



Mary Taylor, CPA
Auditor of State

MILAN TOWNSHIP
ERIE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	18
Schedule of Prior Audit Findings	20

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Milan Township
Erie County
1518 State Route 113 East
Milan, Ohio 44846-9528

To the Township Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 25, 2007

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Milan Township
Erie County
1518 State Route 113 East
Milan, Ohio 44846-9528

To the Township Board of Trustees:

We have audited the accompanying financial statements of Milan Township, Erie County, (the Township) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audits to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audits provide a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Milan Township, Erie County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.



Mary Taylor, CPA
Auditor of State

July 25, 2007

**MILAN TOWNSHIP
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$237,291	\$346,357	\$583,648
Intergovernmental	96,643	142,898	239,541
Licenses, Permits, and Fees	31,236		31,236
Fines, Forfeitures, and Penalties	75		75
Earnings on Investments	55,578	2,642	58,220
Other Revenue	903	5,200	6,103
	<u>421,726</u>	<u>497,097</u>	<u>918,823</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	237,985	12,399	250,384
Public Safety		116,378	116,378
Public Works	75,097	213,806	288,903
Health	5,065		5,065
Conservation - Recreation	14,503		14,503
Capital Outlay	23,443	1,395	24,838
	<u>356,093</u>	<u>343,978</u>	<u>700,071</u>
Total Cash Disbursements			
	<u>65,633</u>	<u>153,119</u>	<u>218,752</u>
Total Receipts Over Disbursements			
	<u>664,136</u>	<u>681,071</u>	<u>1,345,207</u>
Fund Cash Balances, January 1			
	<u>664,136</u>	<u>681,071</u>	<u>1,345,207</u>
Fund Cash Balances, December 31	<u>\$729,769</u>	<u>\$834,190</u>	<u>\$1,563,959</u>
Reserve for Encumbrances, December 31	<u>\$4,822</u>	<u>\$7,637</u>	<u>\$12,459</u>

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

**MILAN TOWNSHIP
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$251,705	\$361,168	\$612,873
Intergovernmental	85,715	140,753	226,468
Special Assessments		8,183	8,183
Licenses, Permits, and Fees	30,490		30,490
Fines, Forfeitures, and Penalties	20		20
Earnings on Investments	39,477	1,271	40,748
Other Revenue	641	3,100	3,741
	<u>408,048</u>	<u>514,475</u>	<u>922,523</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	243,053	15,951	259,004
Public Safety		118,202	118,202
Public Works	132,841	232,130	364,971
Health	3,045		3,045
Conservation - Recreation	2,791		2,791
Capital Outlay	193,291	342,958	536,249
	<u>575,021</u>	<u>709,241</u>	<u>1,284,262</u>
Total Cash Disbursements			
Total Receipts Under Disbursements	<u>(166,973)</u>	<u>(194,766)</u>	<u>(361,739)</u>
Other Financing Receipts and (Disbursements):			
Sale of Fixed Assets	25,500		25,500
Advances-In	16,000		16,000
Advances-Out		(16,000)	(16,000)
	<u>41,500</u>	<u>(16,000)</u>	<u>25,500</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts and Other Financing Receipts	(125,473)	(210,766)	(336,239)
Fund Cash Balances, January 1	<u>789,609</u>	<u>891,837</u>	<u>1,681,446</u>
Fund Cash Balances, December 31	<u>\$664,136</u>	<u>\$681,071</u>	<u>\$1,345,207</u>
Reserve for Encumbrances, December 31	<u>\$6,771</u>	<u>\$17,295</u>	<u>\$24,066</u>

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Milan Township, Erie County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance and fire protection. The Township contracts with the North Central EMS to provide ambulance services.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit and Federal securities at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Special Revenue Funds

These funds account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

Special Levy – Fire – This fund receives property tax money to support the local operation of fire services.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2006	2005
Demand deposits	\$171,019	\$104,587
Money market	8,979	5,169
Federal securities	100,000	100,000
STAR Ohio	1,283,961	1,135,451
Total deposits and investments	\$1,563,959	\$1,345,207

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: The Federal Reserve holds the Township's Federal securities in book-entry form, in the name of the Township's broker. The broker maintains records identifying the Township as owner of these securities.

Investments in STAR Ohio and money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$409,685	\$421,726	\$12,041
Special Revenue	540,682	497,097	(43,585)
Total	\$950,367	\$918,823	(\$31,544)

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$731,361	\$360,915	\$370,446
Special Revenue	794,145	351,615	442,530
Total	\$1,525,506	\$712,530	\$812,976

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$384,875	\$449,548	\$64,673
Special Revenue	464,230	514,475	50,245
Total	\$849,105	\$964,023	\$114,918

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$820,804	\$581,792	\$239,012
Special Revenue	1,021,707	742,536	279,171
Total	\$1,842,511	\$1,324,328	\$518,183

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RETIREMENT SYSTEM

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$49,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

MILAN TOWNSHIP
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

8. RISK MANAGEMENT – (CONTINUED)

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Township Contributions to OTARMA

2004	\$21,285
2005	\$23,112
2006	\$24,458

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

9. COMPLIANCE

The Township did not competitively bid the purchase of a fire truck in fiscal year 2005 as required by Ohio Law.

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

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

Milan Township
Erie County
1518 State Route 113 East
Milan, Ohio 44846-9528

To the Township Board of Trustees:

We have audited the financial statements of Milan Township, Erie County, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 25, 2007 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2006-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 25, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-002.

We also noted certain noncompliance that we reported to the Township's management in a separate letter dated July 25, 2007.

The Township's responses to the findings identified in our audits are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

Milan Township
Erie County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 3

We intend this report solely for the information and use of the audit committee, management, and the Township Board of Trustees. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

July 25, 2007

MILAN TOWNSHIP
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Material Weakness

Financial Reporting

As a result of the audit procedures performed, errors were noted in the financial statements that required audit adjustments. The following audit adjustments were made to the fiscal year 2006 financial statements: \$7,561 of intergovernmental revenues was incorrectly classified as tax revenues in the General Fund, \$21,607 of intergovernmental revenues was incorrectly classified as tax revenues in the Special Revenue Funds. The following audit adjustments were made to the fiscal year 2005 financial statements: \$2,048 of intergovernmental revenues representing \$778 from auto registration and \$1,270 from permissive tax was incorrectly posted to the General Fund rather than Special Revenue Funds, budgeted receipts for the General Fund were adjusted in the amount of \$28,655 due to amounts included in the accounting system not matching the Board approved amounts, and Special Revenue Funds budgeted receipts were adjusted in the amount of \$39,483 due to amounts included in the accounting system not matching the Board approved amounts.

The adjustments noted during the audit were associated with errors in coding various receipts to the proper funds and accounts of the Township. To ensure the Township's financial statements are complete and accurate the Fiscal Officer should review the coding of accounts included in the Accounting Manual prepared by the Uniform Accounting Network at http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

Official's Response:

Officials indicated the error in posting auto registration funds to the General Fund was acknowledged. Official's response indicated public utility taxes had previously been posted as tax revenues and the error in posting replacement monies is acknowledged.

FINDING NUMBER 2006-002

Noncompliance Citation

Ohio Revised Code § 505.42 permits the Board of Township Trustees to purchase equipment for fire protection purposes subject to the provisions of Ohio Revised Code § 731.14 to 731.16. Ohio Revised Code § 731.14 requires in part when any expenditure exceeds twenty-five thousand dollars, such contracts shall be in writing and made with the lowest and best bidder after advertising for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the Township.

Purchases from a department, agency, or political subdivision of the state, or from a regional planning commission, are exempt from competitive bidding. Contracts for used equipment or supplies at a public auction or emergencies can be entered into without following competitive bidding procedures.

**FINDING NUMBER 2006-002
(Continued)**

In fiscal year 2005, the Township purchased a fire truck from Smeal Fire Apparatus without putting the purchase up for competitive bid. While the fire truck purchased was a demo fire truck the purchase does not meet any of the exemptions listed above, and exceeded the statutory bidding threshold of twenty-five thousand dollars.

The failure to competitively bid purchases could result in the Township not obtaining the best price possible. We recommend that the Board follow competitive bidding requirements when required. Furthermore, we recommend the Board consult the Township's legal counsel to ensure that the appropriate legal requirements are met.

Official's Response:

The truck purchased was a 2004 model used by the vendor for demonstrations to potential buyers. The truck had never been titled or placed in service and had the equipment and features that the Township needed. Additionally the Township contacted other vendors and the feedback received was that the asking price was favorable to the Township. Since fire trucks do not depreciate as rapidly as other vehicles and the Township had concerns as to how to prepare the specifications for the purchase of this particular truck the Township decided to purchase the truck without following competitive bidding procedures.

MILAN TOWNSHIP
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code § 5549.21, failure to competitively bid purchase of a road truck.	YES	



Mary Taylor, CPA
Auditor of State

MILAN TOWNSHIP

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 21, 2007**