

**MALAGA TOWNSHIP  
MONROE COUNTY**

**REGULAR AUDIT  
YEARS ENDED DECEMBER 31, 2004 AND 2003**





Mary Taylor, CPA  
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Malaga Township  
51399 Grizzle Ridge Road  
Jerusalem, Ohio 43747

We have reviewed the *Independent Auditors' Report* of Malaga Township, Monroe County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2003 through December 31, 2004. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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. Malaga Township, Monroe County is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 5, 2007

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**MALAGA TOWNSHIP  
MONROE COUNTY**

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## INDEPENDENT AUDITORS' REPORT

Malaga Township, Monroe County  
Malaga, Ohio 43757

We have audited the accompanying financial statements of Malaga Township, Monroe County, (the "Township") as of and for the years ended December 31, 2004 and 2003. 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 audit.

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

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township had elected not to reformat its statements. Since this Township does not use GAAP to measure financial statements amounts, 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 year ended December 31, 2004 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, 2004, or its change in financial position or cash flows of its funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township, as of December 31, 2004 and 2003, and its combined receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

*much more than an accounting firm*

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. 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 28, 2006 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 reports and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Jones, Cochenour & Co.".

Jones, Cochenour & Co.  
July 28, 2006

**MALAGA TOWNSHIP, MONROE COUNTY**  
**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN**  
**FUND CASH BALANCES – ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS</b>					
Local taxes	\$ 10,297	\$ 13,315	\$ -	\$ -	\$ 23,612
Intergovernmental	12,324	69,487	8,896	1,255	91,962
Earnings on investments	29	29	-	-	58
Other revenue	406	10	-	-	416
<b>TOTAL CASH RECEIPTS</b>	<b>23,056</b>	<b>82,841</b>	<b>8,896</b>	<b>1,255</b>	<b>116,048</b>
<b>CASH DISBURSEMENTS</b>					
<b>Current:</b>					
General government	13,030	-	-	-	13,030
Public safety	1,200	-	-	-	1,200
Public works	852	78,935	-	-	79,787
Health	6,529	-	-	-	6,529
Conservation - recreation	2,765	-	-	-	2,765
Human service	450	-	-	-	450
<b>Debt service:</b>					
Redemption of principle	-	-	12,449	1,076	13,525
Interest and fiscal charges	-	-	447	179	626
<b>TOTAL CASH DISBURSEMENTS</b>	<b>24,826</b>	<b>78,935</b>	<b>12,896</b>	<b>1,255</b>	<b>117,912</b>
<b>TOTAL RECEIPTS</b>					
<b>OVER/(UNDER) DISBURSEMENTS</b>	<b>(1,770)</b>	<b>3,906</b>	<b>(4,000)</b>	<b>-</b>	<b>(1,864)</b>
<b>OTHER FINANCING</b>					
<b>RECEIPTS/(DISBURSEMENTS)</b>					
Transfers-in	-	-	4,000	-	4,000
Transfers-out	-	(4,000)	-	-	(4,000)
<b>TOTAL OTHER FINANCING</b>					
<b>RECEIPTS/(DISBURSEMENTS)</b>	<b>-</b>	<b>(4,000)</b>	<b>4,000</b>	<b>-</b>	<b>-</b>
<b>Excess of cash receipts and other financing</b>					
<b>receipts over/(under) cash disbursements</b>					
<b>and other financing disbursements</b>					
	(1,770)	(94)	-	-	(1,864)
<b>FUND CASH BALANCES, JANUARY 1</b>	<b>(3,921)</b>	<b>13,165</b>	<b>3,707</b>	<b>105</b>	<b>13,056</b>
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$ (5,691)</b>	<b>\$ 13,071</b>	<b>\$ 3,707</b>	<b>\$ 105</b>	<b>\$ 11,192</b>

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

**MALAGA TOWNSHIP, MONROE COUNTY**  
**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN**  
**FUND CASH BALANCES – ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS</b>					
Local taxes	\$ 7,083	\$ 12,912	\$ -	\$ -	\$ 19,995
Intergovernmental	10,658	58,189	8,897	19,434	97,178
Special assessments	-	6	-	-	6
Earnings on investments	22	31	-	-	53
Other revenue	-	17	-	-	17
<b>TOTAL CASH RECEIPTS</b>	<b>17,763</b>	<b>71,155</b>	<b>8,897</b>	<b>19,434</b>	<b>117,249</b>
<b>CASH DISBURSEMENTS</b>					
<b>Current:</b>					
General government	17,292	-	-	-	17,292
Public safety	1,200	-	-	12,858	14,058
Public works	700	66,194	-	-	66,894
Health	5,456	-	-	-	5,456
<b>Debt service:</b>					
Redemption of principle	-	-	11,769	1,034	12,803
Interest and fiscal charges	-	-	1,128	221	1,349
<b>TOTAL CASH DISBURSEMENTS</b>	<b>24,648</b>	<b>66,194</b>	<b>12,897</b>	<b>14,113</b>	<b>117,852</b>
<b>TOTAL RECEIPTS OVER/(UNDER) DISBURSEMENTS</b>	<b>(6,885)</b>	<b>4,961</b>	<b>(4,000)</b>	<b>5,321</b>	<b>(603)</b>
<b>OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>					
Transfers-in	700	4,621	4,000	-	9,321
Transfers-out	-	(4,000)	-	(5,321)	(9,321)
<b>TOTAL OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>	<b>700</b>	<b>621</b>	<b>4,000</b>	<b>(5,321)</b>	<b>-</b>
<b>Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements</b>	<b>(6,185)</b>	<b>5,582</b>	<b>-</b>	<b>-</b>	<b>(603)</b>
<b>FUND CASH BALANCES, JANUARY 1</b>	<b>2,264</b>	<b>7,583</b>	<b>3,707</b>	<b>105</b>	<b>13,659</b>
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$ (3,921)</b>	<b>\$ 13,165</b>	<b>\$ 3,707</b>	<b>\$ 105</b>	<b>\$ 13,056</b>

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

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

Malaga Township, Monroe County (the "Township"), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The township contracts with the Lewisville Community Volunteer Fire Department, Somerton Fire Department and the Beallsville Community Fire Department to provide fire and ambulance services.

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

B. BASIS OF ACCOUNTING

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

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

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

2. Special Revenue Funds

These funds are used to account for proceeds of specific revenue sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

*Motor Vehicle License Tax Fund* – This fund receives motor vehicle license tax money for constructing, maintaining and repairing Township roads and bridges.

*Gasoline Tax Fund* – This fund receives gasoline tax money for constructing, maintaining and repairing Township roads.

*Road and Bridge Fund* – This fund receives property tax money for maintaining Township roads and bridges.

3. Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

*General Note Retirement Fund* – This fund was established to service the general obligation notes obtained for the purchase of a tractor.

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. FUND ACCOUNTING - CONTINUED

4. Capital Project Fund

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

*Issue II Fund* – this fund receives gasoline tax money to pay the loan from the State of Ohio to replace and repair Township roads.

*OPWC Project* – The Township was part of a group of Townships for a culvert project that was funded by a grant from OPWC. As of December 31, 2004 the project was not completed.

D. 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 and function 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. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 cancelled, and re-appropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	<u>\$ 11,192</u>	<u>\$ 13,056</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 32,501	\$ 23,056	\$ (9,445)
Special Revenue	81,256	82,841	1,585
Debt Service	10,445	12,896	2,451
Capital Projects	61,299	1,255	(60,044)
<b>Total</b>	<b>\$ 185,501</b>	<b>\$ 120,048</b>	<b>\$ (65,453)</b>

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 28,634	\$ 24,826	\$ 3,808
Special Revenue	94,343	82,935	11,408
Debt Service	8,896	12,896	(4,000)
Capital Projects	1,255	1,255	-
<b>Total</b>	<b>\$ 133,128</b>	<b>\$ 121,912</b>	<b>\$ 11,216</b>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 24,700	\$ 18,463	\$ (6,237)
Special Revenue	112,856	75,776	(37,080)
Debt Service	9,085	12,897	3,812
Capital Projects	1,255	19,434	18,179
<b>Total</b>	<b>\$ 147,896</b>	<b>\$ 126,570</b>	<b>\$ (21,326)</b>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 26,265	\$ 24,648	\$ 1,617
Special Revenue	99,953	70,194	29,759
Debt Service	8,897	12,897	(4,000)
Capital Projects	1,255	19,434	(18,179)
<b>Total</b>	<b>\$ 136,370</b>	<b>\$ 127,173</b>	<b>\$ 9,197</b>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the debt service fund by \$4,000, for the year ended December 31, 2004 and in the capital projects and debt service funds by \$18,179 and 4,000, respectively, for the year ended December 31, 2003. Also contrary to Ohio law, at December 31, 2004 and 2003, budgeted receipts exceeded actual fund receipts by \$9,445 and \$60,044 for 2003 in the general fund and capital project fund, and by \$6,237 and \$37,080 in the general fund and special revenue respectively. It should be further noted that the general fund had a deficit fund cash balance for 2004 and 2003 of \$5,619 and \$3,921, respectively.

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

4. PROPERTY TAX

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

Public utilities are also taxes 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.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission (OPWC Loan)	\$ 7,654	2%
General Obligation Note	3,778	5.02%
Total	<u>\$ 11,432</u>	

The OPWC loan was issued to complete road improvements. The general obligation note was issued to finance the purchase of a new tractor to be used for Township Road maintenance. The OWPC loan and the general obligation note are collateralized solely by the Township's taxing authority.

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

	<u>OPWC Loan</u>	<u>General Obligation Loan</u>
Year ending December 31:		
2005	\$ 627	\$ 3,872
2006	1,255	-
2007	1,255	-
2008	1,255	-
2009	1,255	-
Thereafter	2,510	-
Total	<u>\$ 8,157</u>	<u>\$ 3,872</u>

6. RETIREMENT SYSTEM

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2004.



MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

7. RISK MANAGEMENT

Risk Pool Membership

The Township also 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

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guaranteed Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 Township.

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, 2004 and 2003 (the latest information available):

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$ 30,687,203	\$ 27,792,223
Liabilities	\$ (13,640,962)	\$ (11,791,300)
Retained earnings	<u>\$ 17,046,241</u>	<u>\$ 16,000,923</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$ 7,799,073	\$ 6,791,060
Liabilities	\$ (753,906)	\$ (750,956)
Retained earnings	<u>\$ 7,045,167</u>	<u>\$ 6,040,104</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Malaga Township, Monroe County  
Malaga, OH**

We have audited the financial statements of Malaga Township, Monroe County as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated July 28, 2006, wherein we noted that the Township prepared its financial statements using accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Malaga Township, Monroe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation of the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Malaga Township, Monroe County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as 2004-2528-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we consider the reportable condition described above to be a material weakness. We noted other matters that we reported to management of Malaga Township, Monroe County in a separate letter dated July 28, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Malaga Township, Monroe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings as items 2004-258-001 through 2004-2528-005. However, we noted other matters that we reported to management of Malaga Township, Monroe County in a separate letter dated July 28, 2006.

This report is intended solely for the information and use of the board of directors, management and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.  
July 28, 2006

*much more than an accounting firm*

MALAGA TOWNSHIP, MONROE COUNTY

SCHEDULE OF FINDINGS  
December 31, 2004 and 2003

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

FINDING NUMBER 2004-2528-001

NONCOMPLIANCE CITATIONS

Ohio Rev. Code § 5705.41(D)(1), states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

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 the 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. For the years ended December 31, 2003 and 2004 our sample cash disbursement testing revealed that 30% and 20% of the sample failed to meet ORC 5705.41(D), respectively.

We recommend the clerk monitors to assure all necessary expenditures are properly certified, and to assure compliance with §5705.41(D).

FINDING NUMBER 2004-2528-002

Ohio Rev. Code § 5705.10(H) requires that money paid into a fund may only be used for the purpose for which the fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2004 and 2003, the Township's General Fund had a negative cash fund balance of \$5,691 and \$3,921.

We recommend the Clerk and Board of Trustees monitor fund cash balances on a periodic basis and if negative fund balances occur, officials should try to cut unnecessary expenditures.

FINDING NUMBER 2004-2528-003

Ohio Rev. Code Section 5705.36(A)(4) allows all subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the certificate of estimated resources.

Budgeted revenue exceeded actual and/or appropriations were greater than actual revenue plus unencumbered cash as of December 31, 2004, as follows:

<u>Fund</u>	<u>Budgeted Resources</u>	<u>Actual Revenue Plus Unencumbered Cash</u>	<u>Appropriation Authority</u>
General fund	\$ 28,634	\$ 19,189	\$ 28,634
Motor vehicle license tax	16,830	10,928	16,830
Road bridge fund	20,860	18,732	20,861

MALAGA TOWNSHIP, MONROE COUNTY

SCHEDULE OF FINDINGS - CONTINUED  
December 31, 2004 and 2003

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

FINDING NUMBER 2004-2528-003-CONTINUED

Budgeted Revenue exceeded actual revenue and appropriations were greater than actual revenue plus unencumbered cash as of December 31, 2003, as follows:

<u>Fund</u>	<u>Budgeted Resources</u>	<u>Actual Revenue Plus Unencumbered Cash</u>	<u>Appropriation Authority</u>
General fund	\$ 26,965	\$ 20,781	\$ 26,265
Motor vehicle license tax	20,306	12,007	20,306
Gas tax fund	54,671	52,387	53,365
Road bridge fund	27,867	18,880	26,282

We recommend the Township monitor estimated and actual revenues for all funds on a regular basis. In the situation where budgeted revenue exceeds actual revenue and appropriations exceed actual revenue, the trustees should approve to reduce estimated revenue and appropriations should be adjusted accordingly.

FINDING NUMBER 2004-2528-004

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

Ohio Admin. Code §117-2-02(C)(1) provides that all public offices should integrate the budgetary account, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

In 2004, the Debt Service Funds had expenditures which exceeded appropriations by \$4,000. In 2003, the Capital Project and Debt Service Funds had expenditures exceeding appropriations by \$18,179 and \$4,000, respectively.

FINDING NUMBER 2004-2528-005

During both 2004 and 2003, the Township did not post estimated receipts to its accounting system. As a result, there was no method established whereby the Township could accurately compare budgeted to actual receipts and file any amended certificates of estimated resources when needed.

We recommend the Township Clerk maintain the receipts ledger as set forth in Ohio Admin Code §117-2-02 (C) (1).

The Clerk should deny payment requests exceeding appropriations. The Clerk may request the Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**MALAGA TOWNSHIP, MONROE COUNTY**

**SCHEDULE OF FINDINGS - CONTINUED**

**December 31, 2004 and 2003**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - CONTINUED</b></p>
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**FINDING NUMBER 2004-2528-006**

**Material Weakness – Limiting Expenditures**

**The Township’s general Fund had a negative cash fund balance at December 31, 2004 and 2003.**

**For the years ended December 31, 1999, 2000, 2001, 2003 and 2004, total expenditures have exceeded total revenues by significant amounts, thereby diminishing fund balances. This is attributed to the inability of the Township’s property taxes and intergovernmental revenue to keep pace with increasing costs. This condition, if left unchecked, could result in going concern considerations for the Township, and could lead to the Township being declared in fiscal watch or fiscal emergency.**

**We recommend the Township limit spending to allow fund balances to recover to normal levels. We further recommend the Board consider cost cutting measures and carefully monitor financial reports on a monthly basis to ensure expenditures stay within or below receipted revenue. Another alternative measure would be to ask Township residents to pass additional levies.**

**MALAGA TOWNSHIP, MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**December 31, 2004 and 2003**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not corrected; Partially Corrected; Significantly Different Corrective Action Taken; of Finding No Longer Valid; Explain:</b>
2000-41056-002 & 2002-41056-002	Ohio Rev. Code Section 5705.41(B) expenditures in excess of appropriations.	No	Reissued as Finding Number 2004-2528-004
2002-41056-001	Ohio Rev. Code Section 5705.10	No	Reissued as Finding Number 2004-2528-002
2002-41056-003	Ohio Admin. Code 117-2-02(c)(1)	No	Reissued as Finding Number 2004-2528-005
2002-41056-004	Material Weakness – Limited Expenditures	No	Reissued as Finding Number 2004-2528-006



**Mary Taylor, CPA**  
Auditor of State

**MALAGA TOWNSHIP**

**MONROE 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  
JANUARY 18, 2007**