

**MALAGA TOWNSHIP  
MONROE COUNTY**

**AUDIT REPORT**

**JANUARY 1, 2017 - DECEMBER 31, 2018**

**Wilson, Phillips & Agin, CPA's, Inc.  
1100 Brandywine Blvd. Building G  
Zanesville, Ohio 43701**



OHIO AUDITOR OF STATE  
KEITH FABER



88 East Broad Street  
Columbus, Ohio 43215  
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(800) 282-0370

Township Trustees  
Malaga Township  
52844 Bush Road  
Jerusalem, Ohio 43747

We have reviewed the *Independent Auditors' Report* of Malaga Township, Monroe County, prepared by Wilson, Phillips & Agin, CPA's, Inc., for the audit period January 1, 2017 through December 31, 2018. 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.

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.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

June 25, 2019

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**MALAGA TOWNSHIP  
MONROE COUNTY  
JANUARY 1, 2017 - DECEMBER 31, 2018**

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**WILSON, PHILLIPS & AGIN, CPA'S, INC.  
1100 BRANDYWINE BLVD. BUILDING G  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

Malaga Township  
Monroe County  
52844 Bush Road  
Jerusalem, Ohio 43747

To the Township Trustees:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type and related notes of the Malaga Township, Monroe County, as of and for the years ended December 31, 2018 and 2017.

**Management's Responsibility For the Financial Statements**

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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

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

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

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

#### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Malaga Township, Monroe County as of December 31, 2018 and 2017, or changes in financial position thereof for the years then ended.

#### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type and related notes of Malaga Township, Monroe County as of December 31, 2018 and 2017, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2019, on our consideration of Malaga Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

***Wilson, Phillips & Agin, CPA's, Inc.***  
Zanesville, Ohio  
March 30, 2019



**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, 2018**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 17,769	\$ 55,566	\$ 73,335
Intergovernmental	10,213	112,089	122,302
Miscellaneous	16,151	3,450	19,601
<b>Total Cash Receipts</b>	<u>44,133</u>	<u>171,105</u>	<u>215,238</u>
<b>Cash Disbursements:</b>			
Current:			
General Government	44,981	38,761	83,742
Public Safety	814	-	814
Public Works	800	127,736	128,536
Health	2,096	3,000	5,096
Capital Outlay	74,173	-	74,173
Debt Service			
Principal Retirement	2,073	-	2,073
Interest and Fiscal Charges	494	-	494
<b>Total Cash Disbursements</b>	<u>125,431</u>	<u>169,497</u>	<u>294,928</u>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Notes	74,173	-	74,173
Other Financing Sources	3,990	500	4,490
<b>Total Other Financing Receipts (Disbursements)</b>	<u>78,163</u>	<u>500</u>	<u>78,663</u>
<b>Net Change in Fund Cash Balance</b>	(3,135)	2,108	(79,690)
<b>Fund Cash Balances, January 1, restated</b>	<u>49,397</u>	<u>52,816</u>	<u>102,213</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	-	35,370	35,370
Committed	-	19,554	19,554
Unassigned (Deficit)	46,262	-	46,262
<b>Fund Cash Balances, December 31</b>	<u>\$ 46,262</u>	<u>\$ 54,924</u>	<u>\$ 101,186</u>

See notes to financial statements.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**1. REPORTING ENTITY**

**Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Malaga Township, Monroe County, (the Township) as a body corporate and politic. A publically-elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge 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 and ambulance services and with the Monroe County Emergency Management Agency to provide an emergency operation plan.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

**B. Fund Accounting**

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

**General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds**

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

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

**Road Levy Fund** – This fund receives real estate tax money to pay for constructing, maintaining, and repairing Township roads.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D) permit.

**D. Budgetary Process**

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

**Appropriations**

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

**Estimated Resources**

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

**Encumbrances**

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

A summary of 2018 appears in Note 3.

**E. Deposits and Investments**

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

**F. Capital Assets**

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Accumulated Leave**

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

**H. Fund Balance**

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

**Nonspendable**

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

**Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed**

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

**Assigned**

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

**Unassigned**

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

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2018 is as follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 22,321	\$ 122,296	\$ 99,975
Special Revenue	163,891	171,605	7,714
Total	\$ 186,212	\$ 293,901	\$ 107,689

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 78,996	\$ 125,431	\$ (46,435)
Special Revenue	208,991	169,497	39,494
Total	\$ 287,987	\$ 294,928	\$ (6,941)

Contrary to ORC 5705.39, the Township had appropriations greater than estimated resources in the General Fund.

Contrary to ORC 5705.41(B), the Township had expenditures greater than appropriations in the General Fund.

Contrary to ORC 5705.41(D), the Township had made expenditures prior to certification.

**4. EQUITY IN POOLED CASH**

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:

	2018
Demand Deposits	\$ 101,186
Total Deposits	\$ 101,186

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

**5. PROPERTY TAX**

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

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

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**6. RISK MANAGEMENT**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017 (the latest information available).

	2017
Assets	\$40,010,732
Liabilities	(8,675,465)
Retained Earnings	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township's share of these unpaid claims collectible in future years is approximately \$1,898.

Based on discussion 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	
2018	\$4,313
2017	5,092
2016	5,088

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**7. DEFINED BENEFIT PENSION PLANS**

*Ohio Public Employees Retirement System*

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

The Ohio Revised Code also prescribes contribution rates. For 2018, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.0% of participant’s gross salaries. The Township has paid all contributions required through December 31, 2018.

**8. POSTEMPLOYMENT BENEFITS**

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

**9. PUBLIC ENTITY RISK POOL**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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 exceeding the member’s deductible.

**10. DEBT**

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest rate
Woodsfield Savings Bank Promissory Note	\$ 72,100	2.990%
Total	\$ 72,100	

In 2018, the Township issued a Promissory Note to finance the purchase of a 2018 Dodge Ram to be used in road maintenance. It will be paid monthly from the General Fund, with the final payment due in March 2024.

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

Year Ended December 31	2017 Case Tractor
2019	\$ 14,642
2020	14,642
2021	14,642
2022	14,642
2023	14,642
2024-2028	4,881
Total	\$ 78,091

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**11. RESTATEMENT OF FUND BALANCE**

Fund balance in the Special Revenue Funds have been restated for the year beginning January 1, 2018 as voided checks were added back:

	Special Revenue
Fund Balance at December 31, 2017	\$ 52,699
Adjustments	117
Fund Balance at January 1, 2018	<u>\$ 52,816</u>



**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, 2017**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 13,905	\$ 54,563	\$ 68,468
Intergovernmental	17,811	100,610	118,421
Miscellaneous	1,154	-	1,154
<b>Total Cash Receipts</b>	<u>32,870</u>	<u>155,173</u>	<u>188,043</u>
<b>Cash Disbursements:</b>			
Current:			
General Government	35,441	33,183	68,624
Public Safety	520	-	520
Public Works	966	98,161	99,127
Health	1,763	3,600	5,363
<b>Total Cash Disbursements</b>	<u>38,690</u>	<u>134,944</u>	<u>173,634</u>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Capital Assets	-	5,000	5,000
Other Financing Sources	858	5,760	6,618
<b>Total Other Financing Receipts (Disbursements)</b>	<u>858</u>	<u>10,760</u>	<u>11,618</u>
<b>Net Change in Fund Cash Balance</b>	(4,962)	30,989	14,409
<b>Fund Cash Balances, January 1</b>	<u>54,359</u>	<u>21,710</u>	<u>76,069</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	-	31,579	31,579
Committed	-	21,120	21,120
Unassigned (Deficit)	49,397	-	49,397
<b>Fund Cash Balances, December 31</b>	<u>\$ 49,397</u>	<u>\$ 52,699</u>	<u>\$ 102,096</u>

See notes to financial statements.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**1. REPORTING ENTITY**

**Description of the Entity**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D) permit.

**D. Budgetary Process**

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

**Appropriations**

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

**Estimated Resources**

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

**Encumbrances**

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

A summary of 2017 appears in Note 3.

**E. Deposits and Investments**

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

**F. Capital Assets**

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Accumulated Leave**

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

**H. Fund Balance**

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

**Nonspendable**

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

**Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed**

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

**Assigned**

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

**Unassigned**

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

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2017 is as follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 22,722	\$ 33,728	\$ 11,006
Special Revenue	165,309	165,933	624
Total	\$ 188,031	\$ 199,661	\$ 11,630

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 77,081	\$ 38,690	\$ 38,391
Special Revenue	187,019	134,944	52,075
Total	\$ 264,100	\$ 173,634	\$ 90,466

Contrary to ORC 5705.41(D), the Township had made expenditures prior to certification.

**4. EQUITY IN POOLED CASH**

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:

	2017
Demand Deposits	\$ 102,096
Total Deposits	\$ 102,096

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

**5. PROPERTY TAX**

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

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

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**6. RISK MANAGEMENT**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017.

	2017
Assets	\$40,010,732
Liabilities	(8,675,465)
Retained Earnings	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township's share of these unpaid claims collectible in future years is approximately \$2,240.

Based on discussion 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	
2017	\$5,092
2016	5,088
2015	5,085

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

**MALAGA TOWNSHIP  
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**7. DEFINED BENEFIT PENSION PLANS**

*Ohio Public Employees Retirement System*

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

The Ohio Revised Code also prescribes contribution rates. For 2017, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.0% of participant's gross salaries. The Township has paid all contributions required through December 31, 2017.

**8. POSTEMPLOYMENT BENEFITS**

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

**9. PUBLIC ENTITY RISK POOL**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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 exceeding the member's deductible.

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**WILSON, PHILLIPS & AGIN, CPA'S, INC.  
1100 BRANDYWINE BLVD. BUILDING G  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' 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 Township Trustees:

We have audited, in accordance with auditing standards general accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Malaga Township, Monroe County as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated March 30, 2019, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered Malaga Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2018-001 and Finding 2018-002 described in the accompanying schedule of findings to be material weaknesses.

Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by Government Auditing Standards  
Page Two

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Malaga Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed three instances of noncompliance or other matters we must report under *Government Auditing Standards* described in the accompanying Schedule of Findings as items 2018-002, 2018-003, and 2018-004.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Wilson, Phillips & Agin, CPA's, Inc.***  
Zanesville, Ohio  
March 30, 2019

**MALAGA TOWNSHIP  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 AND 2017**

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

**FINDING NUMBER 2018-001**

**Material Weakness – Financial Reporting**

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.

The Ohio Township Handbook (revised March 2018) provides suggested fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are non-spendable, restricted, committed, assigned and unassigned.

The Township did not properly reflect its December 31, 2017 and 2018 cash balances in accordance with Governmental Accounting Standards Board (GASB) Statement Number 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal years beginning after June 15, 2010.

Financial statement errors identified for the year ended December 31, 2017 were as follows:

- Restricted Fund Balance was overstated and the Committed Fund Balance understated by \$21,120 for the Road and Bridge Fund.

Financial statement errors identified for the year ended December 31, 2018 were as follows:

- Restricted Fund Balance was overstated and the Committed Fund Balance understated by \$19,554 for the Road and Bridge Fund.

Material adjustments, with which the Township officials' agree, are reflected within the accompanying financial statements.

The Township should develop internal control internal control procedures to ensure the financial statements of the Township accurately reflect the fund cash balance in accordance with GASB Statement No. 54 reporting requirements. The Township Fiscal Officer may refer to Auditor of State Bulletin 2011-004 for additional guidance.

Client Response: We have not received a response from the client.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 AND 2017**

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

**FINDING NUMBER 2018-002**

**Material Weakness/Noncompliance – Financial Reporting**

All local offices should 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.

The Township Officer's Handbook (Revised 2018) provides suggested accounts 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.

Ohio Revised Code 5705.10(D) states, in part, that all revenues derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

The Township did not properly all receipts and expenditures. Errors were made in recording various transactions. Amounts were not always posted to the correct fund and/or line item. The following reclassifications and adjustments were made to the financial statements and accounting records.

The following is related to 2018:

- Property and Other Local Taxes Receipts of \$9,139 in the General Fund were adjusted to Intergovernmental in the amounts of \$1,863, \$3,354, and \$3,922 for the General Fund, Road and Bridge Fund, and Road Levy Fund, respectively.
- Property and Other Local Taxes were reclassified to Miscellaneous in the amount of \$9,256 for the General Fund.
- Other Financing Sources were reclassified to Miscellaneous in the amount of \$6,895 for the General Fund.
- Principal Retirement Payments were reclassified to General Government in the amount of \$4,313 for the General Fund.
- Interest Payments were reclassified to Principal Retirement in the amount of \$172 for the General Fund to accurately show Principal and Interest Payments.
- Sale of Notes and a Capital Outlay Disbursement in the amount of \$74,173 was recorded within the General Fund to account for the Truck Note that was never recorded.

The following is related to 2017:

- Property and Other Local Taxes Receipts of \$9,140 in the General Fund were adjusted to Intergovernmental in the amounts of \$1,863, \$3,362, and \$3,915 for the General Fund, Road and Bridge Fund, and Road Levy Fund, respectively.
- Property and Other Local Taxes were reclassified to Intergovernmental in the amount of \$4,597 for the General Fund.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 AND 2017**

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

**FINDING NUMBER 2018-002 (CONTINUED)**

- Other Financing Sources were reclassified to Intergovernmental and Miscellaneous in the amounts of \$1,722 and \$602, respectively for the General Fund.
- Other Financing Sources were reclassified to Sales of Capital Assets in the amount of \$5,000 for the Gasoline Tax Fund.
- Public Safety Disbursements were reclassified to General Government in the in the amount of \$680 for the General Fund.

Sound financial reporting is the responsibility of the Township and is essential to help ensure the information provided to the readers of financial statements is complete and accurate. To help ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures to identify and correct errors and omissions. In addition, the Township should review the financial statements and notes prior to submission for audit.

Client Response: We have not received a response from the client.

**FINDING NUMBER 2018-003**

**Noncompliance**

Ohio Revised Code Chapter 133 allows various methods for subdivisions to incur debt. Section 133.22 allows a subdivision to issue anticipatory securities, Section 133.10 allows anticipation securities in anticipation of current property tax revenues, Section 133.14 allows the issuance of securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct and Section 133.18 allows the taxing authority of a subdivision by legislation to submit to the electors of the subdivision the question is issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

In 2018, the Township signed a promissory note with a local bank to purchase a Dodge Ram Truck in the amount of \$74,173. This type of debt does not meet the criteria for any of the debt allowed in Ohio Revised Code Chapter 133.

The Ohio Revised Code contains various methods of incurring debt for Townships. Installment loans and promissory notes with banking institutions are not legal methods of debt for Townships.

We recommend the Township contact their legal counsel before incurring any future debt.

Client Response: We have not received a response from the client.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 AND 2017**

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

**FINDING NUMBER 2018-004**

**Noncompliance**

Ohio Revised Code Section 117.38 requires townships to file their financial information in the HINKLE system within 60 days after the close of the fiscal year. For financial information to be considered complete, financial statements must include footnotes. We noted the footnotes did not include certain information and there were some noted variances, as described below:

For December 31, 2018 were as follows:

- The Township did not update the 2018 footnotes with current year information, instead they used their 2017 footnotes. This included the Footnotes in the following sections: Budgetary, Equity in Pooled Cash, OTARMA, and Debt.
- The Township did not include a footnote to explain the Restatement of Fund Balance within the Special Revenue Funds.

We recommend the Township complete accurate and complete financial information.

Client Response: We have not received a response from the client.

**MALAGA TOWNSHIP  
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2016-001	Material Weakness Fund Balance Classifications	No	Not Corrected: Cited in current report as finding 2018-001
2016-002	Significant Deficiency Reclassifications	No	Not Corrected: Cited in current report as finding 2018-002
2013-003	Noncompliance ORC 5705.41(D)	No	Partially Corrected: Cited in Management Letter

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# OHIO AUDITOR OF STATE KEITH FABER



**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 9, 2019**