

**MALAGA TOWNSHIP  
MONROE COUNTY**

**REGULAR AUDIT  
YEARS ENDED DECEMBER 31, 2006 AND 2005**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Malaga Township  
51399 Grizzle Ridge Road  
Malaga, 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, 2005 through December 31, 2006. 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 is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 3, 2008

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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, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its change in financial position or cash flows of its funds 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 the Township, as of December 31, 2006 and 2005, and its combined receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village 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 February 6, 2008 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." with a period at the end.

Jones, Cochenour & Co.  
February 6, 2008



**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, 2006**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS</b>					
Local taxes	\$ 8,513	\$ 15,768	\$ -	\$ -	\$ 24,281
Intergovernmental	11,444	96,630	1,255	-	109,329
Earnings on investments	96	57	-	-	153
Other revenue	-	62	-	-	62
<b>TOTAL CASH RECEIPTS</b>	<b>20,053</b>	<b>112,517</b>	<b>1,255</b>	<b>-</b>	<b>133,825</b>
<b>CASH DISBURSEMENTS</b>					
<b>Current:</b>					
General government	12,597	-	-	-	12,597
Public safety	1,200	-	-	-	1,200
Public works	822	87,941	-	-	88,763
Health	6,949	-	-	-	6,949
<b>Debt service:</b>					
Redemption of principle	-	-	1,119	-	1,119
Interest and fiscal charges	-	-	136	-	136
<b>TOTAL CASH DISBURSEMENTS</b>	<b>21,568</b>	<b>87,941</b>	<b>1,255</b>	<b>-</b>	<b>110,764</b>
<b>TOTAL RECEIPTS OVER/(UNDER) DISBURSEMENTS</b>	<b>(1,515)</b>	<b>24,576</b>	<b>-</b>	<b>-</b>	<b>23,061</b>
<b>OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>					
Transfers-in	-	-	-	-	-
Transfers-out	-	-	-	-	-
<b>TOTAL OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(1,515)	24,576	-	-	23,061
<b>FUND CASH BALANCES, JANUARY 1</b>	<b>(1,917)</b>	<b>28,461</b>	<b>-</b>	<b>105</b>	<b>26,649</b>
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$ (3,432)</b>	<b>\$ 53,037</b>	<b>\$ -</b>	<b>\$ 105</b>	<b>\$ 49,710</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, 2005**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS</b>					
Local taxes	\$ 8,342	\$ 15,452	\$ -	\$ -	\$ 23,794
Intergovernmental	11,404	87,252	1,478	-	100,134
Special assessments	-	-	-	-	-
Earnings on investments	47	38	-	-	85
Other revenue	-	-	-	-	-
<b>TOTAL CASH RECEIPTS</b>	<b>19,793</b>	<b>102,742</b>	<b>1,478</b>	<b>-</b>	<b>124,013</b>
<b>CASH DISBURSEMENTS</b>					
<b>Current:</b>					
General government	17,797	-	-	-	17,797
Public safety	1,200	-	-	-	1,200
Public works	878	81,781	-	-	82,659
Health	1,070	-	-	-	1,070
Other	642	-	-	-	642
<b>Debt service:</b>					
Redemption of principle	-	-	5,007	-	5,007
Interest and fiscal charges	-	-	178	-	178
<b>TOTAL CASH DISBURSEMENTS</b>	<b>21,587</b>	<b>81,781</b>	<b>5,185</b>	<b>-</b>	<b>108,553</b>
<b>TOTAL RECEIPTS OVER/(UNDER) DISBURSEMENTS</b>	<b>(1,794)</b>	<b>20,961</b>	<b>(3,707)</b>	<b>-</b>	<b>15,460</b>
<b>OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>					
Transfers-in	5,570	-	-	-	5,570
Transfers-out	-	(5,570)	-	-	(5,570)
<b>TOTAL OTHER FINANCING RECEIPTS/(DISBURSEMENTS)</b>	<b>5,570</b>	<b>(5,570)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	3,776	15,391	(3,707)	-	15,460
<b>FUND CASH BALANCES, JANUARY 1</b>	<b>(5,693)</b>	<b>13,070</b>	<b>3,707</b>	<b>105</b>	<b>11,189</b>
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$ (1,917)</b>	<b>\$ 28,461</b>	<b>\$ -</b>	<b>\$ 105</b>	<b>\$ 26,649</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, 2006 AND 2005

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, 2006 AND 2005

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.

D. BUDGETARY PROCESS

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

1. Appropriations

The Township maintains budgetary control on a non-GAAP basis by fund and within each fund by department at major object levels, which include personal services, contractual services, supplies and materials, other expenditures, capital outlay, debt service and operating transfers. In addition, 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 2006 and 2005 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>2006</u>	<u>2005</u>
Demand deposits	<u>\$ 49,710</u>	<u>\$ 26,649</u>

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

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 19,389	\$ 20,053	\$ 664
Special Revenue	102,427	112,517	10,090
Debt Service	1,150	1,255	105
<b>Total</b>	<b>\$ 122,966</b>	<b>\$ 133,825</b>	<b>\$ 10,859</b>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 17,471	\$ 21,568	\$ (4,097)
Special Revenue	130,889	87,941	42,948
Debt Service	1,255	1,255	-
<b>Total</b>	<b>\$ 149,615</b>	<b>\$ 110,764</b>	<b>\$ 38,851</b>

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 25,570	\$ 25,363	\$ (207)
Special Revenue	90,510	102,742	12,232
Debt Service	1,373	1,478	105
<b>Total</b>	<b>\$ 117,453</b>	<b>\$ 129,583</b>	<b>\$ 12,130</b>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 14,307	\$ 21,587	\$ (7,280)
Special Revenue	103,580	87,351	16,229
Debt Service	5,185	5,185	-
<b>Total</b>	<b>\$ 123,072</b>	<b>\$ 114,123</b>	<b>\$ 8,949</b>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the general fund by \$4,097 for the year ended December 31, 2006 and in the general fund by \$7,280, for the year ended December 31, 2005. Also contrary to Ohio law, at December 31, 2005, budgeted receipts exceeded actual fund receipts by \$207 for 2005 in the general fund. It should be further noted that the general fund had a deficit fund cash balance for 2006 and 2005 of \$3,432 and \$1,917, respectively.

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

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 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.

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission (OPWC Loan)	<u>\$ 5,438</u>	<u>2%</u>

The OPWC loan was issued to complete road improvements. A general obligation note issued to finance the purchase of a new tractor to be used for Township Road maintenance was paid off during 2005. The OWPC loan is collateralized solely by the Township's taxing authority.

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

	<u>OPWC Loan</u>
Year ending December 31:	
2007	\$ 627
2008	1,255
2009	1,255
2010	1,255
2011	1,046
Total	<u>\$ 5,438</u>

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 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 2006 and 2005, PERS members contributed 9% and 8.5%, respectively, of their gross salaries. The Township contributed an amount equal to 13.7% and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

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.

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

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

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

Property Coverage

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

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

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

Financial Position

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

MALAGA TOWNSHIP, MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

7. RISK MANAGEMENT - CONTINUED

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

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$9,734. 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 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.

Contributions to OTARMA	
2004	\$ 4,912
2005	\$ 4,857
2006	\$ 4,867

After completing one year of membership, members may withdraw on each 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.





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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 as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated February 6, 2008. 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 the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of 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 the 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 accounting practices the Auditor of State prescribes or permits such that there is more than a remote likelihood that a misstatement of the agency's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-2528-001 through 2006-2528-006.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiencies described above as Findings 2006-2528-001 through 2006-2528-006 are also material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings as items 2006-2528-001 through 2006-2528-004.

*much more than an accounting firm*

**We noted certain matters that we reported to management of Malaga Township in a separate letter dated February 6, 2008.**

**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 response and, accordingly, we express no opinion on them.**

**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.*

**Jones, Cochenour & Co.  
February 6, 2008**

MALAGA TOWNSHIP, MONROE COUNTY

SCHEDULE OF FINDINGS  
December 31, 2006 and 2005

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

FINDING NUMBER 2006-2528-001

Material Noncompliance Citation/ Significant Deficiency/ Material Weakness – Certification of expenditures

Ohio Rev. Code § 5705.41(D)(1), prohibits a subdivision or taxing entity 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.

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), of the Ohio Revised Code. For the year ended December 31, 2005 our sample cash disbursement testing revealed that 17% of the sample failed to meet ORC 5705.41(D).

1. "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 previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 maybe paid by the fiscal officer without a resolution or ordinance upon completion of 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.

2. 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.
3. 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.

For the year ended December 31, 2005 our sample cash disbursement testing revealed that 17% of the sample failed to meet ORC 5705.41 (D).

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 the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

MALAGA TOWNSHIP, MONROE COUNTY

SCHEDULE OF FINDINGS - CONTINUED

December 31, 2006 and 2005

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

FINDING NUMBER 2006-2528-001 – CONTINUED

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's response: *Purchase orders are currently being used 5/31/08.*

FINDING NUMBER 2006-2528-002

Material Noncompliance Citation/ Significant Deficiency/ Material Weakness – Negative fund balances

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, 2006 and 2005, the Township's General Fund had a negative cash fund balance of \$3,432 and \$1,917, respectively.

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 reduce expenditures.

Official's response: *Currently pursuing a Township Levy for November 2008.*

FINDING NUMBER 2006-2528-003

Material Noncompliance Citation/ Significant Deficiency/ Material Weakness – Expenditures exceed appropriations

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 2006, the General Fund had expenditures which exceeded appropriations by \$4,097. In 2005, the General Fund had expenditures exceeding appropriations by \$7,280.

We recommend the Township monitor this more closely.

Official's response: *Currently pursuing a Township Levy for November 2008.*

*Please note the change of a new fiscal officer – 2008.*

MALAGA TOWNSHIP, MONROE COUNTY

SCHEDULE OF FINDINGS - CONTINUED

December 31, 2006 and 2005

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

FINDING NUMBER 2006-2528-004

Material Noncompliance Citation/ Significant Deficiency/ Material Weakness – Maintaining the receipts ledger

During both 2006 and 2005, 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.

Official's response: *No Response.*

FINDING NUMBER 2006-2528-005

Significant Deficiency/ Material Weakness – Expenditures exceed revenue

The Township's General Fund had a negative cash fund balance at December 31, 2006 and 2005.

For the years ended December 31, 1999, 2000, 2001, 2003, 2004, 2005 and 2006, 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 reduction 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.

Official's response: *We currently are doing any and all cost cuts.*

FINDING NUMBER 2006-2528-006

Significant Deficiency/ Material Weakness – Proper posting of debt proceeds and payments

The Township had Debt Service payments classified in the Capital Projects Fund at December 31, 2006 and 2005.

During 2006 and 2005 the Township posted the debt principal and interest payments to the Capital Projects fund rather than the Debt Service Fund. The amounts misposted in 2006 were \$136 in interest and \$1,119 in principal and in 2005, a total of \$158 in interest and \$1,097 in principal.

Improperly posting principal and interest payments could cause the financial statements to be misleading.

We recommend the Township ensure that debt payments are properly recorded.

For 2006 and 2005, the financial statements have been adjusted to properly reflect principal and interest payments.

Official's response: *No Response.*

**MALAGA TOWNSHIP, MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**December 31, 2006 and 2005**

<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>
2004-2528-001	Material Weakness – Ohio Rev, Code 5705.41(D)(1)	No	Reissued as Finding Number 2006-2528-001
2004-2528-002 2002-41056-001	Material Weakness - Ohio Rev. Code Section 5705.10(H)	No	Reissued as Finding Number 2006-2528-002
2004-2528-003	Material Weakness – Ohio Rev, Code 5705.36(A)(4)	Yes	Corrected
2004-2528-004 2000-41056-002 2002-41056-002	Material Weakness- Ohio Rev. Code Section 5705.41(B) expenditures in excess of appropriations.	No	Reissued as Finding Number 2006-2528-003
2004-2528-005 2002-41056-003	Material Weakness - Ohio Admin. Code 117-2-02(C)(1)	No	Reissued as Finding Number 2006-2528-004
2004-2528-006 2002-41056-004	Material Weakness – Limited Expenditures	No	Reissued as Finding Number 2006-2528-005



**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  
JULY 17, 2008**