

***VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO***

AUDIT REPORT

For the Year Ended December 31, 2003

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Members of Council
Village of Grafton
960 Main Street
Grafton, Ohio 44044

We have reviewed the Independent Auditor's Report of the Village of Grafton, Lorain County, prepared by Charles E. Harris & Associates, Inc. for the audit period January 1, 2003 through December 31, 2003. 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 Grafton is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 17, 2005

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VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Audit Report
For the year ended December 31, 2003

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members
of Village Council
Village of Grafton
Grafton, Ohio

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Grafton, Lorain County, as of December 31, 2003, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 21, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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*. You should read it in conjunction with this report in assessing the results of our audit.

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

Charles E. Harris & Associates, Inc.
April 21, 2005

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2003

	Governmental Fund Types			(Memorandum Only)
	General	Special Revenue	Capital Projects	Total
Receipts:				
Property Tax and Other Local Taxes	\$ 195,828	\$ 11,699	\$ -	\$ 207,527
Municipal Income Tax	477,931	-	728,899	1,206,830
Intergovernmental Receipts	134,025	167,601	47,374	349,000
Charges for Services	106,082	-	-	106,082
Fines, Licenses, and Permits	50,611	3,653	-	54,264
Earnings on Investments	41,055	-	-	41,055
Miscellaneous	51,785	1,148	7,004	59,937
Total Receipts	1,057,317	184,101	783,277	2,024,695
Disbursements:				
Current:				
Security of Persons & Property	605,561	12,871	-	618,432
Public Health Services	6,171	-	-	6,171
Leisure Time Activities	28,870	-	-	28,870
Basic Utility Services	116,127	-	-	116,127
Transportation	-	179,176	-	179,176
Community Environment	5,105	22,172	-	27,277
General Government	557,738	-	-	557,738
Capital Outlay	59,178	3,491	359,255	421,924
Debt Service:				
Principal	-	-	176,483	176,483
Interest & Fiscal Charges	-	-	31,882	31,882
Total Cash Disbursements	1,378,750	217,710	567,620	2,164,080
Excess of Receipts Over/(Under) Disbursements	(321,433)	(33,609)	215,657	(139,385)
Other Financing Sources/(Uses):				
Transfers-In	1,584	35,000	-	36,584
Transfers-Out	(35,000)	-	-	(35,000)
Advances-In	2,882	1,971	-	4,853
Advances-Out	(1,971)	(2,882)	-	(4,853)
Other Sources	6,189	-	-	6,189
Other Uses	(10,000)	-	-	(10,000)
Total Other Financing Sources/(Uses)	(36,316)	34,089	-	(2,227)
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	(357,749)	480	215,657	(141,612)
Fund Balance January 1, 2003	745,257	19,808	573,479	1,338,544
Fund Balance December 31, 2003	\$ 387,508	\$ 20,288	\$ 789,136	\$ 1,196,932
Reserve for Encumbrances December 31, 2003	\$ 3,457	\$ 695	\$ 256,619	\$ 260,771

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
For the Year Ended December 31, 2003

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Total (Memorandum Only)</u>
Operating Receipts:			
Charges for Services	\$ 3,592,644	-	\$ 3,592,644
Fines, Licenses and Permits	-	\$ 27,158	27,158
Miscellaneous	<u>7,335</u>	<u>-</u>	<u>7,335</u>
Total Operating Receipts	3,599,979	27,158	3,627,137
Operating Disbursements:			
Personal Services	366,983	8,121	375,104
Travel Transportation	23,828	-	23,828
Contractual Services	1,888,687	7,155	1,895,842
Supplies and Materials	219,300	914	220,214
Capital Outlay	<u>120,200</u>	<u>-</u>	<u>120,200</u>
Total Operating Disbursements	<u>2,618,998</u>	<u>16,190</u>	<u>2,635,188</u>
Excess Operating Receipts Over/(Under) Operating Disbursements	980,981	10,968	991,949
Non-Operating Receipts:			
Proceeds of Notes	525,000	-	525,000
Deposits	-	53,921	53,921
Return of Deposits	<u>-</u>	<u>(48,846)</u>	<u>(48,846)</u>
Total Non-Operating Receipts	525,000	5,075	530,075
Non-Operating Disbursements			
Debt Service:			
Principal	(971,355)	-	(971,355)
Interest	<u>(463,505)</u>	<u>-</u>	<u>(463,505)</u>
Total Non-Operating Disbursements	<u>(1,434,860)</u>	<u>-</u>	<u>(1,434,860)</u>
Excess of Receipts Over/(Under) Disbursements Before Transfers	71,121	16,043	87,164
Transfers-Out	<u>-</u>	<u>(1,584)</u>	<u>(1,584)</u>
Net Receipts Over/(Under) Disbursements	71,121	14,459	85,580
Fund Balance January 1, 2003	<u>2,590,991</u>	<u>20,671</u>	<u>2,611,662</u>
Fund Balance December 31, 2003	\$ <u>2,662,112</u>	\$ <u>35,130</u>	\$ <u>2,697,242</u>
Reserve for Encumbrances December 31, 2003	\$ <u>61,026</u>	\$ <u>-</u>	\$ <u>61,026</u>

See accompanying Notes to the Financial Statements.

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO**
Notes to the Financial Statements
For the Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Grafton is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected Officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including a mayor's court, police and fire protection, emergency medical, recreation (including parks), street maintenance and repair, and general administrative services.

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

B. BASIS OF ACCOUNTING

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

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

C. CASH AND 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 disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. FUND ACCOUNTING

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

1. General Fund

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

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2003**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

D. **FUND ACCOUNTING - (continued)**

2. **Special Revenue Funds**

To account for the proceeds of specific revenue sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax monies from State of Ohio for construction and repair of village streets.

Police Pension Fund – This fund receives property tax money levied for the funding of the Village's portion of the policemen's pension obligation.

3. **Capital Projects Funds**

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

Capital Projects I Fund - This fund receives a portion of the municipal income tax collected by the Village and used for major capital improvements such as road repair and construction.

4. **Enterprise Funds**

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose. The Village had the following significant Enterprise Funds:

Water Fund – This fund is used to record user charges for the costs of providing water services to Village residents and businesses.

Sewer Fund – This fund is used to record user charges for the costs of providing sanitary sewer services to Village residents and businesses.

Electric Fund – This fund is used to record user charges for the costs of providing electric service to Village residents and businesses.

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO**
Notes to the Financial Statements
For the Year Ended December 31, 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** - (continued)

5. **Fiduciary Funds (Agency Funds)**

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

Mayor's Court Fund – This fund is used to account for the accumulation of resources for, and the payment of fines collected from violators subject to the Village's legal jurisdiction.

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund (except certain agency funds) 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 Council 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 as of January 1. The County Budget Commission must also approve estimated resources.

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

A summary of 2003 budgetary activity appears in Note 3.

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2003**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

F. **PROPERTY, PLANT AND EQUIPMENT**

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

G. **ACCUMULATED LEAVE**

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

2. **EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<u>2003</u>
Demand Deposits	\$ 807,762
Certificates of Deposit	1,450,000
STAR Ohio	<u>1,636,412</u>
Total deposits and investments	\$ <u>3,894,174</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by the financial institution's public entity deposit pool.

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

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO**
Notes to the Financial Statements
For the Year Ended December 31, 2003

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 is as follows:

2003 Budgeted vs. Actual Receipts			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 1,008,243	\$ 1,067,972	\$ 59,729
Special Revenue	224,434	221,072	(3,362)
Capital Projects	707,124	783,277	76,153
Enterprise	3,916,318	4,124,979	208,661
Total	\$ 5,856,119	\$ 6,197,300	\$ 341,181

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 1,753,499	\$ 1,429,178	\$ 324,321
Special Revenue	244,241	221,287	22,954
Capital Projects	1,328,336	824,239	504,097
Enterprise	6,517,307	4,114,884	2,402,423
Total	\$ 9,843,383	\$ 6,589,588	\$ 3,253,795

4. PROPERTY TAX

Real property becomes a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. 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.

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

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

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

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2003**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village's Income Tax Department. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rates</u>
Ohio Public Works Commission Loans	\$ 583,038	0%
Ohio Water Development Authority Loans	7,000,554	6.41% to 7.84%
AMP-Ohio Electric System Note	<u>525,000</u>	2.25%
Total	<u>\$8,117,582</u>	

The Ohio Public Works Commission and Ohio Water Development Authority Loans were used for improvements to the Village's water treatment and sewer treatment systems. The loans will be paid from user charges.

The AMP-Ohio note proceeds were used for improvements to the Village's electric system. The note will be paid from user charges. The note is retired annually and renewed at a reduced balance from the previous year.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

	<u>O.P.W.C Loans</u>	<u>O.W.D.A. Loans</u>
Year Ending Dec. 31:		
2004	\$ 63,885	\$ 873,941
2005	65,803	873,882
2006	65,803	844,640
2007	45,166	844,640
2008	45,166	841,640
2009-2013	179,126	3,908,930
2014-2018	99,054	1,897,570
2019-2023	19,035	1,244,651
2024-2026	<u>-</u>	<u>622,325</u>
Total	<u>\$ 583,038</u>	<u>\$ 11,952,159</u>

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Notes to the Financial Statements
For the Year Ended December 31, 2003**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants gross salaries in 2003. The Village has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

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

- Comprehensive property and general liability
- Vehicles
- Public Officials Liability
- Law Enforcement Liability

Settled Claims have not exceeded this commercial coverage in any of the last five years. There have been no significant reductions in insurance coverage from last year.

All employees of the Village are covered by a blanket bond, while certain individuals in policy making roles are covered by a separate, higher limit bond coverage.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

9. JOINT VENTURE

The Village of Grafton is a Non-Financing Participant and an Owner Participant with an ownership percentage of .79% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement.

**VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO**
Notes to the Financial Statements
For the Year Ended December 31, 2003

9. JOINT VENTURE – (continued)

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$370,402 at December 31, 2004. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The Village of Grafton is a Financing Participant with an ownership percentage of .82%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA JV5 Agreement, the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the OMEGA JV5 Agreement.

OMEGA JV5 was created to construct a run-of-the-river hydroelectric plant and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and receives electric from its operations and to provide backup generation facilities for OMEGA JV5 Participants. The purpose of the Project, which consists of 42 MW of distributed generation, was to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV5. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. The Village's net obligation for these bonds at December 31, 2003 was \$1,106,795 for the 1993 issue and \$130,128 for the 2001 issue. The Village's net investment in OMEGA JV5 was \$64,727 at December 31, 2003. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Subsequent to the issuance of the 2003 audited financial statements by PriceWaterhouseCoopers, AMP-Ohio refunded the 1993 Beneficial Interest Certificates with 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000. The transaction took place on February 17, 2004, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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**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**

**The Honorable Mayor and Members
of Village Council
Village of Grafton
Grafton, Ohio**

We have audited the financial statements of the Village of Grafton as and for the year ended December 31, 2003, and have issued our report thereon dated April 21, 2005. 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated April 21, 2005.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated April 21, 2005.

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

Charles E. Harris & Associates, Inc.
April 21, 2005

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 2001 and 2002, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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VILLAGE OF GRAFTON

LORAIN 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 10, 2005**