 2016	\$ 153,037	\$ 383,777	\$ 242,909
Adjustments, Net	(6,302)	(115,308)	115,308
Restated Fund Balance, January 1, 2016	<u>\$ 146,735</u>	<u>\$ 268,469</u>	<u>\$ 358,217</u>

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis 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 (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated April 12, 2019, wherein we noted the Village uses a special purpose framework other than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2017-001 and 2017-002 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2017-003 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, opining 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 2017-004 and 2017-005.

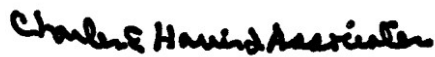
We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 12, 2019.

***Entity's Responses to Findings***

The Village's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Village's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



*Charles E. Harris & Associates, Inc.*  
April 12, 2019

**VILLAGE OF MILAN  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2017 and 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2017-001 - Material Weakness**

During 2017 and 2016, the Village erroneously recorded several transactions. The more significant adjustments are as follows:

- Recorded rollbacks as property and other local taxes instead of intergovernmental receipts.
- Recorded property and other taxes at net instead of gross.
- Did not record half of the water and half of the sewer department expenses refunded by the electric fund per Ordinance 654-02.15. Thus, overstating water and sewer fund expenditures.
- Various payroll deductions were not recorded correctly.
- Improperly recorded a check as voided in the system when it was not.
- Recorded certain transfers as revenues and expenses.
- Recorded payments of principal and interest for the JV5 debt in the system incorrectly as a functional expense.

Adjustments were made in the financial statements and Village records. Due to the above adjustments and certain incorrect information provided, additional changes were made to the footnotes. Other items were noted immaterial that may or may not have been posted.

The Village Officers' Handbook provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

We recommend that the Village refer to the Village Officer's Handbook to properly classify its transactions. We also recommend the Fiscal Officer review all financial reports to ensure their accuracy. Further, management should review all debt activity and departmental reimbursements for the year for accuracy.

**Management Response:**

See Corrective Action Plan

**Finding Number 2017-002 - Material Weakness**

**Bank Reconciliations**

A necessary step in the internal control over financial reporting is to reconcile the bank balances to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the bank statement balances and the accounting record's cash and investment balances at a specific point in time.

**VILLAGE OF MILAN  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2017 and 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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**Finding Number 2017-002 - Material Weakness (continued)**

**Bank Reconciliations (continued)**

We noted that the book balance exceeded the bank balance by \$26,203 and \$17,443 at the end of 2016 and 2017, respectively. This was caused mostly by payroll deductions not properly recorded, transfers not balancing, interest not recorded, outstanding checks not properly reflected on the bank reconciliations and voided checks not being properly presented in the bank reconciliations. We also noted that bank reconciliations were handwritten and not system generated. The Village Fiscal Officer contracted with an external consultant with governmental experience to perform a proof-of-cash reconciliation for the two year audit period.

Failure to resolve unreconciled differences and continuing to carry old reconciling items on the bank reconciliation could lead to financial statement errors and increases risk of theft and fraud. All adjustments were posted to the Village's financial accounting system and to the audited financial statements.

We recommend the Village implement procedures to help ensure that bank statements are reconciled to the Village's books electronically on a monthly basis. We further recommend the bank reconciliations be presented to the Finance Committee so they can sign off and present to the entire Council for approval on a monthly basis within the minute records.

**Management Response:**

See Corrective Action Plan

**Finding Number 2017-003 - Significant Deficiency**

**Overtime approval, unearned compensatory time, sick leave and vacations.**

- 1) The Village has internal control procedures in place for the processing of employees' payrolls and timesheets (Village policy Chapters 151.02-.04, 151.06). Some of these procedures include compensatory time, maintenance of records pertaining to vacation, holidays, and sick leave, prior managerial approval of vacation, overtime on timesheets, compensation cash out, to be signed by the employee and management/department head. In addition, if mutually agreed upon that an employee worked during scheduled vacation, they shall be compensated at their regular rate of pay. Furthermore, the Village has a compensation cash out form that is to be completed and signed by the management/department head in order for the employee to get paid out for their comp time balance.



**VILLAGE OF MILAN  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2017 and 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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**Finding Number 2017-003 - Significant Deficiency (continued)**

**Overtime approval, unearned compensatory time, sick leave and vacations (continued)**

A review of 53 timesheets revealed no prior managerial approval on any overtime incurred by the former fiscal officer during both 2016 and 2017. On multiple occasions, comp time was earned during a week where vacation leave was utilized.

The Village was unable to locate any supporting records of leave for the former fiscal officer such as timesheets or leave requests. The records available could not be relied upon due to them being unorganized and illegible in some cases. Furthermore, there was no supervisory approval for her vacation. During fiscal year 2015, 2016 and 2017, the former fiscal officer was paid out 37 times totaling \$38,644 for comp time. The Village was unable to locate any of the compensation cash out forms for her.

- 2) Ordinance 252-05-02 passed May 9, 2002 in summary states the Fiscal Officer position has been created at \$33,000 annual salary for 32 hours per week. Also, it states an and all hours over 32 shall be compensated with comp time at the rate of 1 and 1/2. Subsequently, Ordinance 670-07-15 passed July 12, 2015 increased the fiscal officer's hours to 40 hours per week.

The former fiscal officer was on medical leave from November 7, 2016 through December 5, 2016. Due to her not tracking her daily hours, no supporting documentation was provided to justify her working from home while on medical leave. In addition, no supporting documentation was provided to justify the date/time when comp time was earned at time and a half for work performed while on medical leave. Furthermore, she charged sick leave in addition to comp time for any time worked while at home.

On November 17, 2016 and December 15, 2016, the former Fiscal Officer signed payroll warrants resulting in the unsubstantiated payments totaling \$1,033.

Failure to maintain controls over the approval of comp time beginning with the notations of when, where, and why employees' additional work outside of normal business hours had to be undertaken and making sure that the additional work was appropriately approved by a supervisor can lead to errors and excessive payment without management and Council being aware.

The Finance Department's Office should determine the appropriate form to use for payroll as required by Village's Handbook Chapter 151 and review for appropriate managerial approval of overtime prior to processing payroll. In addition, we recommend the Finance department maintain all appropriate and necessary documents for all payroll transactions. Both of these matters have been turned over to the Auditor of State for further consideration.

**Management Response:**

See Corrective Action Plan

**VILLAGE OF MILAN  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2017 and 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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**Finding Number 2017-004 - Noncompliance**

**Ohio Rev. Code 5705.41(D) – Purchase Orders**

Ohio Rev. Code Section 5705.41 (D) (1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now Certificates” – If the fiscal officer can certify that both at the time that contract or order was made (“then”) and at the time that the fiscal officer was completing the certification (“now”), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificates - Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**VILLAGE OF MILAN  
ERIE COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2017 and 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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**Finding Number 2017-004 - Noncompliance (continued)**

**Ohio Rev. Code 5705.41(D) – Purchase Orders (continued)**

3. Super Blanket Certificates – The may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During fiscal years 2017 and 2016, 45% and 28% respectively of purchase orders tested were not certified by the Fiscal Officer prior to incurring the obligation. The transactions had no evidence of the above-mentioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s expenditures exceeding budgetary spending limitations, we recommend that the Village certify expenditures prior to incurring the liability.

**Management Response:**

See Corrective Action Plan

**Finding Number 2016-005 – Noncompliance Citation**

**Negative Fund Balance**

**Ohio Rev. Code Section 5705.10(H)** states that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

We noted that Police Pension Fund (B82) had cash deficit balances of (\$7,972).

We recommend the Fiscal Officer and Council pay close attention to the financial reports and cash position of the Village. The Fiscal Officer should transfer money to funds in need of cash.

**Management Response:**

See Corrective Action Plan

**VILLAGE OF MILAN  
ERIE COUNTY**

**CORRECTIVE ACTION PLAN-PREPARED BY MANAGEMENT  
For the Years Ended December 31, 2017 and 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2017-001	New procedures have been put into place along with excel spreadsheets that have been created to ensure all revenue collected is recorded properly. Monthly, quarterly, and year-end procedures have been implemented to make sure all transactions are recorded timely and correctly. All debt activity is tracked on excel amortization schedules to accurately track balances and payment amounts.	Immediately	Michael S Palmer, Fiscal Officer
2017-002	Bank reconciliations are completed for each account owned by the Village on a monthly basis. They are reviewed and approved at the monthly finance committee meetings which are held before the Council meeting and also approved at the Council meeting.	Immediately	Michael S Palmer, Fiscal Officer
2017-003	Due to the lack of controls and procedures not being followed by the previous Fiscal Officer, the following controls, policies, and procedures have been implemented. All employees will now fill out detailed timesheets that will show all time used and the reasoning for such. All timesheets will be signed and dated by the employee and signed and approved by employees' direct report before the payroll can be processed. The Administrator, Chief of Police and the Fiscal Officer will all complete timesheets to show all time used and these sheets will be approved by the Mayor before the payroll can be processed.	Immediately	Michael S Palmer, Fiscal Officer
2017-004	A new online purchase order system was purchased and implemented in the 4 <sup>th</sup> quarter of 2017 for use by all employees. All employees have their own access to the system. Employees must enter any purchase request through this new system which route the new purchase order for approval by the employees' direct report and then will be forwarded to the Fiscal Officer for funds verification and final approval before purchase is made and before payment can be made.	Immediately	Michael S Palmer, Fiscal Officer
2017-005	Before any expenditures can be made, balances in each line item will be reviewed and verification of available funds will be made by the Fiscal Officer before payments are made. If funds are found to be insufficient to cover any expenditure a transfer will be initiated to transfer funds into the affected line item. Financial Reports will also be reviewed at the monthly finance committee meeting and any deficient line items will be addressed.	Immediately	Michael S Palmer, Fiscal Officer

OHIO AUDITOR OF STATE  
**KEITH FABER**



**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  
MAY 23, 2019**