



**Mary Taylor, CPA**  
Auditor of State



VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY

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Mary Taylor, CPA  
Auditor of State

Village of Lower Salem  
Washington County  
120 Main Street  
P.O. Box 22  
Lower Salem, Ohio 45745-0022

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

**Mary Taylor, CPA**  
Auditor of State

June 25, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Lower Salem  
Washington County  
120 Main Street  
P.O. Box 22  
Lower Salem, Ohio 45745-0022

To the Village Council:

We have audited the accompanying financial statements of the Village of Lower Salem, Washington County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lower Salem, Washington County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

June 25, 2007



**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 1,541	\$	\$ 1,541
Intergovernmental Receipts	35,611	4,735	40,346
Charges for Services	3,727		3,727
Earnings on Investments	118	48	166
	<u>40,997</u>	<u>4,783</u>	<u>45,780</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	2,261		2,261
Public Health Services	179		179
Leisure Time Activities	2,127	1,281	3,408
Transportation	9,157	3,079	12,236
General Government	22,282		22,282
	<u>36,006</u>	<u>4,360</u>	<u>40,366</u>
Total Cash Disbursements	<u>36,006</u>	<u>4,360</u>	<u>40,366</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>4,991</u>	<u>423</u>	<u>5,414</u>
<b>Other Financing Receipts and (Disbursements):</b>			
Other Sources	<u>27</u>		<u>27</u>
Total Other Financing Receipts/(Disbursements)	<u>27</u>	<u>0</u>	<u>27</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	5,018	423	5,441
Fund Cash Balances, January 1	<u>26,746</u>	<u>11,507</u>	<u>38,253</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$ 31,764</u></u>	<u><u>\$ 11,930</u></u>	<u><u>\$ 43,694</u></u>

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

**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 1,198	\$	\$ 1,198
Intergovernmental Receipts	38,281	69,640	107,921
Charges for Services	2,845		2,845
Earnings on Investments	177	66	243
Miscellaneous	110,283		110,283
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	152,784	69,706	222,490
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	3,124		3,124
Public Health Services	190		190
Leisure Time Activities	4,118	2,950	7,068
Transportation	2,927	10,860	13,787
General Government	126,765	16,259	143,024
Capital Outlay		38,500	38,500
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	137,124	68,569	205,693
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	15,660	1,137	16,797
	<hr/>	<hr/>	<hr/>
<b>Other Financing Receipts and (Disbursements):</b>			
Other Sources	1,500		1,500
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	1,500	0	1,500
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	17,160	1,137	18,297
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	9,586	10,370	19,956
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$ 26,746</b>	<b>\$ 11,507</b>	<b>\$ 38,253</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lower Salem, Washington County (the Village), as a body corporate and politic. A publicly-elected six member Council directs the Village. The Village provides maintenance of Village's sidewalks, roads and parks.

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash**

The Village values certificates of deposit at cost.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

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

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Federal Grants Fund – This fund received FEMA proceeds that were used to reimburse the General Fund for expenses incurred as a result of the September 2004 flood. This fund also received Community Development Block Grant (CDBG) monies, which were used to fund the replacement of sidewalks damaged in the September 2004 flooding.

**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

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

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

State Grants Fund – This fund received Ohio Public Works Commission (OPWC) monies, which were used to finance improvements to the Village’s ball fields.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**2. EQUITY IN POOLED CASH**

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

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 33,694	\$ 38,253
Certificates of deposit	10,000	0
Total Deposits	<u>\$ 43,694</u>	<u>\$ 38,253</u>

**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**2. EQUITY IN POOLED CASH (Continued)**

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

**3. BUDGETARY ACTIVITY**

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 40,169	\$ 41,024	\$ 855
Special Revenue	4,422	4,783	361
Total	\$ 44,591	\$ 45,807	\$ 1,216

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 68,268	\$ 36,006	\$ 32,262
Special Revenue	16,525	4,360	12,165
Total	\$ 84,793	\$ 40,366	\$ 44,427

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 136,041	\$ 154,284	\$ 18,243
Special Revenue	26,358	69,706	43,348
Total	\$ 162,399	\$ 223,990	\$ 61,591

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 142,445	\$ 137,124	\$ 5,321
Special Revenue	20,061	68,569	(48,508)
Total	\$ 162,506	\$ 205,693	\$ (43,187)

At December 31, 2005, the Village had expenditures in excess of appropriations in the Federal Grants Fund in the amount of \$54,759 contrary to Ohio Rev. Code Section 5705.41(B). Expenditures also exceeded appropriations in several line items at December 31, 2006 and 2005.

**VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**4. PROPERTY TAX**

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**5. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**6. SOCIAL SECURITY BENEFITS**

The remaining elected officials and part-time employees contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. For 2005 and 2006, these elected officials and employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participant's gross salaries through December 31, 2006.

**7. RISK MANAGEMENT**

**Commercial Insurance**

The Village of Lower Salem has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Lower Salem  
Washington County  
120 Main Street  
P.O. Box 22  
Lower Salem, Ohio 45745-0022

To the Village Council:

We have audited the financial statements of the Village of Lower Salem, Washington County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 25, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated June 25, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 25, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management and Village Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

June 25, 2007



VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

**Noncompliance Citation and Significant Deficiency**

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

Expenditures exceeded appropriations at the fund level at December 31, 2005, in the following fund:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Federal Grants (#2051)	\$0	\$54,759	(\$54,759)

Expenditures also exceeded appropriations for several line items at December 31, 2006 and 2005.

This resulted in this fund expending more than was appropriated.

The Village Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Village Clerk may request the Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Officials' Response:** We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

**Significant Deficiency**

All local public 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 Village received \$38,500 in Community Development Block Grant (CDBG) money in 2005 through the Washington County Commissioners Office for the purpose of replacing Village sidewalks destroyed in the September 2004 flood. The County bid, awarded and monitored the contracts and made the check payable directly to the contractor. The Village Clerk did not post the revenue and the expenditure for the grant to its books, nor were the estimated resources amended or supplemental appropriations passed. As a result, receipts and disbursements were understated on the Village's books and financial statements for 2005. Adjustments with which the Village agreed have been posted to the Village's books and are reflected in the accompanying financial statements. See Finding Number 2006-001 for the related budgetary violation.

We recommend the Village Clerk record all grant proceeds and the corresponding expenditures in the Village's books. We also recommend the Village obtain an amended certificate of estimated resources and pass supplemental appropriations for these transactions.

**Officials' Response:** The Village was under the understanding that since the County took care of everything for the project, it should not go on the Village's books.

VILLAGE OF LOWER SALEM  
WASHINGTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Section 5705.41(D)(1), not certifying the availability of funds prior to incurring an obligation.	No	Not corrected; Reissued in the management letter.



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF LOWER SALEM**

**WASHINGTON 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  
SEPTEMBER 18, 2007**