



**Auditor of State
Betty Montgomery**

**BUTLER TOWNSHIP
MERCER COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Butler Township
Mercer County
306 W. Main Street
P.O. Box 21
Coldwater, Ohio 45828

To the Board of Trustees:

We have audited the accompanying financial statements of Butler Township, Mercer County, (the Township), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Township's financial transactions were processed using 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 conduct the audit of the Township 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2005, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Butler Township
Mercer County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 3, 2005

**BUTLER TOWNSHIP
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$28,310	\$159,745		\$188,055
Intergovernmental	105,337	85,238	5,735	196,310
Special Assessments		1,063		1,063
Charges for Services	8,800			8,800
Licenses, Permits, and Fees		2,725		2,725
Earnings on Investments	1,019	537		1,556
Other Revenue	2,187			2,187
	<u>145,653</u>	<u>249,308</u>	<u>5,735</u>	<u>400,696</u>
Total Cash Receipts				
	<u>145,653</u>	<u>249,308</u>	<u>5,735</u>	<u>400,696</u>
Cash Disbursements:				
Current:				
General Government	52,188	3,881		56,069
Public Safety	14,448	86,815		101,263
Public Works	1,778	96,641		98,419
Capital Outlay	57,989		5,735	63,724
	<u>126,403</u>	<u>187,337</u>	<u>5,735</u>	<u>319,475</u>
Total Cash Disbursements				
	<u>126,403</u>	<u>187,337</u>	<u>5,735</u>	<u>319,475</u>
Total Receipts Over Disbursements	19,250	61,971		81,221
Fund Cash Balances, January 1	65,329	92,653		157,982
	<u>65,329</u>	<u>92,653</u>		<u>157,982</u>
Fund Cash Balances, December 31	<u>\$84,579</u>	<u>\$154,624</u>	<u>\$0</u>	<u>\$239,203</u>

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

**BUTLER TOWNSHIP
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$26,879	\$153,105		\$179,984
Intergovernmental	46,737	88,441	66,490	201,668
Special Assessments		1,063		1,063
Charges for Services	8,800			8,800
Licenses, Permits, and Fees		1,275		1,275
Earnings on Investments	1,313	1,064		2,377
Other Revenue	5,026			5,026
	<u>88,755</u>	<u>244,948</u>	<u>66,490</u>	<u>400,193</u>
Total Cash Receipts				
	<u>88,755</u>	<u>244,948</u>	<u>66,490</u>	<u>400,193</u>
Cash Disbursements:				
Current:				
General Government	50,696	2,758		53,454
Public Safety	14,448	83,745		98,193
Public Works	3,299	196,025		199,324
Capital Outlay	8,365	7,655	86,490	102,510
	<u>76,808</u>	<u>290,183</u>	<u>86,490</u>	<u>453,481</u>
Total Cash Disbursements				
	<u>76,808</u>	<u>290,183</u>	<u>86,490</u>	<u>453,481</u>
Total Receipts Over/(Under) Disbursements	11,947	(45,235)	(20,000)	(53,288)
Fund Cash Balances, January 1	53,382	137,888	20,000	211,270
Fund Cash Balances, December 31	<u>\$65,329</u>	<u>\$92,653</u>	<u>\$0</u>	<u>\$157,982</u>

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

**BUTLER TOWNSHIP
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Butler Township, Mercer County, (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, fire protection and emergency medical services. The Township contracts with Mercer County to provide ambulance services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Township does not hold any interest in investments.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Road and Bridge Fund - This fund receives property tax money to construct, maintain and repair Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money to construct, maintain and repair Township roads.

Fire Levy Fund - This fund receives tax levy monies to provide for fire protection services for the Township.

**BUTLER TOWNSHIP
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Projects Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital projects funds:

Issue II Fund - The Township received a grant from the State of Ohio for resurfacing Township roads.

Capital Project Improvement Fund - This fund was established to purchase land from Fleetfoot property owners for the road widening project.

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 Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**BUTLER TOWNSHIP
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Demand deposits	\$239,203	\$157,982

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and December 31, 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$145,590	\$145,653	\$63
Special Revenue	250,235	249,308	(927)
Capital Projects	28,150	5,735	(22,415)
Total	\$423,975	\$400,696	(\$23,279)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$210,919	\$126,403	\$84,516
Special Revenue	339,889	187,337	152,552
Capital Projects	28,150	5,735	22,415
Total	\$578,958	\$319,475	\$259,483

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$69,264	\$88,755	\$19,491
Special Revenue	254,421	244,948	(9,473)
Capital Projects	52,631	66,490	13,859
Total	\$376,316	\$400,193	\$23,877

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$122,646	\$76,808	\$45,838
Special Revenue	392,310	290,183	102,127
Capital Projects	20,000	86,490	(66,490)
Total	\$534,956	\$453,481	\$81,475

**BUTLER TOWNSHIP
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio Law, during 2003 the Special Levy Fund had expenditures exceeding appropriations by \$2,949 and the Public Works Commission Fund by \$5,735. During 2002, the Public Works Commission Fund and the Capital Projects Improvement Fund had expenditures exceeding appropriations by \$41,190 and \$25,300, respectively.

4. PROPERTY TAX

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

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

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

5. RETIREMENT SYSTEMS

The Township employees and elected officials belong to the Public Employees Retirement system of Ohio (PERS). PERS is a state operated, cost-sharing, multiple employer public employee retirement system. PERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. PERS also provides survivor and disability benefits to vested employees.

Contribution rates are prescribed by the Ohio Revised Code. The Township's PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

6. RISK MANAGEMENT

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 that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

**BUTLER TOWNSHIP
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. RISK MANAGEMENT (Continued)

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

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 2003 and 2002.

Casualty Coverage	2003	2002
Assets	\$27,792,223	\$23,757,036
Liabilities	(11,791,300)	(9,197,512)
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>
Property Coverage	2003	2002
Assets	\$6,791,060	\$6,596,996
Liabilities	(750,956)	(1,204,326)
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

7. SUBSEQUENT EVENTS

On November 2, 2004, the voters passed a 2.0 mill new fire protection levy for 5 years. The levy will raise \$210,570 annually.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Butler Township
Mercer County
306 W. Main Street
P.O. Box 21
Coldwater, Ohio 45828

To the Board of Trustees:

We have audited the accompanying financial statements of Butler Township (the Township) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated January 3, 2005. Wherein we noted that the Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* consider this service to impair the independence of the Auditor of State to conduct the audit of the Township because the Auditor of State designed, developed, implemented, and as requested operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 to 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated January 3, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated January 3, 2005.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Butler Township
Mercer County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 3, 2005

**BUTLER TOWNSHIP
MERCER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$3,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

Twenty-four percent of the transactions tested were not properly certified during the audit period. These transactions were in the amount of \$62,175 or 20% of the expenditures tested.

The Township should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of expenditures.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

During 2003, the Special Levy Fund had expenditures exceeding appropriations by \$2,949 and the Public Works Commission Fund by \$5,735. During 2002, the Public Works Commission Fund and the Capital Projects Improvement Fund had expenditures exceeding appropriations by \$41,190 and \$25,300, respectively. These errors were due to the Board not approving changes to the appropriations before entering them into the UAN system and appropriations not being made for the expenses paid on behalf of the Township through the Ohio Public Works Commission.

The Township should approve all appropriation measures and changes before being entered into the UAN system and expended.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 505.60(A) states as provided in this Section and Section 505.601 of the Revised Code, the board of township trustees of any township may procure and pay all or any part of the cost of insurance policies that may provide benefits for hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance, or a combination of any of the foregoing types of insurance for township officers and employees.

Section 505.60 outlines the provision of group coverage and allowable reimbursements should an officer or employee be denied coverage or elect not to participate in the group health care plan. Section 505.601 outlines provisions for providing reimbursements for premiums if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code. The stipulations for reimbursement under each Section are different.

Per the resolution passed by the Board of Trustees, the Township has elected not to participate in a group plan under 505.60 and has established provisions for reimbursement under Section 505.601 for health care insurance. The Township, in the same resolution, also indicated they would procure Dental and Vision Insurance, and the associated costs would not be included in the insurance cap. The Township is providing insurance under both 505.60 and 505.601. During the audit period, the Township provided group coverage for vision and dental insurance with the premiums paid ranging from \$336 to \$874 per individual per year and followed the provisions of 505.601 for reimbursement/payment of premiums for hospitalization and major medical coverage with reimbursements to qualifying individuals ranging from \$3,526 to \$9,983 each year. The Township cannot follow both Sections of the Revised Code when providing insurance coverage, as the two Sections are mutually exclusive.

The Township should determine their intentions regarding the provisions of healthcare coverage and revise the resolution. The Township should seek the advice and approval of legal counsel in this matter prior to making the revisions. It is possible a change in coverage could be determined to be an in-term increase in compensation which is not allowable by law. Failure to correct the resolutions and continuation of inappropriate payments will result in findings for recovery against the officials.

**BUTLER TOWNSHIP
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-40254-001	ORC Sec. 5705.41(D) - Failure to properly certify funds.	No	Not corrected, see finding number 2003-40254-001.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

BUTLER TOWNSHIP

MERCER 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
FEBRUARY 15, 2005**