

**MALAGA TOWNSHIP
MONROE COUNTY**

AUDIT REPORT

JANUARY 1, 2015 - DECEMBER 31, 2016



Dave Yost • Auditor of State

Board of 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, 2015 through December 31, 2016. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 13, 2017

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**MALAGA TOWNSHIP
MONROE COUNTY
JANUARY 1, 2015 - DECEMBER 31, 2016**

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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 Malaga Township, Monroe County, as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility For the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit 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 (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonable 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, 2016 and 2015, 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 combined cash balances of Malaga Township, Monroe County as of December 31, 2016 and 2015, and its combined cash receipts and disbursements 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 May 3, 2017, 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
May 3, 2017

**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, 2016**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$ 13,488	\$ 49,587	\$ 63,075
Charges for Services	4,000	-	4,000
Intergovernmental	20,929	103,632	124,561
Miscellaneous	4,957	-	4,957
Total Cash Receipts	<u>43,374</u>	<u>153,219</u>	<u>196,593</u>
Cash Disbursements:			
Current:			
General Government	18,620	14,000	32,620
Public Safety	1,200	-	1,200
Public Works	1,000	144,431	145,431
Health	6,690	3,600	10,290
Debt Service			
Principal Retirement	-	3,500	3,500
Interest and Fiscal Charges	-	450	450
Total Cash Disbursements	<u>27,510</u>	<u>165,981</u>	<u>193,491</u>
Other Financing Receipts (Disbursements)			
Other Financing Sources	583	16	599
Total Other Financing Receipts (Disbursements)	<u>583</u>	<u>16</u>	<u>599</u>
Net Change in Fund Cash Balance	16,447	(12,746)	3,102
Fund Cash Balances, January 1	<u>37,912</u>	<u>34,456</u>	<u>72,368</u>
Fund Cash Balances, December 31			
Restricted	-	17,141	17,141
Committed	-	4,569	4,569
Unassigned (Deficit)	54,359	-	54,359
Fund Cash Balances, December 31	<u>\$ 54,359</u>	<u>\$ 21,710</u>	<u>\$ 76,069</u>

See notes to financial statements.

**MALAGA TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
5FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$ 12,579	\$ 48,413	\$ 60,992
Intergovernmental	29,048	89,449	118,497
Miscellaneous	9,565	-	9,565
Total Cash Receipts	<u>51,192</u>	<u>137,862</u>	<u>189,054</u>
Cash Disbursements:			
Current:			
General Government	21,980	9,778	31,758
Public Safety	235	19,768	20,003
Public Works	976	115,233	116,209
Health	7,681	2,000	9,681
Debt Service			
Principal Retirement	-	12,798	12,798
Interest and Fiscal Charges	-	743	743
Total Cash Disbursements	<u>30,872</u>	<u>160,320</u>	<u>191,192</u>
Other Financing Receipts (Disbursements)			
Other Financing Sources	726	-	726
Total Other Financing Receipts (Disbursements)	<u>726</u>	<u>-</u>	<u>726</u>
Net Change in Fund Cash Balance	21,046	(22,458)	(2,138)
Fund Cash Balances, January 1	<u>16,866</u>	<u>56,914</u>	<u>73,780</u>
Fund Cash Balances, December 31			
Restricted	-	31,507	31,507
Committed	-	2,949	2,949
Unassigned (Deficit)	37,912	-	37,912
Fund Cash Balances, December 31	<u>\$ 37,912</u>	<u>\$ 34,456</u>	<u>\$ 72,368</u>

See notes to financial statements.

**MALAGA TOWNSHIP
MONROE COUNTY**

NOTES TO FINANCIAL STATEMENTS

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

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 2016 and 2015 appear 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.

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.

**MALAGA TOWNSHIP
MONROE COUNTY**

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2016 and 2015 is as follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 20,822	\$ 43,957	\$ 23,135
Special Revenue	159,477	153,235	(6,242)
Total	\$ 180,299	\$ 197,192	\$ 16,893

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 58,734	\$ 27,510	\$ 31,224
Special Revenue	192,513	165,981	26,532
Total	\$ 251,247	\$ 193,491	\$ 57,756

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 20,926	\$ 51,918	\$ 30,992
Special Revenue	155,733	137,862	(17,871)
Total	\$ 176,659	\$ 189,780	\$ 13,121

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 58,734	\$ 30,872	\$ 27,862
Special Revenue	192,513	160,320	32,193
Total	\$ 251,247	\$ 191,192	\$ 60,055

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:

	2016	2015
Demand Deposits	\$ 76,069	\$ 72,368
Total Deposits	\$ 76,069	\$ 72,368

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

**MALAGA TOWNSHIP
MONROE COUNTY**

NOTES TO FINANCIAL STATEMENTS

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.

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, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Commercial Insurance

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016 and 2015(the latest information available):

	<u>2016</u>	<u>2015</u>
Assets	\$38,473,283	\$37,313,311
Liabilities	(8,244,140)	(8,418,518)
Retained Earnings	<u>\$30,229,143</u>	<u>\$28,894,793</u>

At December 31, 2016 and 2015, respectively, the liabilities above include approximately \$7.4 and \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$6.9 and \$7.7 million of unpaid claims to be billed to approximately 1,010 members and 989 member governments in the future, as of December 31, 2016 and 2015, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$2,290.

**MALAGA TOWNSHIP
MONROE COUNTY**

NOTES TO FINANCIAL STATEMENTS

6. RISK MANAGEMENT(Continued)

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

2016	\$5,088
2015	5,085
2014	4,984

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.

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 2016 and 2015, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.00% of participant's gross salaries. The Township has paid all contributions required through December 31, 2016.

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. DEBT

All debt was paid off in 2016.

10. 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.

**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, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated May 3, 2017, 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. We consider Finding 2016-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2016-002 described in the accompanying schedule of findings to a significant deficiency.

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 one instance of noncompliance or other matters we must report under *Government Auditing Standards* described in the accompanying Schedule of Findings as item 2016-003.

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
May 3, 2017

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

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

FINDING NUMBER 2016-001

Material Weakness – Financial Reporting

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 2015) 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, 2015 and 2016 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, 2015 were as follows:

- Restricted Fund Balance was overstated and the Committed Fund Balance understated by \$2,949 for the Road and Bridge Fund.

Financial statement errors identified for the year ended December 31, 2016 were as follows:

- Restricted Fund Balance was overstated and the Committed Fund Balance understated by \$4,569 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, 2016 AND 2015**

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

FINDING NUMBER 2016-002

Significant Deficiency – 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 2015) provides suggested account and fund balance classifications and clarifies the existing governmental fund type definitions. 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). The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned. Using these classifications 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.

As a result of audit procedures, errors were noted that required reclassification to the financial statement as follows:

The following is related to 2015:

- Property and Other Local Taxes Receipts in the amount of \$4,321 was reclassified to Intergovernmental Receipts for money received from the State of Ohio that was a property rollback.
- Property and Other Local Taxes Receipts in the amount of \$2,000 was reclassified to Intergovernmental Receipts for money received from the Monroe County Auditor for a casino distribution.
- Public Safety Disbursements in the amount of \$1,110 was reclassified to General Government Disbursements for auditing services.

The following is related to 2016:

- Property and Other Local Taxes Receipts in the amount of \$4,279 was reclassified to Intergovernmental Receipts for money received from the State of Ohio that was a property rollback.
- Property and Other Local Taxes Receipts in the amount of \$880 was reclassified to Intergovernmental Receipts for money received from the Monroe County Auditor for a national forest distribution.
- Miscellaneous Receipts in the amount of \$2,000 was reclassified to Intergovernmental Receipts for money received from the Monroe County Auditor for a casino distribution.
- Miscellaneous Receipts in the amount of \$4,000 was reclassified to Charges for Services for money received from rental of equipment.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

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

FINDING NUMBER 2016-002 (CONTINUED)

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 2016-003

Noncompliance

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

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 §§ 5705.41 (D) (1) and 5705.41 (D) (3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that 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 receipt of the "then and now" certificate to approve payment by ordinance or resolution.
2. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
3. 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 current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

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

FINDING NUMBER 2016-003 (CONTINUED)

4. 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 exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Fiscal Officer did not certify the availability of funds prior to purchase commitments for 36% of the expenditures tested in 2016 and 2015, and there was no evidence the Township followed the aforementioned exceptions.

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 the Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Fiscal Officer certify purchases to which § 5705.41 (D) applies. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Ohio Revised Code § 5705.41 (D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

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

**MALAGA TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2014-001	Noncompliance Ohio Revised Code Chapter 133 Debt issuance	Yes	Finding No Longer Valid
2014-002	Material Weakness Fund Balance Classifications	No	Not Corrected: Cited in current report as finding 2016-001
2014-003	Material Weakness Reclassifications	No	Not Corrected: Cited in current report as finding 2016-002

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Dave Yost • 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 25, 2017**