



**Mary Taylor, CPA**  
Auditor of State



MORLEY LIBRARY  
LAKE COUNTY

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Mary Taylor, CPA  
Auditor of State

Morley Library  
Lake County  
184 Phelps Street  
Painesville, Ohio 44077

To the Library 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

August 3, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Morley Library  
Lake County  
184 Phelps Street  
Painesville, Ohio 44077

To the Library Board of Trustees:

We have audited the accompanying financial statements of the Morley Library, Lake County, Ohio, (the Library) as of and for the years ended December 31, 2006 and December 31, 2005. These financial statements are the responsibility of the Library'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. We believe our audit provides a reasonable basis for our opinion.

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

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

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

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

The Library 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 August 3, 2007, on our consideration of the Library'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.

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

Mary Taylor, CPA  
Auditor of State

August 3, 2007



**MORLEY LIBRARY  
LAKE COUNTY**

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

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Permanent	
<b>Cash Receipts:</b>						
Property and Other Local Taxes	\$817,598	\$5,124	\$777,535			\$1,600,257
Intergovernmental	1,747,860		80,632			1,828,492
Services Provided to Other Entities		10,000				10,000
Patron Fines and Fees	77,906					77,906
Contributions, Gifts and Donations	9,203				\$15,170	24,373
Earnings on Investments	18,225	99,332	8,545	\$189,010		315,112
Miscellaneous	3,813					3,813
<b>Total Cash Receipts</b>	<b>2,674,605</b>	<b>114,456</b>	<b>866,712</b>	<b>189,010</b>	<b>15,170</b>	<b>3,859,953</b>
<b>Cash Disbursements:</b>						
Current:						
Salaries	1,186,508	4,584				1,191,092
Employee Fringe Benefits	403,414	708				404,122
Purchased and Contractual Services	320,046	8,531	10,129	5,758		344,464
Library Materials and Information	472,431	1,949				474,380
Supplies	48,748	395				49,143
Other	8,450	995				9,445
Capital Outlay	31,979	1,420		178,313		211,712
Debt Service:						
Redemption of Principal			435,000			435,000
Interest and Other Fiscal Charges			440,617			440,617
<b>Total Cash Disbursements</b>	<b>2,471,576</b>	<b>18,582</b>	<b>885,746</b>	<b>184,071</b>	<b>0</b>	<b>3,559,975</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>203,029</b>	<b>95,874</b>	<b>(19,034)</b>	<b>4,939</b>	<b>15,170</b>	<b>299,978</b>
<b>Other Financing Receipts / (Disbursements):</b>						
Transfers-In		500,000				500,000
Transfers-Out	(500,000)					(500,000)
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>(500,000)</b>	<b>500,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(296,971)</b>	<b>595,874</b>	<b>(19,034)</b>	<b>4,939</b>	<b>15,170</b>	<b>299,978</b>
<b>Fund Cash Balances, January 1, 2006</b>	<b>693,638</b>	<b>2,568,886</b>	<b>342,341</b>	<b>3,285,447</b>	<b>423,723</b>	<b>7,314,035</b>
<b>Fund Cash Balances, December 31, 2006</b>	<b>\$396,667</b>	<b>\$3,164,760</b>	<b>\$323,307</b>	<b>\$3,290,386</b>	<b>\$438,893</b>	<b>\$7,614,013</b>

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

**MORLEY LIBRARY  
LAKE COUNTY**

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

	<u>Governmental Fund Types</u>					<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	
<b>Cash Receipts:</b>						
Property and Other Local Taxes	\$812,696		\$774,040			\$1,586,736
Intergovernmental	1,744,814	\$23,366	89,700			1,857,880
Services Provided to Other Entities		15,769				15,769
Patron Fines and Fees	82,255					82,255
Contributions, Gifts and Donations	1,375	1,500		\$50,725	\$160,640	214,240
Earnings on Investments	11,585	81,786	244	119,279		212,894
Miscellaneous	12,892			15,200		28,092
<b>Total Cash Receipts</b>	<u>2,665,617</u>	<u>122,421</u>	<u>863,984</u>	<u>185,204</u>	<u>160,640</u>	<u>3,997,866</u>
<b>Cash Disbursements:</b>						
Current:						
Salaries	1,203,895	10,466		2,146		1,216,507
Employee Fringe Benefits	405,651	43		1,554		407,248
Purchased and Contractual Services	369,631	3,952	9,849	179,738		563,170
Library Materials and Information	478,470	13,922				492,392
Supplies	52,461	1,656		455		54,572
Other	10,862					10,862
Capital Outlay	9,365	19,465		1,200,157		1,228,987
Debt Service:						
Redemption of Principal			410,000			410,000
Interest and Other Fiscal Charges			459,067			459,067
<b>Total Cash Disbursements</b>	<u>2,530,335</u>	<u>49,504</u>	<u>878,916</u>	<u>1,384,050</u>	<u>0</u>	<u>4,842,805</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>135,282</u>	<u>72,917</u>	<u>(14,932)</u>	<u>(1,198,846)</u>	<u>160,640</u>	<u>(844,939)</u>
<b>Other Financing Receipts / (Disbursements):</b>						
Sale of Fixed Assets	65			20		85
<b>Total Other Financing Receipts / (Disbursements)</b>	<u>65</u>	<u>0</u>	<u>0</u>	<u>20</u>	<u>0</u>	<u>85</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>135,347</u>	<u>72,917</u>	<u>(14,932)</u>	<u>(1,198,826)</u>	<u>160,640</u>	<u>(844,854)</u>
<b>Fund Cash Balances, January 1, 2005</b>	<u>558,291</u>	<u>2,495,969</u>	<u>357,273</u>	<u>4,484,273</u>	<u>263,083</u>	<u>8,158,889</u>
<b>Fund Cash Balances, December 31, 2005</b>	<u><u>\$693,638</u></u>	<u><u>\$2,568,886</u></u>	<u><u>\$342,341</u></u>	<u><u>\$3,285,447</u></u>	<u><u>\$423,723</u></u>	<u><u>\$7,314,035</u></u>

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

**MORLEY LIBRARY  
LAKE COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Morley Library, Lake County, Ohio, (the Library) as a body corporate and politic. The Lake County Commissioners appoint a seven-member Board of Trustees to govern the Library. The Library provides the community with various educational and literary resources.

The Library's management believes these financial statements present all activities for which the Library 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 Library 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 Library'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 Library values certificate of deposit and U.S. Treasury Notes at cost. The Library invested in STAR Ohio (the State Treasurer's investment pool) which is valued at amounts reported by the State Treasurer.

**D. Fund Accounting**

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library 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 (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Library had the following significant Special Revenue Funds:

**MORLEY LIBRARY  
LAKE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting (Continued)**

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

Grant Fund – This fund is used to account for proceeds from the OhioReads, and (LSTA) Library Services and Technology Act grants.

Morley Memorial Expendable Trust Fund – This fund receives donations to be used at the Library's discretion.

**3. Debt Service Fund**

This fund accounts for resources the Library accumulates to pay bond and note debt. The Library had the following significant Debt Service Fund:

Debt Service Fund – This fund collects property tax monies to pay the Library's general obligation bonds.

**4. Capital Project Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Library had the following significant capital project fund:

Building Fund – This fund accounts for all activity related to the construction of the new library building.

**5. Permanent Fund**

This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Library's programs. The Library had the following significant permanent fund:

Morley Endowment Fund – This fund receives donations in which the Library is not allowed to expend the principal of the donation. The Library is permitted to spend the interest earned on the principal.

**E. Budgetary Process**

The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control.

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

**MORLEY LIBRARY  
LAKE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

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

The Library 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.

**2. Equity in Pooled Cash and Investments**

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

	2006	2005
Demand deposits	(\$46,016)	(\$103,823)
Certificate of deposit	102,747	0
Total deposits	56,731	(103,823)
U.S. Treasury Notes	6,740,987	5,140,000
STAR Ohio	671,554	2,009,424
Repurchase agreements	144,741	268,434
Total investments	7,557,282	7,417,858
Total deposits and investments	\$7,614,013	\$7,314,035

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

**Investments:** The Federal Reserve holds the Library's U.S. Treasury Notes in book-entry form, in the name of the Library's financial institution. The financial institution maintains records identifying the Library as owner of these securities.

The Library's financial institution transfers securities to the Library's agent to collateralize repurchase agreements. The securities are not in the Library's name.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**3. Budgetary Activity**

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

**MORLEY LIBRARY  
LAKE COUNTY**

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

**3. Budgetary Activity (Continued)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,427,530	\$2,971,576	\$455,954
Special Revenue	53,331	18,582	34,749
Debt Service	886,118	885,746	372
Capital Projects	227,985	184,071	43,914
Total	\$4,594,964	\$4,059,975	\$534,989

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,887,886	\$2,530,335	\$357,551
Special Revenue	77,540	49,504	28,036
Debt Service	880,940	878,916	2,024
Capital Projects	1,650,703	1,384,050	266,653
Total	\$5,497,069	\$4,842,805	\$654,264

**4. Grants In-Aid and Tax Receipts**

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The State allocates LLGSF to each county based on the county's prior intangibles tax of LLGSF revenues, and its population. The Lake County Budget Commission allocates these funds to the Library based on its population, circulation, and ratio of library material expenditures to total expenditures. The Budget Commission cannot reduce its allocation of these funds to the Library based on of any additional revenues the Library receives.

Real property taxes become a lien on January 1 preceding the October 1 date for which the taxing authority of the subdivision to whose jurisdiction the Library is subject adopts rates. The State Department of Taxation, Division 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.

Property owners assess tangible personal property tax. These owners must file a list of tangible 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 Library.

**MORLEY LIBRARY  
LAKE COUNTY**

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

**5. Debt**

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	<u>\$9,505,000</u>	1.35% to 4.80%
Total	<u><u>\$9,505,000</u></u>	

In September 2002 the Library issued \$11,591,000 in general obligation bonds to finance the building of a new library. The bonds will be repaid in semi-annual varying principal and interest payments over 18 years. On November 6, 2001, the voters passed a tax levy ensuring the payment of the bonds.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	<u>General Obligation Bonds</u>
2007	\$885,395
2008	893,338
2009	904,088
2010	907,837
2011	909,637
2012 - 2016	4,543,769
2017 - 2021	<u>4,548,988</u>
Total	<u><u>\$13,593,052</u></u>

**6. Retirement Systems**

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

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

**7. Risk Management**

The Library has obtained commercial insurance for the following risks:

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

**MORLEY LIBRARY  
LAKE COUNTY**

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

**7. Risk Management (Continued)**

The Library provides health, vision, and dental insurance to all full time employees. Employees scheduled a minimum of 32 hours per week (but less than full time) are eligible to participate in this insurance program by paying a pro-rate share of the premium reflecting their less-than-full time status. The Library also pays 90% of the cost to insure dependents of employees eligible for this healthcare plan. The Library's liability for health care is limited to the premiums paid.





# 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*

Morley Library  
Lake County  
184 Phelps Street  
Painesville, Ohio 44077

To the Library Board of Trustees:

We have audited the financial statements of the Morley Library, Lake County, Ohio, (the Library) as of and for the years ended December 31, 2006 and December 31, 2005, and have issued our report thereon dated August 3, 2007, wherein we noted the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 Library's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library'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 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 Library'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 Library's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies 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.

We noted certain matters that we reported to the Library's management in a separate letter dated August 3, 2007.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the Library'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

Mary Taylor, CPA  
Auditor of State

August 3, 2007



**Mary Taylor, CPA**  
Auditor of State

**MORLEY LIBRARY**

**LAKE 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  
AUGUST 28, 2007**