



**SALEM TOWNSHIP
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



Mary Taylor, CPA
Auditor of State

**SALEM TOWNSHIP
OTTAWA COUNTY**

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Mary Taylor, CPA
Auditor of State

Salem Township
Ottawa County
11650 W. Portage River South Road, P.O. Box 417
Oak Harbor, Ohio 43449-0417

To the Board of Trustees:

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 11, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Ottawa County
11650 W. Portage River South Road, P.O. Box 417
Oak Harbor, Ohio 43449-0417

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Ottawa County, (the Township) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township 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 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 our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, 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 and reserves for encumbrances of Salem Township, Ottawa County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township 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 11, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial 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 11, 2008

**SALEM TOWNSHIP
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$72,243	\$254,676	\$326,919
Licenses, Permits, and Fees	2,020	22,766	24,786
Intergovernmental	179,631	137,081	316,712
Earnings on Investments	3,734	1,547	5,281
Miscellaneous	8,637	8,712	17,349
	<u>266,265</u>	<u>424,782</u>	<u>691,047</u>
Cash Disbursements:			
Current:			
General Government	104,743		104,743
Public Works	55,167	126,558	181,725
Health	11,412	98,936	110,348
Capital Outlay		160,159	160,159
	<u>171,322</u>	<u>385,653</u>	<u>556,975</u>
Total Cash Receipts Over Cash Disbursements	<u>94,943</u>	<u>39,129</u>	<u>134,072</u>
Fund Cash Balances, January 1	<u>221,016</u>	<u>521,142</u>	<u>742,158</u>
Fund Cash Balances, December 31	<u>\$315,959</u>	<u>\$560,271</u>	<u>\$876,230</u>
Reserve for Encumbrances, December 31	<u>\$11,000</u>	<u>\$40,000</u>	<u>\$51,000</u>

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

**SALEM TOWNSHIP
OTTAWA 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>	
Cash Receipts:			
Property and Other Local Taxes	\$64,722	\$244,056	\$308,778
Licenses, Permits, and Fees	1,535	27,412	28,947
Fines and Forfeitures	806		806
Intergovernmental	137,152	124,010	261,162
Earnings on Investments	3,541	1,348	4,889
Miscellaneous	20,486	12,742	33,228
	<u>228,242</u>	<u>409,568</u>	<u>637,810</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	83,376		83,376
Public Works	63,056	157,135	220,191
Health	15,838	79,752	95,590
Capital Outlay	2,953	107,007	109,960
	<u>165,223</u>	<u>343,894</u>	<u>509,117</u>
Total Cash Disbursements			
Total Cash Receipts Over Cash Disbursements	<u>63,019</u>	<u>65,674</u>	<u>128,693</u>
Other Financing Disbursements:			
Other Financing Uses	<u>(5,000)</u>		<u>(5,000)</u>
Excess of Cash Receipts Over Cash Disbursements and Other Financing Disbursements	58,019	65,674	123,693
Fund Cash Balances, January 1	<u>162,997</u>	<u>455,468</u>	<u>618,465</u>
Fund Cash Balances, December 31	<u><u>\$221,016</u></u>	<u><u>\$521,142</u></u>	<u><u>\$742,158</u></u>
Reserve for Encumbrances, December 31		<u><u>\$154,354</u></u>	<u><u>\$154,354</u></u>

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

**SALEM TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Salem Township, Ottawa County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and general government services.

The Township's management believes these financial statements present all activities for which the Township 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 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 Auditor of State prescribes or permits.

C. Cash and Investments

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

The Township values certificates of deposit at cost.

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 reports 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 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 for constructing, maintaining, and repairing Township roads and bridges.

**SALEM TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Cemetery Fund - This fund receives property tax money for the maintenance of the Township cemeteries.

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. Unencumbered appropriations lapse at year end.

2. 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 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 carried over, and need not be reappropriated.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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.

**SALEM TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

2. EQUITY IN POOLED CASH

The Township 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:

	2007	2006
Demand deposits	\$873,230	\$739,158
Certificates of deposit	3,000	3,000
Total deposits	876,230	742,158

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$146,522	\$266,265	\$119,743
Special Revenue	370,405	424,782	54,377
Total	\$516,927	\$691,047	\$174,120

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$371,400	\$182,322	\$189,078
Special Revenue	886,054	425,653	460,401
Total	\$1,257,454	\$607,975	\$649,479

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$144,522	\$228,242	\$83,720
Special Revenue	370,405	409,568	39,163
Total	\$514,927	\$637,810	\$122,883

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$303,600	\$170,223	\$133,377
Special Revenue	824,400	498,248	326,152
Total	\$1,128,000	\$668,471	\$459,529

**SALEM TOWNSHIP
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees 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 Township.

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

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

5. RETIREMENT SYSTEM

The Township'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 2007 and 2006, OPERS members contributed 9.5 and 9 percent, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7 percent, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

6. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles
- Official's Liability
- Inland Marine; and
- Commercial Umbrella Coverage.



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*

Salem Township
Ottawa County
11650 W. Portage River South Road, P.O. Box 417
Oak Harbor, Ohio 43449-0417

To the Board of Trustees:

We have audited the financial statements of Salem Township, Ottawa County, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 11, 2008, wherein we noted the Township 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 Township 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 Township. 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 Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township'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: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township'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. However, of the significant deficiencies described above, we believe finding number 2007-001 is also a material weakness.

We also noted certain matters that we reported to the Township's management in a separate letter dated June 11, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the 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, 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 we must report under *Government Auditing Standards* as item 2007-002.

We did note certain noncompliance that we reported to the Township's management in a separate letter dated June 11, 2008.

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

We intend this report solely for the information and use of management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 11, 2008

**SALEM TOWNSHIP
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001

Material Weakness

Financial Reporting

We found several errors requiring adjustment to the financial statements. In 2006, the Fiscal Officer incorrectly recorded homestead and rollback of \$8,126 in the Road and Bridge Fund and \$3,274 in the Cemetery Fund as taxes rather than intergovernmental revenues. In 2007, the Fiscal Officer incorrectly recorded homestead and rollback of \$9,033 in the Road and Bridge Fund and \$3,358 in the Cemetery Fund as taxes rather than intergovernmental revenues.

Sound financial reporting is the responsibility of the Fiscal Officer and Township Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Township Trustees, to identify and correct errors and omissions. Also, the Fiscal Officer can refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

Client Response:

Township Officials will establish a policy where the Fiscal Officer and Trustees will review the annual financial statements and notes to the financial statements for accuracy.

FINDING NUMBER 2007-002

Noncompliance Finding/Significant Deficiency

Ohio Revised Code § 5705.10 (H) states that money paid into any fund shall only be used for the purposes for which such fund is established.

**FINDING NUMBER 2007-002
 (Continued)**

In 2007, the Fiscal Officer erroneously posted \$1,602 of permissive motor vehicle license tax monies and \$412 of excess IRP monies to the General Fund. These monies should have been posted to the Permissive Motor Vehicle License Fund and the Motor Vehicle License Fund respectively. In 2006, the Fiscal Officer erroneously posted public utility monies all to the General Fund. One thousand seven hundred and three dollars (\$1,703) of these monies should have been posted to the Road and Bridge Fund and \$547 of these monies should have been posted to the Cemetery Fund. There were also several uncorrected adjustments that were carried over from the previous audit which consisted of \$729 of motor vehicle monies posted to the General Fund rather than the Motor Vehicle License Fund; \$1,170 of permissive motor vehicle license monies posted to the General Fund rather than the Permissive Motor Vehicle License Fund; \$755 of personal property tax was posted to the Road and Bridge Fund rather than the Cemetery Fund; and \$539 of permissive motor vehicle license monies was posted to the Motor Vehicle License Fund rather than the Permissive Motor Vehicle License Fund. The failure to properly post revenues to the appropriate fund could allow the Township to expend those revenues for unallowable purposes.

The following adjustments were made to the financial statements:

<u>Fund</u>	<u>Increase</u>	<u>Decrease</u>
General Fund		\$2,014
Permissive Motor Vehicle License Fund	\$1,602	
Motor Vehicle License Fund	412	
2006		
<u>Fund</u>	<u>Increase</u>	<u>Decrease</u>
General Fund		\$4,149
Permissive Motor Vehicle License Fund	\$1,709	
Motor Vehicle License Fund	190	
Road and Bridge Fund	948	
Cemetery Fund	1,302	

To ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township officials should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Township Trustees, to identify and correct errors and omissions. Also, the Fiscal Officer can refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf

Client Response:

The Fiscal Officer will review the UAN accounting manual to assist her in posting receipts to the correct fund.

SALEM TOWNSHIP
OTTAWA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	The fiscal officer was overcompensated by \$228.76 contrary to ORC §507.09	Yes	



Mary Taylor, CPA
Auditor of State

SALEM TOWNSHIP

OTTAWA 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 3, 2008**