



Dave Yost • Auditor of State

MILAN TOWNSHIP
ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Milan Township
Erie County
1518 State Route 113
Milan, Ohio 44846

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Milan Township, Erie County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 Township'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 Township's internal control. Accordingly, we express no 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Milan Township, Erie County, Ohio as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, 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. 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 Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 29, 2018

**MILAN TOWNSHIP
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$327,407	\$468,115	\$795,522
Charges for Services		19,706	19,706
Licenses, Permits and Fees	76,736		76,736
Intergovernmental	62,341	162,111	224,452
Special Assessments		13,779	13,779
Earnings on Investments	8,630		8,630
Miscellaneous	6,660	411	7,071
<i>Total Cash Receipts</i>	<u>481,774</u>	<u>664,122</u>	<u>1,145,896</u>
Cash Disbursements			
Current:			
General Government	340,337	12,084	352,421
Public Safety		190,300	190,300
Public Works	1,000	204,392	205,392
Health	20,431		20,431
Conservation-Recreation	2,500		2,500
Capital Outlay	38,467	629,721	668,188
<i>Total Cash Disbursements</i>	<u>402,735</u>	<u>1,036,497</u>	<u>1,439,232</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>79,039</u>	<u>(372,375)</u>	<u>(293,336)</u>
Other Financing Receipts (Disbursements)			
Sale of Capital Assets	15,755		15,755
Transfers In		103,879	103,879
Transfers Out	(103,879)		(103,879)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(88,124)</u>	<u>103,879</u>	<u>15,755</u>
<i>Net Changes in Fund Cash Balances</i>	(9,085)	(268,496)	(277,581)
<i>Fund Cash Balances, January 1</i>	<u>769,059</u>	<u>810,723</u>	<u>1,579,782</u>
Fund Cash Balances, December 31			
Restricted		470,299	470,299
Committed		71,928	71,928
Assigned	252,723		252,723
Unassigned	507,251		507,251
<i>Fund Cash Balances, December 31</i>	<u>\$759,974</u>	<u>\$542,227</u>	<u>\$1,302,201</u>

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. REPORTING ENTITY

The constitution and laws of the State of Ohio establish the rights and privileges of Milan Township, Erie County, Ohio (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, fire protection services, park operations, and general government services. The Township contracts with the North Central EMS to provide ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types.

B. 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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The Township had the following significant Special Revenue Funds:

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

Special Levy – Fire & Ambulance Fund - This fund receives property tax money to support the local operation of fire and ambulance services.

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

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

C. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D). 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 financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D) permit.

D. Budgetary Process

The Ohio Revised Code requires 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. 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 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 2016 budgetary activity appears in Note 3

E. Deposits 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's investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

F. Capital Assets

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
FOR THE YEAR ENDED DECEMBER 31, 2016
(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.

H. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *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.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

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

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 392,219	\$ 497,529	\$ 105,310
Special Revenue	701,715	768,001	66,286
Total	\$ 1,093,934	\$ 1,265,530	\$ 171,596

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 628,000	\$ 513,121	\$ 114,879
Special Revenue	1,276,800	1,041,873	234,927
Total	\$ 1,904,800	\$ 1,554,994	\$ 349,806

4. DEPOSITS AND INVESTMENTS

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

	2016
Demand Deposits	\$ 111,770
Certificates of Deposit	909,149
Total deposits	1,020,919
STAR Ohio	281,282
Total deposits and investments	\$ 1,302,201

Deposits

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

Investments

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

5. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax 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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

June 20.

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

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

6. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employee Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

B. Social Security

Several Township employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

7. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

8. RISK MANAGEMENT

Risk Pool Membership

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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 and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

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, 2016.

	2016
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$13,000.

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.

2016 Contributions to OTARMA

\$28,470

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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.

**MILAN TOWNSHIP
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$297,944	\$343,868		\$641,812
Charges for Services		15,210		15,210
Licenses, Permits and Fees	69,115			69,115
Intergovernmental	58,757	137,171		195,928
Special Assessments		9,424		9,424
Earnings on Investments	5,062			5,062
Miscellaneous	11,248	1,000		12,248
<i>Total Cash Receipts</i>	<u>442,126</u>	<u>506,673</u>		<u>948,799</u>
Cash Disbursements				
Current:				
General Government	323,108	17,198		340,306
Public Safety		181,898		181,898
Public Works	15,096	258,919		274,015
Health	14,247			14,247
Conservation-Recreation	15,301			15,301
Other		66,302		66,302
Capital Outlay		38,747	\$50,000	88,747
<i>Total Cash Disbursements</i>	<u>367,752</u>	<u>563,064</u>	<u>50,000</u>	<u>980,816</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>74,374</u>	<u>(56,391)</u>	<u>(50,000)</u>	<u>(32,017)</u>
Other Financing Receipts (Disbursements)				
Transfers In	2,304	73,731		76,035
Transfers Out	(73,731)	(2,304)		(76,035)
Sale of Capital Assets	30,500		50,000	80,500
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(40,927)</u>	<u>71,427</u>	<u>\$50,000</u>	<u>80,500</u>
<i>Net Changes in Fund Cash Balances</i>	33,447	15,036		48,483
<i>Fund Cash Balances, January 1</i>	<u>735,612</u>	<u>795,687</u>		<u>1,531,299</u>
Fund Cash Balances, December 31				
Restricted		740,018		740,018
Committed		70,705		70,705
Assigned	235,781			235,781
Unassigned	533,278			533,278
<i>Fund Cash Balances, December 31</i>	<u>\$769,059</u>	<u>\$810,723</u>		<u>\$1,579,782</u>

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. REPORTING ENTITY

The constitution and laws of the State of Ohio establish the rights and privileges of Milan Township, Erie County, Ohio (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, fire protection services, park operations, and general government services. The Township contracts with North Point EMS to provide ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types.

B. 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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects. The Township had the following significant Special Revenue Fund:

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

3. Capital Project Funds

These funds account for and report financial resources that are restricted to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Project Fund:

Miscellaneous Capital Projects Fund – This fund received proceeds from sale of a capital asset owned by the Township.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

C. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D). 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 financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D) permit.

D. Budgetary Process

The Ohio Revised Code requires 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. 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 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 2015 budgetary activity appears in Note 3

E. Deposits 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's investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

F. Capital Assets

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

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.

H. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *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.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

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

The Township 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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 181,779	\$ 474,930	\$ 293,151
Special Revenue	483,954	580,404	96,450
Capital Projects	50,000	50,000	
Total	\$ 715,733	\$ 1,105,334	\$ 389,601

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 794,888	\$ 456,312	\$ 338,576
Special Revenue	765,829	568,869	196,960
Capital Projects	50,000	50,000	
Total	\$ 1,610,717	\$ 1,075,181	\$ 535,536

4. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2015
Demand Deposits	\$ 293,998
Certificates of Deposit	1,006,000
Total deposits	1,299,998
STAR Ohio	279,784
Total deposits and investments	\$ 1,579,782

Deposits

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

Investments

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

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

5. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax 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.

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

6. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employee Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

B. Social Security

Several Township employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

7. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**MILAN TOWNSHIP
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

8. RISK MANAGEMENT

Risk Pool Membership

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. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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 and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

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, 2015.

	<u>2015</u>
Assets	\$37,313,311
Liabilities	8,418,518
Net Position	\$28,894,793

At December 31, 2015 the liabilities above include approximately \$7.8 of estimated incurred claims payable. The assets above also include approximately \$7.7 of unpaid claims to be billed to approximately 989 members in the future as of December 31, 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$14,000.

MILAN TOWNSHIP
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(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

2015 Contributions to OTARMA

\$26,838

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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

Contrary to Ohio law, the Township posted the proceeds from the sale of a capital asset to the incorrect fund.

Also contrary to Ohio law, the Township did not follow provisions related to reimbursement of health insurance premiums to a Township official.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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
Milan, Ohio 44846

To the Board of Trustees:

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 financial statements of the cash balances, receipts, and disbursements by fund type of Milan Township, Erie County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated January 29, 2018 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township'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 Township's internal control. Accordingly, we have not opined on it.

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 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 Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

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, 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 2016-002 and 2016-003.

Township's Response to Findings

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township'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 Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 29, 2018

MILAN TOWNSHIP
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015

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

FINDING NUMBER 2016-001

Material Weakness – Financial Reporting

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

We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2016:

- Special Revenue Fund Type restricted fund balance in the amount of \$71,928 was reclassified to committed in accordance with the provisions of GASB Statement No. 54; and
- Special Revenue Fund Type estimated receipts were increased in the amount of \$77,138 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts.

We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- Special Revenue Fund Type restricted fund balance in the amount of \$70,705 was reclassified to committed in accordance with the provisions of GASB Statement No. 54; and
- General Fund Type estimated receipts were decreased in the amount of \$127,715 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts.

The accompanying financial statements have been adjusted to reflect these changes. These errors were not identified and corrected prior to the Township preparing its financial statements and notes to the financial statements due to deficiencies in the Township's internal controls over financial statement monitoring. Additional insignificant errors were also noted for the years ended December 31, 2016 and 2015.

To help ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes to the financial statements by the Fiscal Officer, to identify and correct errors and omissions. The Fiscal Officer can refer to Auditor of State Bulletin 2011-004 at the following web site address for information on Governmental Accounting Standards Board Statement No. 54:
<http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

Officials' Response:

The Board of Trustees and the Fiscal Officer will ensure proper classification and recording of financial activity in the future.

FINDING NUMBER 2016-002

Noncompliance Citation / Material Weakness

Ohio Rev. Code § 5705.10(F) provides, in part, that except as provided in divisions (G) and (H) of this section, if a permanent improvement of the subdivision is sold, the amount received from the sale shall be paid into the sinking fund, the bond retirement fund, or a special fund for the construction or acquisition of permanent improvements.

In 2015, the Fiscal Officer incorrectly posted the proceeds from the sale of a dump truck in the amount of \$50,000 in the General Fund. These receipts should have been recorded in the Miscellaneous Capital Projects Fund.

The accompanying financial statements have been adjusted to reflect these changes, including the allocation of \$50,000 in capital outlay disbursements from the General Fund to the Miscellaneous Capital Projects Fund and related authorized budget amounts for appropriations and estimated receipts, in order to properly account for the purchase of a new truck and truck fitting paid for in part from the proceeds described above.

These errors were not identified and corrected prior to the audit due to deficiencies in the Township's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the Board of Trustees, to identify and correct errors and omissions. Also, the Fiscal Officer can refer to the Ohio Township Handbook available from the following web address for guidance on the posting of transactions:

<https://ohioauditor.gov/publications/FINALTownshipHandbook%203-22-17.pdf>

Officials' Response:

In the future, the Board of Trustees and the Fiscal Officer will ensure proper classification and recording for the sale of permanent improvements.

FINDING NUMBER 2016-003

Finding for Recovery Repaid Under Audit

Ohio Rev. Code § 505.60(D) provides that if any Township officer or employee is denied coverage under a health care plan procured under this section or if any Township officer or employee elects not to participate in the Township's health care plan, the Township may reimburse the officer or employee for each out-of-pocket premium attributable to the coverage provided for the officer or employee and their immediate dependents for insurance benefits described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the Township for its officers and employees under any health care plan it procures under this section.

Former Fiscal Officer James Verbridge was reimbursed in excess of amounts paid for actual out-of-pocket insurance premiums during the year ended December 31, 2015 as follows:

**FINDING NUMBER 2016-003
 (Continued)**

<u>Year</u>	<u>Actual Out-of-Pocket Premiums Paid</u>	<u>Actual Amount Reimbursed</u>	<u>Overpayment to Employee</u>
2015	\$0	\$900	(\$900)

In accordance with foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against James Verbridge in the amount of nine hundred dollars (\$900) and in favor of Milan’s Township’s General Fund. James Verbridge reimbursed the Township on January 26, 2018.

Amounts reimbursed to employees and officers for out-of-pocket insurance premiums should be limited to actual out-of-pocket premium expenses incurred.

Officials’ Response:

The Board of Trustees have updated their policies, and no longer offer elected officials a reimbursement for health insurance premiums exceeding the amounts paid for actual out-of pocket insurance premiums. The Fiscal Officer is aware of this change in policy, and will ensure proper financial activity in the future.

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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
FEBRUARY 13, 2018**