



Mary Taylor, CPA
Auditor of State

MALAGA TOWNSHIP
MONROE 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, 2008..... | 5 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007..... | 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> | 13 |
| Schedule of Findings | 15 |
| Schedule of Prior Audit Findings | 19 |

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Malaga Township
Monroe County
52844 Bush Road
Jerusalem, Ohio 43747

To the 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 29, 2009

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Malaga Township
Monroe County
52844 Bush Road
Jerusalem, Ohio 43747

To the Board of Trustees:

We have audited the accompanying financial statements of Malaga Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007. 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.

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, 2008 and 2007 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, 2008 and 2007, 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 of Malaga Township, Monroe County, Ohio, as of December 31, 2008 and 2007, 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 May 29, 2009, 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 audit.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 29, 2009

**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, 2008**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$8,566 | \$16,031 | \$24,597 |
| Intergovernmental | 13,182 | 102,804 | 115,986 |
| Earnings on Investments | 110 | 69 | 179 |
| Miscellaneous | | 1,559 | 1,559 |
| | | <hr/> | <hr/> |
| Total Cash Receipts | <hr/> 21,858 | <hr/> 120,463 | <hr/> 142,321 |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 13,820 | | 13,820 |
| Public Safety | 1,700 | | 1,700 |
| Public Works | 1,002 | 102,440 | 103,442 |
| Health | 7,546 | | 7,546 |
| Debt Service: | | | |
| Redemption of Principal | | 11,966 | 11,966 |
| Interest and Other Fiscal Charges | | 4,684 | 4,684 |
| | | <hr/> | <hr/> |
| Total Cash Disbursements | <hr/> 24,068 | <hr/> 119,090 | <hr/> 143,158 |
| Total Cash Receipts Over/(Under) Cash Disbursements | (2,210) | 1,373 | (837) |
| Fund Cash Balances, January 1 | <hr/> 14,605 | <hr/> 40,328 | <hr/> 54,933 |
| Fund Cash Balances, December 31 | <hr/> \$12,395 | <hr/> \$41,701 | <hr/> \$54,096 |

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, 2007**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$8,599 | \$16,003 | \$24,602 |
| Intergovernmental | 32,708 | 94,892 | 127,600 |
| Earnings on Investments | 125 | 115 | 240 |
| Miscellaneous | | 1,521 | 1,521 |
| | | | <hr/> |
| Total Cash Receipts | <u>41,432</u> | <u>112,531</u> | <u>153,963</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 13,415 | | 13,415 |
| Public Safety | 1,700 | | 1,700 |
| Public Works | 981 | 88,696 | 89,677 |
| Health | 7,299 | | 7,299 |
| Debt Service: | | | |
| Redemption of Principal | | 30,421 | 30,421 |
| Interest and Other Fiscal Charges | | 6,229 | 6,229 |
| | | | <hr/> |
| Total Cash Disbursements | <u>23,395</u> | <u>125,346</u> | <u>148,741</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | 18,037 | (12,815) | 5,222 |
| Fund Cash Balances, January 1 | <u>(3,432)</u> | <u>53,143</u> | <u>49,711</u> |
| Fund Cash Balances, December 31 | <u>\$14,605</u> | <u>\$40,328</u> | <u>\$54,933</u> |

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

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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 Malaga Township, Monroe 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 and emergency medical services. The Township contracts with the Lewisville and Community Volunteer Fire Department, Somerton Volunteer Fire Department, and the Beallsville and Community Volunteer Fire Department to provide fire services and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. Note 7 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.

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. Fund Accounting

The Township uses fund accounting to segregate cash that is 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.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose 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.

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

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

C. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

D. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. 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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

E. 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.

2. Equity in Pooled Deposits

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

| | | |
|-----------------|-----------------|-----------------|
| | <u>2008</u> | <u>2007</u> |
| Demand deposits | <u>\$54,096</u> | <u>\$54,933</u> |

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

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2008 and 2007, follows:

| 2008 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$20,467 | \$21,858 | \$1,391 |
| Special Revenue | 112,177 | 120,463 | 8,286 |
| Total | \$132,644 | \$142,321 | \$9,677 |

| 2008 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$35,132 | \$24,068 | \$11,064 |
| Special Revenue | 152,514 | 119,090 | 33,424 |
| Total | \$187,646 | \$143,158 | \$44,488 |

| 2007 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$39,252 | \$41,432 | \$2,180 |
| Special Revenue | 113,350 | 112,531 | (819) |
| Total | \$152,602 | \$153,963 | \$1,361 |

| 2007 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$35,818 | \$23,395 | \$12,423 |
| Special Revenue | 166,493 | 125,346 | 41,147 |
| Total | \$202,311 | \$148,741 | \$53,570 |

4. Property Tax

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.

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.

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

5. Debt

Debt outstanding at December 31, 2008, was as follows:

| | Principal | Interest Rate |
|--|-----------|---------------|
| Ohio Public Works Commission (OPWC Loan) | \$3,636 | 0.02% |
| Lease with the Option to Purchase (Grader Lease) | 67,766 | 5.45% |
| Total | \$71,402 | |

The OPWC loan was issued in 2001 to complete road improvements. The lease with the option to purchase was issued in 2006 to finance the purchase of a case motor grader to be used for Township road maintenance. The OPWC loan is collateralized solely by the Township's taxing authority. The lease is collateralized by a first lien on the equipment.

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

| Year ending December 31: | OPWC Loan | Grader Lease |
|--------------------------|-----------|--------------|
| 2009 | \$1,255 | \$15,395 |
| 2010 | 1,255 | 15,395 |
| 2011 | 1,255 | 15,395 |
| 2012 | | 15,395 |
| 2013-2017 | | 18,910 |
| Total | \$3,765 | \$80,490 |

6. Retirement System

The Township's elected officials and 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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 10% and 9.5%, respectively, of their gross salaries and the Township contributed an amount equaling 14% and 13.85%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2008.

7. 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.

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

7. Risk Management (Continued)

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 townships 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. 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).

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.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and 300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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, 2007 and 2006 (the latest information available):

**MALAGA TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

7. Risk Management (Continued)

| | <u>2007</u> | <u>2006</u> |
|-------------|---------------------|---------------------|
| Assets | \$43,210,703 | \$42,042,275 |
| Liabilities | <u>(13,357,837)</u> | <u>(12,120,661)</u> |
| Net Assets | <u>\$29,852,866</u> | <u>\$29,921,614</u> |

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$4,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates charged by OTARMA 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 liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership. The Township's contributions to OTARMA for the past three years are as follows:

| <u>Year</u> | <u>Contribution</u> |
|-------------|---------------------|
| 2006 | \$4,867 |
| 2007 | 4,091 |
| 2008 | 4,116 |

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.



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*

Malaga Township
Monroe County
52844 Bush Road
Jerusalem, Ohio 43747

To the Board of Trustees:

We have audited the financial statements of Malaga Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 29, 2009, 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 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*.

Internal Control over Financial Reporting

In planning and performing our audit, 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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 findings 2008-002 and 2008-003 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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. We believe none of the significant deficiencies described above are 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, 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 or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 29, 2009.

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.

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



Mary Taylor, CPA
Auditor of State

May 29, 2009

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

FINDING NUMBER 2008-001

Noncompliance Citation

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

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:

Then and Now Certificate -- If the fiscal officer can certify that both at the time the contract or order was made "then" and at the time that the fiscal officer is completing the certification "now", that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance.

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

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

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

The Township did not properly certify the availability of funds prior to purchase commitment for 100% of expenditures tested in 2008 and 2007. There was no evidence of a "Then and Now" certificate being utilized. Failure to properly certify the availability of funds can result in overspending of funds and negative cash fund balances.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

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

FINDING NUMBER 2008-001 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligations being incurred by the Township. When prior certification is not possible, "then and now" certificates should be used. Only one blanket certification should be used for a particular line item appropriation. The Board of Trustees should adopt a resolution to indicate an amount that blanket certificates cannot exceed.

We recommend the Township certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

Officials' Response: Beginning in May 2009, we are preparing purchase orders which are dated approximately 1½ - 2 weeks prior to the invoice date.

FINDING NUMBER 2008-002

Significant Deficiency

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions to be recorded on this ledger.
3. Appropriation ledger, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

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

FINDING NUMBER 2008-002 (Continued)

Significant Deficiency (Continued)

The Ohio Township Handbook (revised April 2009) provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

During 2008 and 2007, the Township's receipts and disbursements were not always posted into accurate receipt and expenditure classifications, based upon the source of the receipt or purpose of disbursement. The following misclassifications were noted:

- In 2008 and 2007, General Fund emergency management agency (EMA) contract payments in the amount of \$500 each year were classified as "General Government" instead of "Public Safety" disbursements.
- In 2008 and 2007, General Fund health department fees in the amounts of \$6,910 and \$6,666, respectively, were classified as "General Government" instead of "Health" disbursements.
- In 2008 and 2007, the Ohio Public Works Commission loan payments in the amounts of \$1,255 were classified as "Public Works" instead of "Debt Service Principal" and "Debt Service Interest" disbursements.
- In 2008 and 2007, payments for the grader lease in the amounts of \$15,395 and \$35,395, respectively, were not broke down and classified as "Debt Service Principal" and "Debt Service Interest" disbursements.
- In 2008, \$1,190 in private donations were classified as "Intergovernmental" instead of "Miscellaneous" receipts.
- In 2008, \$155 in dealer intangible receipts were classified as "Taxes" instead of "Intergovernmental" receipts.
- In 2008 and 2007, tangible personal property tax receipts in the amounts of \$132 and \$210, respectively, were classified as "Intergovernmental" receipts instead of "Taxes".
- In 2007, \$19,706 of inheritance tax receipts were classified as "Taxes" instead of "Intergovernmental" receipts.

These items resulted in significant adjustments to the accompanying financial statements.

We recommend the Township utilize available authoritative resources to appropriately classify receipt and disbursement transactions.

Officials' Response: The Township Fiscal Officer is enrolled for UAN (Uniform Accounting Network) training on June 15 – 16, 2009.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

| |
|---|
| <p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p> |
|---|

FINDING NUMBER 2008-003

Significant Deficiency

The Township should have internal controls in place to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts.

The Township did not post estimated receipts to its accounting system or compare budgeted receipts to actual results.

We recommend the Fiscal Officer maintain the receipts ledger as set forth in Ohio Admin. Code Section 117-2-02(C)(1). Budgeted receipts should be posted to the accounting system so that management may effectively monitor the status of amounts anticipated to be received throughout the year. The amounts posted as budgeted receipts should represent the amounts estimated to be received during the year on the Township's Official Certificate of Estimated Resources.

Officials' Response: Township Officials did not provide a response to this finding.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2006-2528-001 | Material Noncompliance Citation / Significant Deficiency / Material Weakness – Ohio Rev. Code Section 5705.41(D)(1) – Certification of Expenditures. | No | Not Corrected; Reissued as Finding Number 2008-001. |
| 2006-2528-002 | Material Noncompliance Citation / Significant Deficiency / Material Weakness – Ohio Rev. Code Section 5705.10(H) – Negative fund balance in the General Fund. | Yes | N/A. |
| 2006-2528-003 | Material Noncompliance Citation / Significant Deficiency / Material Weakness – Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded appropriations. | Yes | N/A. |
| 2006-2528-004 | Material Noncompliance Citation/Significant Deficiency/Material Weakness – Ohio Admin. Code Section 117-2-02(C)(1) – No method established whereby the Township could accurately compare budgeted to actual receipts and file any amended certificates of estimated resources when needed. | No | Not Corrected; Reissued as Finding Number 2008-003. |
| 2006-2528-005 | Significant Deficiency/Material Weakness – The Township's General Fund had a negative cash fund balance at December 31, 2006 and 2005 and expenditures exceeded revenues since 1999. | Yes | N/A. |
| 2006-2528-006 | Significant Deficiency / Material Weakness – The Township had Debt Service payments classified in the Capital Projects Fund at December 31, 2006 and 2005. | Yes | N/A. |



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
JUNE 18, 2009**