

**VILLAGE OF CHIPPEWA LAKE, OHIO
MEDINA COUNTY**

INDEPENDENT AUDITOR'S REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA
Auditor of State

Members of Council
Village of Chippewa Lake
PO Box 25
Chippewa Lake, Ohio 44215-0025

We have reviewed the *Independent Auditor's Report* of the Village of Chippewa Lake, Medina County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. 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. The Village of Chippewa Lake is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2008

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**VILLAGE OF CHIPPEWA LAKE, OHIO
MEDINA COUNTY
FOR THE YEAR ENDED
DECEMBER 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Chippewa Lake, Medina County
PO Box 25
Chippewa Lake, OH 44215

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Village of Chippewa Lake, Medina County, Ohio, (the Village), as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying financial statement and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparisons of the General Fund, Street Construction Maintenance & Repair Fund, and the Pochedley Park Fund thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2008 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 27, 2008

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
December 31, 2006
(Unaudited)

The discussion and analysis of the Village of Chippewa Lake, Medina County, Ohio (the Village's) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2006, within the limitations of the Villages' cash basis of accounting. The intent of this discussion and analysis is to look at the Village's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Financial Highlights

Key Financial Highlights for 2006 are as follows:

- q General Receipts accounted for approximately \$171,764 in revenue or 67.3% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for approximately \$83,287 or 32.7% of total revenues of \$255,051.
- q Total program expenses were \$257,726 in Governmental Activities.
- q Net assets of Governmental Activities decreased \$2,675, which represents a 1.1% decrease from 2005.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principals generally accepted in the United

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
December 31, 2006
(Unaudited)

States of America (GAAP). Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Village as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the Village did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes. The statement of net assets and the statement of activities reflect how the Village did financially during 2006, within the limitations of cash basis accounting.

In the statement of net assets and the statement of activities the Village funds are reported as follows:

Governmental Activities All of the Village's activities are reported here, including security of persons and property and general governmental services.

Reporting the Village's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village uses many funds to account for financial transactions. However, these fund financial statements focus on the Village's most significant funds. The funds of the Village are reported as governmental funds.

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
 December 31, 2006
 (Unaudited)

Governmental Funds - The Village's activities are reported in governmental funds. The governmental fund statements provide a detailed view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent to finance the Village's programs. The Village's major governmental funds are the general fund, the street construction, maintenance and repair special revenue fund, the Pochedley Park special revenue fund, and the Issue II capital project fund. The programs reported in government funds are closely related to those reported in the governmental activities section of the entitywide statements.

The Village as a Whole

Recall that the statement of net assets provides the perspective of the Village as a whole. Table 1 provides a summary of Village's net assets for 2006, along with a comparison with 2005.

(Table 1)

Net Assets

	Governmental Activities	
	2005	2006
Assets		
Cash and Cash Equivalents	\$252,369	\$249,694
Total Assets	\$252,369	\$249,694
Net Assets		
Restricted for:		
Street Construction	\$17,969	\$25,225
Park Improvements	83,117	66,388
Other Purposes	6,249	5,756
Unrestricted	145,034	152,325
Total Net Assets	\$252,369	\$249,694

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
 December 31, 2006
 (Unaudited)

Table 2 reflects the changes in net assets for fiscal year 2006, along with a comparison with 2005.

Table 2)
Changes in Net Assets

	Governmental Activities	
	2005	2006
Receipts		
Program Receipts:		
Charges for Services and Sales	\$11,871	\$1,500
Operating Grants and Contributions	48,613	47,677
Capital Grants and Contributions	342,785	34,110
Total Program Receipts	403,269	83,287
General Receipts:		
Property and Other Local Taxes	103,002	121,387
Grants and Entitlements Not Restricted to Specific Programs	57,430	45,993
Interest	1,332	0
Miscellaneous	6,108	4,384
Total General Receipts	167,872	171,764
Total Receipts	571,141	255,051
Disbursements:		
General Government	56,665	63,275
Security of Persons and Property:	57,806	55,526
Leisure Time Activities	31,531	48,444
Community Environment	15,806	15,412
Transportation	59,838	40,959
Capital Outlay	358,533	34,110
Total Disbursements	580,179	257,726
Increase (Decrease) in Net Assets	(9,038)	(2,675)
Net Assets, January 1, 2006	261,407	252,369
Net Assets, December 31, 2006	252,369	249,694

Program receipts represent 32.7% of total receipts in 2006 and consist primarily of operating grants and capital grants and contributions.

General receipts represent 67.3% of the Village's total receipts, and of this amount, over 70.7% are property and other local taxes. State and federal grants and entitlements primarily make up the balance of

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
 December 31, 2006
 (Unaudited)

the Village's general receipts. Other receipts are insignificant and somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of the Council and other departments.

Security of persons and property are the costs of police, fire protection and emergency medical services. Leisure Time Activities is the maintenance of the parks providing leisure activities during the year. Transportation is the cost of maintaining the roads. Capital outlay primarily represents the costs associated with the acquisition and improvements to the Villages' facilities and infrastructure.

Governmental Activities

The first column on the statement of activities on page 11 lists the major services provided by the Village. The next column identifies the costs of providing these services. The most significant program disbursements for governmental activities were for general government and security of persons and property, which account for 24.6% and 21.5% of cash disbursements for governmental activities, respectively. The next three columns of the statement, entitled charges for services, operating grants and contributions and capital grants and contributions, identify amounts paid by users who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net (disbursements)/receipts column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which draws on the general receipts of the Village, which is primarily made up of property and other local taxes assessed on the citizens and business of the Village and other grants and entitlements that are not restricted for particular purposes.

Table 3 summarizes the total cost and net cost of providing services to the residents and local businesses of the Village.

(Table 3)

Total and Net Cost of Services

	Total Cost of Services 2005	Total Cost of Services 2006	Net Cost of Services 2005	Net Cost of Services 2006
Program Disbursements				
General Government	\$56,665	\$63,275	(\$56,665)	(\$60,764)
Security of Persons and Property	57,806	55,526	(57,806)	(55,526)
Leisure Time Activities	31,531	48,444	(21,000)	(48,444)
Community Environment	15,806	15,412	(14,466)	(13,887)
Transportation	59,838	40,959	(11,225)	38,292
Capital Outlay	358,533	34,110	(15,748)	(34,110)
Total Disbursements	<u>\$580,179</u>	<u>\$257,726</u>	<u>(\$176,910)</u>	<u>(\$174,439)</u>

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
December 31, 2006
(Unaudited)

The dependence upon general receipts is apparent as over 67.7% of governmental activities are supported through these general receipts.

The Village's Funds

Total governmental funds had receipts of \$255,052 and disbursements of \$257,727. The fund balance of the General Fund increased \$7,291 or 5% and the fund balance of the Street Construction, Maintenance and Repair fund increased by \$7,256 or 40.4%. The fund balance of the Pochedley Park fund decreased \$16,729 or 20.1%.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General fund.

The Village uses site-based budgeting and the budgeting system which are designed to tightly control total site budgets but provide flexibility for site management.

For the General fund, actual receipts fell short of the final budgeted revenues by almost \$51,000. No amendments were made to the General fund budget.

Actual disbursements of the general fund were \$165,557 below the final budgeted amount of \$358,517. The primary factor contributing to this was expenditures for general government services and leisure time activities being approximately \$101,247 and \$69,858, respectively below budgeted amounts. This was achieved by Council putting the building of the new community center on hold.

Capital Assets

The Village maintains capital asset listings of its land, buildings, infrastructure, and vehicles. Other capital assets are not maintained on their detailed capital asset listing. These records are not required to be presented in the financial statements.

Current Issues

The Village is continuing to upgrade the storm sewers by participating in the Issue II funding. There are many phases planned in the future, but as of now, the Village has completed Phase One and is anticipating completion of Phase Two during 2007. The Village will apply for additional funding through Issue II next year, so that we may continue the storm sewer improvements that the Village needs. Council is still currently deliberating on plans to build a new community center for the Village. The purpose of the new community center would be to have a facility large enough to hold the Village meetings, voting place for our residents, and hopefully many future community events. The Village continues to maintain and improve the parks and beautiful lakefront community for the residents.

Village of Chippewa Lake, Medina County Ohio
Management's Discussion and Analysis
December 31, 2006
(Unaudited)

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cathy Osborn, Clerk/Treasurer, of the Village of Chippewa Lake, P.O. Box 25, Chippewa Lake, Ohio 44215-0025.

Village of Chippewa Lake, Medina County

Statement of Net Assets - Cash Basis

December 31, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$249,694</u>
<i>Total Assets</i>	<u><u>\$249,694</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$100,043
Unrestricted	<u>149,651</u>
<i>Total Net Assets</i>	<u><u>\$249,694</u></u>

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2006

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
Governmental Activities					
Security of Persons and Property	\$55,526	\$0	\$0	\$0	(\$55,526)
Public Health Services	0	0	0	0	0
Leisure Time Activities	48,444	0	0	0	(48,444)
Community Environment	15,412	1,155	370	0	(13,887)
Basic Utility Services	0	0	0	0	0
Transportation	40,959	0	45,141	34,110	38,292
General Government	63,275	345	2,166	0	(60,764)
Capital Outlay	34,110	0	0	0	(34,110)
<i>Total Governmental Activities</i>	<u>257,726</u>	<u>1,500</u>	<u>47,677</u>	<u>34,110</u>	<u>(174,439)</u>
		General Receipts			
		Property Taxes			119,046
		Other Taxes			2,341
		Grants and Entitlements not Restricted to Specific Programs			45,993
		Miscellaneous			4,384
		<i>Total General Receipts</i>			<u>171,764</u>
		Change in Net Assets			(2,675)
		<i>Net Assets Beginning of Year</i>			<u>252,369</u>
		<i>Net Assets End of Year</i>			<u>\$249,694</u>

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
Statement of Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2006

	General	Street Construction Maintenance and Repair	Pochedley Park Fund	Issue II Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$149,331	\$25,225	\$66,388	\$0	\$8,750	\$249,694
<i>Total Assets</i>	<u>\$149,331</u>	<u>\$25,225</u>	<u>\$66,388</u>	<u>\$0</u>	<u>\$8,750</u>	<u>\$249,694</u>
Fund Balances						
Unreserved, Undesignated, Reported in:						
General Fund	\$149,331	\$0	\$0	\$0	\$0	149,331
Special Revenue Funds	0	25,225	66,388	0	8,750	100,363
<i>Total Fund Balances</i>	<u>\$149,331</u>	<u>\$25,225</u>	<u>\$66,388</u>	<u>\$0</u>	<u>\$8,750</u>	<u>249,694</u>

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2006

	General	Street Construction Maintenance and Repair	Pochedley Park Fund	Issue II Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$119,277	\$0	\$0	\$0	\$2,111	\$121,388
Intergovernmental	45,992	45,141	0	34,110	0	125,243
Fines, Licenses and Permits	1,180	0	0	0	0	1,180
Earnings on Investments	1,615	151	371	0	0	2,137
Miscellaneous	4,784	0	0	0	320	5,104
<i>Total Receipts</i>	<u>172,848</u>	<u>45,292</u>	<u>371</u>	<u>34,110</u>	<u>2,431</u>	<u>255,052</u>
Disbursements						
Current:						
Security of Persons and Property	55,526	0	0	0	0	55,526
Leisure Time Activities	31,345	0	17,100	0	0	48,445
Community Environment	15,412	0	0	0	0	15,412
Basic Utility Services	0	0	0	0	0	0
Transportation	0	38,036	0	0	2,924	40,960
General Government	63,274	0	0	0	0	63,274
Capital Outlay	0	0	0	34,110	0	34,110
<i>Total Disbursements</i>	<u>165,557</u>	<u>38,036</u>	<u>17,100</u>	<u>34,110</u>	<u>2,924</u>	<u>257,727</u>
<i>Net Change in Fund Balances</i>	<u>7,291</u>	<u>7,256</u>	<u>(16,729)</u>	<u>0</u>	<u>(493)</u>	<u>(2,675)</u>
<i>Fund Balances Beginning of Year</i>	<u>145,034</u>	<u>17,969</u>	<u>83,117</u>	<u>0</u>	<u>6,249</u>	<u>252,369</u>
<i>Fund Balances End of Year</i>	<u>\$152,325</u>	<u>\$25,225</u>	<u>\$66,388</u>	<u>\$0</u>	<u>\$5,756</u>	<u>\$249,694</u>

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$111,434	\$111,434	\$119,277	\$7,843
Intergovernmental	43,888	43,888	45,992	2,104
Charges for Services	65,462	65,462	0	(65,462)
Fines, Licenses and Permits	1,000	1,000	1,180	180
Earnings on Investments	800	800	1,615	815
Miscellaneous	1,700	1,700	4,784	3,084
<i>Total receipts</i>	224,284	224,284	172,848	(51,436)
Disbursements				
Current:				
Security of Persons and Property	68,435	67,792	55,526	12,266
Leisure Time Activities	100,721	101,203	31,345	69,858
Community Environment	25,000	25,000	15,412	9,588
Transportation	1	1	0	1
General Government	164,360	164,521	63,274	101,247
<i>Total Disbursements</i>	358,517	358,517	165,557	192,960
<i>Excess of Receipts Over (Under) Disbursements</i>	(134,233)	(134,233)	7,291	141,524
<i>Net Change in Fund Balance</i>	(134,233)	(134,233)	7,291	141,524
<i>Fund Balance Beginning of Year</i>	145,034	145,034	145,034	0
<i>Fund Balance End of Year</i>	\$10,801	\$10,801	\$152,325	\$141,524

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Street Construction Maint. & Repair
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$41,403	\$41,403	\$45,141	\$3,738
Earnings on Investments	129	129	151	22
<i>Total receipts</i>	41,532	41,532	45,292	3,760
Disbursements				
Current:				
Transportation	59,490	59,490	38,036	21,454
<i>Total Disbursements</i>	59,490	59,490	38,036	21,454
<i>Excess of Receipts Over (Under) Disbursements</i>	(17,958)	(17,958)	7,256	25,215
<i>Net Change in Fund Balance</i>	(17,958)	(17,958)	7,256	25,215
<i>Fund Balance Beginning of Year</i>	17,969	17,969	17,969	0
<i>Fund Balance End of Year</i>	\$11	\$11	\$25,225	\$25,215

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Pochedley Park Fund
 For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Earnings on Investments	300	300	371	71
<i>Total receipts</i>	300	300	371	71
Disbursements				
Current:				
Leisure Time Activities	83,300	83,300	17,100	66,200
<i>Total Disbursements</i>	83,300	83,300	17,100	66,200
<i>Excess of Receipts Over (Under) Disbursements</i>	(83,000)	(83,000)	(16,729)	66,271
<i>Net Change in Fund Balance</i>	(83,000)	(83,000)	(16,729)	66,271
<i>Fund Balance Beginning of Year</i>	83,117	83,117	83,117	0
<i>Fund Balance End of Year</i>	\$117	\$117	\$66,388	\$66,271

See accompanying notes to the basic financial statements

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Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 1: REPORTING ENTITY

The Village of Chippewa Lake, Medina County, is a body political and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six member Council. The Village provides general governmental services, including park operations leisure time activities and road maintenance. The Village contracts police services with the County Sheriff's department.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Village have been prepared on the cash basis of accounting. This cash basis of accounting differs from accounting principals generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant GASB pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Village's accounting policies:

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Village's general receipts.

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The Village has no enterprise or fiduciary funds.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating. The Village has no proprietary funds.

Fund Accounting

The Village uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Village are all classified as governmental.

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

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.

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

Pochedley Park Fund The Pochedley Park fund accounts for private donations received to be used on the development and maintenance of the Village park and grounds.

Issue II Fund The Issue II fund is a capital project fund used to account for direct payments from the state to contractors for capital improvements.

The other governmental funds of the Village are used to account for proceeds from specific sources such as Police, FEMA or for the acquisition or construction of facilities, to include any maintenance on assets of the Village.

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the object level for all funds. Outstanding encumbrances at year end are canceled and reappropriated in the subsequent year and unencumbered appropriations lapse at year end.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively. During 2006, the Village invested in STAROhio.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$1,615, which includes \$375 assigned from other Village funds.

Restricted Assets

Cash and cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributions, grantors, or laws of other governments, or imposed by law through constitutional provision or enabling legislation.

Capital Assets

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

Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Note 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay disbursements are reported at inception. Lease payments are reported when paid.

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include resources restricted for police, FEMA and streets programs.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3: *BUDGETARY BASIS OF ACCOUNTING*

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund, Streets Construction, Maintenance and Repair fund, and the Pochedley Park fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). There are no outstanding encumbrances at year end, therefore, there is no difference in the fund balances.

NOTE 4: *EQUITY IN POOLED CASH*

Monies held by the Village are classified by State statute into three categories. Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio). Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

debt of the Village, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Village or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited.

Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions

Deposits At fiscal year end, the carrying amount of the Village's deposits was \$238,340 and the bank balance was \$239,169. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$139,169 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

Investments

Investments are reported at fair value. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. As of December 31, 2006, the Village had the following investments:

<u>Issue</u>	<u>Fair Value</u>
STAROhio	\$11,354

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Village's policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the Village. During the year, the Village's only investment was STAROhio, which has a maturity of less than one year.

Credit Risk – The Village's only investment at December 31, 2006 was STAROhio, which is rated AAAM by Standard & Poor's.

Concentration of Credit Risk - The Village's investment policy is to diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment

Village of Chippewa Lake, Medina County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

portfolio will be invested in a single security type or with a single financial institution. During the year, the Village's only investment was STAROhio.

NOTE 5: *PROPERTY TAX*

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village of Chippewa Lake. 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 payments, 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 taxes 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.

NOTE 6: *RETIREMENT SYSTEMS*

Public Employees Retirement System

The Village Council, Village Clerk, and other employees of the Village belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost sharing, multiple employer plan. This plan provides retirement benefits, including postretirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. The Public Employee Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Contribution rates are also prescribed by the Ohio Revised Code. For 2006, PERS members contributed 9.0% of their gross salaries. The Village contributed an amount equal to 13.54% of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

NOTE 7: *RISK MANAGEMENT*

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Automobile
- Public Officials Liability

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Village Council
Village of Chippewa Lake
PO Box 25
Chippewa Lake, OH 44215

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village, (the Village) as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 27, 2008. 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.

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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Village of Chippewa Lake
Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements performed in
Accordance with *Government Auditing Standards*
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2006-01 and 2006-02.

We noted certain matters that we reported to management of the Village in a separate letter dated August 27, 2008.

The Village's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Village's response and, accordingly, we express no opinion on it.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 27, 2008

VILLAGE OF CHIPPEWA LAKE
MEDINA COUNTY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2006

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

Finding 2006-01

Section 5705.41(B), Revised Code, states that no subdivision is to expend money unless it has been appropriated. The following fund had expenditures plus encumbrances exceeding authorized appropriations at December 31, 2006:

<u>Fund</u>	<u>As of</u> <u>December 31, 2006</u>
OPWC Issue II	\$34,110

In addition, appropriations posted to the Village's appropriation ledger did not agree to the Village's actual annual appropriation measure. The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations to avoid overspending and ensure appropriations authorized are posted accurately and timely.

Corrective Action: Contact Person: Cathy Osborn, Clerk

The dollars for OPWC came in after the appropriations were completed. I will amend appropriations in the future as OPWC funds are received.

Finding 2006-02

Section 5705.41(D) Revised Code, states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two "exceptions" to the above requirements:

1. Then and Now Certificate – If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrances, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

VILLAGE OF CHIPPEWA LAKE
MEDINA COUNTY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2006

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

2. If the amount is less than \$3,000 the Treasurer may authorize payment through a Then and Now Certificate without the affirmation of the Board, if such expenditure is otherwise valid.

During fiscal year 2006, 76% of expenditures tested were certified after the invoice date(s). Also, neither of the two exceptions were utilized. We recommend the Village Clerk inform all Village employees of the requirements of Ohio Revised Code Section 5705.41(D). The Village should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Revised Section 5705.41.

Corrective Action: Contact Person: Cathy Osborn, Clerk

Most Village expenditures were approved at Council meetings and I thought that was acceptable. I will issue Then and Now Certificates from this point forward.

**VILLAGE OF CHIPPEWA LAKE
MEDINA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; Explain</u>
2005-001	Unrecorded OPWC Payments	Yes	Fully Corrected



Mary Taylor, CPA
Auditor of State

**VILLAGE OF CHIPPEWA LAKE
MEDINA 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
NOVEMBER 6, 2008**