

VILLAGE OF GRAFTON

LORAIN COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2005

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of Grafton, Lorain County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 9, 2007

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VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
Audit Report
For the year ended December 31, 2005

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Grafton
Lorain County
960 Main Street
Grafton Ohio 44064

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio, (the Village), as of and for the year ended December 31, 2005, 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 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 statements 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio, as of December 31, 2005, and the respective changes in cash basis financial position and the budgetary comparison for the General Fund of for the year then ended in conformity with accounting basis Note 2 describes.

Management's discussion and analysis on pages 3 to 10 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, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007 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, 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 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.

Charles E. Harris & Associates, Inc.

March 23, 2007

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

The discussion and analysis of the Village of Grafton's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's cash basis of accounting. The intent of this discussion and analysis is to look at the Village's financial 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.

Financial Highlights

Key financial highlights for 2005 are as follows:

Overall:

- For governmental activities, net assets increased \$244,558, which represents a 16.3 percent increase from 2004.
- General receipts accounted for \$2 million in revenue or 77.9 percent of all governmental receipts. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$564,778 or 22.1 percent of total governmental revenues of \$2.6 million.
- The Village had \$2.3 million in expenses related to governmental activities; only \$564,778 of these expenses were offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$2 million were adequate to provide for these programs.
- Among major funds, the general fund had \$1.8 million in revenues and \$1.7 million in expenditures. The general fund's fund balance increased to \$735,777 from \$642,508.
- For Business-Type activities, program revenues were \$4.3 million and general revenues were \$60,591. These offset expenses of \$4.7 million.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

The *Statement of Net Assets* and *Statement of Activities* provides information about the activities of the whole Village, presenting an aggregate view of the Village finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed. The fund financial statements also look at the Village's most significant funds with all other non-major funds presented in total in one column. In the case of the Village of Grafton, the general fund and Capital Improvement I fund by far are the most significant funds.

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 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activities. 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 or business-type activity draws from the Village's general receipts.

These two statements report the Village's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Village as a whole, the *financial position* of the Village has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Village's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Village has two kind of activities:

- Governmental Activities - Most of the Village's programs and services are reported here including, general government, security of persons and property, public health services, leisure time activities, community environment, basic utility services, and transportation.
- Business-type Activities – The Village has a number of business-type activities which are financed by fees charged to the customers receiving the services.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the Village's major funds begins on page 12. Fund financial reports provide detailed information about the Village's major funds. The Village uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Village's most significant funds. The Village's major governmental funds are the general fund and the Capital Improvement Fund I.

Governmental Funds Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed view of the Village's general governmental 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 in the near future to finance programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as enterprise funds. The proprietary funds for the Village consist exclusively of enterprise funds.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the village. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's own programs. The Village's fiduciary funds are agency funds.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on the cash basis:

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Cash and Investments	<u>\$ 1,743,854</u>	<u>\$ 1,499,296</u>	<u>\$ 2,475,164</u>	<u>\$ 2,835,945</u>	<u>\$ 4,219,018</u>	<u>\$ 4,335,241</u>
<i>Total Assets</i>	<u>1,743,854</u>	<u>1,499,296</u>	<u>2,475,164</u>	<u>2,835,945</u>	<u>4,219,018</u>	<u>4,335,241</u>
Net Assets:						
Restricted for:						
Capital Projects	928,224	729,939	-	-	928,224	729,939
Other Purposes	79,853	67,733	-	-	79,853	67,733
Unrestricted	<u>735,777</u>	<u>701,624</u>	<u>2,475,164</u>	<u>2,835,945</u>	<u>3,210,941</u>	<u>3,537,569</u>
<i>Total Net Assets</i>	<u>\$ 1,743,854</u>	<u>\$ 1,499,296</u>	<u>\$ 2,475,164</u>	<u>\$ 2,835,945</u>	<u>\$ 4,219,018</u>	<u>\$ 4,335,241</u>

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

The table below shows the net changes in net assets for 2005 and 2004.

Table 2

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$ 165,211	\$ 150,660	\$ 4,246,753	\$ 3,975,468	\$ 4,411,964	\$ 4,126,128
Operating Grants and Contributions	159,174	157,882	-	-	159,174	157,882
Capital Grants and Contributions	240,393	176,784	-	-	240,393	176,784
General Receipts:						
Property Taxes	227,926	188,892	-	-	227,926	188,892
Municipal Income Taxes	1,350,223	1,215,780	-	-	1,350,223	1,215,780
Other Local Taxes	22,964	53,730	-	-	22,964	53,730
Grants and Entitlements	115,591	157,693	-	-	115,591	157,693
Interest	119,576	56,029	-	-	119,576	56,029
Sale of Notes	-	-	-	350,000	-	350,000
Miscellaneous	146,340	137,832	60,591	150	206,931	137,982
Transfers	12,000	-	-	-	12,000	-
Total Receipts	2,559,398	2,295,282	4,307,344	4,325,618	6,866,742	6,620,900
Disbursements:						
Current:						
General Government	455,693	433,606	-	-	455,693	433,606
Security of Persons and Property	569,909	575,008	-	-	569,909	575,008
Public Health Services	42,101	39,037	-	-	42,101	39,037
Leisure Time Activities	22,594	10,617	-	-	22,594	10,617
Community Environment	37,119	31,877	-	-	37,119	31,877
Basic Utility Services	114,869	106,387	-	-	114,869	106,387
Transportation	152,011	113,074	-	-	152,011	113,074
Miscellaneous	299,911	152,229	-	-	299,911	152,229
Capital Outlay	477,476	374,162	-	-	477,476	374,162
Debt Service:						
Principal Retirement	95,559	105,276	-	-	95,559	105,276
Fiscal and Interest Charges	47,598	51,645	-	-	47,598	51,645
Water	-	-	517,230	495,514	517,230	495,514
Sewer	-	-	1,145,794	1,105,297	1,145,794	1,105,297
Electric	-	-	2,995,486	2,542,799	2,995,486	2,542,799
Other	-	-	9,615	8,175	9,615	8,175
Total Disbursements	2,314,840	1,992,918	4,668,125	4,151,785	6,982,965	6,144,703
Changes in Net Assets	\$ 244,558	\$ 302,364	\$ (360,781)	\$ 173,833	\$ (116,223)	\$ 476,197

Governmental Activities

Net assets of the Village's governmental activities increased by \$244,558. The governmental expenses of \$2.3 million were primarily offset by program revenues of \$564,778, general revenues of \$2 million and the prior year cash balance. Program revenues supported 24.4% of the total governmental activities.

The primary sources of revenue for governmental activities are derived from property taxes, and income taxes. These two revenue sources represent 61.7% of total governmental revenue.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlement.

Table 3
Total and Cost of Program Services

	Governmental Activities		Business Type Activities	
	2005		2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 455,693	\$ (292,451)	-	-
Security of Persons and Property	569,909	(567,940)	-	-
Public Health Services	42,101	(42,101)	-	-
Leisure Time Activities	22,594	(22,594)	-	-
Community Environment	37,119	(7,398)	-	-
Basic Utility Services	114,869	(114,869)	-	-
Transportation	152,011	7,163	-	-
Capital Outlay	477,476	(266,804)	-	-
Redemption of Principal	95,559	(95,559)	-	-
Interest and Fiscal Charges	47,598	(47,598)	-	-
Miscellaneous	299,911	(299,911)	-	-
Water	-	-	\$ 517,230	\$ (13,970)
Sewer	-	-	1,145,794	36,061
Electric	-	-	2,995,486	(447,773)
Other Enterprise Funds	-	-	9,615	4,310
Total Expenses	\$ 2,314,840	\$ (1,750,062)	\$ 4,668,125	\$ (421,372)

	Governmental Activities		Business Type Activities	
	2004		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 433,606	\$ (326,327)	-	-
Security of Persons and Property	575,008	(568,313)	-	-
Public Health Services	39,037	(39,037)	-	-
Leisure Time Activities	10,617	(10,617)	-	-
Community Environment	31,877	181,593	-	-
Basic Utility Services	106,387	(106,387)	-	-
Transportation	113,074	44,808	-	-
Capital Outlay	374,162	(374,162)	-	-
Redemption of Principal	105,276	(105,276)	-	-
Interest and Fiscal Charges	51,645	(51,645)	-	-
Miscellaneous	152,229	(152,229)	-	-
Water	-	-	\$ 495,514	\$ (34,165)
Sewer	-	-	1,105,297	140,162
Electric	-	-	2,542,799	(286,229)
Other Enterprise Funds	-	-	8,175	3,915
Total Expenses	\$ 1,992,918	\$ (1,507,592)	\$ 4,151,785	\$ (176,317)

Village of Grafton
Lorain County
Management's Discussion and Analysis
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(unaudited)

Only 24.4 percent of general government activities are supported through program revenues. For all governmental activities, general revenue and prior year cash balance support is all expenses as shown in the above table. The community, as a whole, is by far the primary support for the Village of Grafton.

Business-type Activities

The dependence upon program revenues is apparent as 100 percent of Business-Type activities are supported through these receipts for 2005. The infrastructure is beginning to age but the Village has ongoing maintenance projects to upgrade the infrastructure.

The Village's Funds

Information about the Village's major funds starts on page 14. These funds are accounted for using the cash basis of accounting. All governmental funds had total revenues of \$2.6 million and expenditures of \$2.3 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's net assets increased by \$93,269 for 2005.

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.

During the course of 2005 the Village amended its General Fund budget numerous times. The Village uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$1.6 million; the original estimate was \$1.3 million. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1.7 million, \$89,012 under revenues.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure. The Village has acquired a software package to accomplish this task and is in the process of entering the necessary information. It is anticipated that this program will be fully functional for 2006 but reductions in staff may delay the implementation.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(unaudited)

Debt

At December 31, 2005, the Village had \$6,796,613 in OPWC and OWDA loans. These loans were used to finance improvements to the Village's water, sewer and electric systems.

Current Financial Related Activities

The Village of Grafton is strong financially. As the preceding information shows, the Village heavily depends on its property/income taxpayers. However, financially the future is not without challenges.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, 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 questions about this report or need additional financial information contact Linda Bales, Clerk/Treasurer at 960 Main Street, Grafton, Ohio 44044.

Village of Grafton, Lorain County

Statement of Net Assets - Cash Basis

December 31, 2005

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,743,854	\$ 2,475,164	\$ 4,219,018
<i>Total Assets</i>	<u>\$ 1,743,854</u>	<u>\$ 2,475,164</u>	<u>\$ 4,219,018</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 928,224	-	\$ 928,224
Other Purposes	79,853	-	79,853
Unrestricted	<u>735,777</u>	<u>\$ 2,475,164</u>	<u>3,210,941</u>
<i>Total Net Assets</i>	<u>\$ 1,743,854</u>	<u>\$ 2,475,164</u>	<u>\$ 4,219,018</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2005

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 455,693	\$ 163,242	-	-	\$ (292,451)	-	\$ (292,451)
Security of Persons and Property	569,909	1,969	-	-	(567,940)	-	(567,940)
Public Health Services	42,101	-	-	-	(42,101)	-	(42,101)
Leisure Time Activities	22,594	-	-	-	(22,594)	-	(22,594)
Community Environment	37,119	-	-	\$ 29,721	(7,398)	-	(7,398)
Basic Utility Services	114,869	-	-	-	(114,869)	-	(114,869)
Transportation	152,011	-	\$ 159,174	-	7,163	-	7,163
Capital Outlay	477,476	-	-	210,672	(266,804)	-	(266,804)
Debt Service:							
Principal Retirement	95,559	-	-	-	(95,559)	-	(95,559)
Interest and Fiscal Charges	47,598	-	-	-	(47,598)	-	(47,598)
Miscellaneous	299,911	-	-	-	(299,911)	-	(299,911)
<i>Total Governmental Activities</i>	<u>2,314,840</u>	<u>165,211</u>	<u>159,174</u>	<u>240,393</u>	<u>(1,750,062)</u>	<u>-</u>	<u>(1,750,062)</u>
Business Type Activities							
Water	517,230	503,260	-	-	-	(13,970)	(13,970)
Sewer	1,145,794	1,181,855	-	-	-	36,061	36,061
Electric	2,995,486	2,547,713	-	-	-	(447,773)	(447,773)
Other Enterprise Funds	9,615	13,925	-	-	-	4,310	4,310
<i>Total Business Type Activities</i>	<u>4,668,125</u>	<u>4,246,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421,372)</u>	<u>(421,372)</u>
Total	<u>\$ 6,982,965</u>	<u>\$ 4,411,964</u>	<u>\$ 159,174</u>	<u>\$ 240,393</u>	<u>\$ (1,750,062)</u>	<u>\$ (421,372)</u>	<u>\$ (2,171,434)</u>
General Receipts							
Property Taxes Levied for:							
General Purposes					213,641	-	213,641
Special Purposes					14,285	-	14,285
Municipal Income Taxes					1,350,223	-	1,350,223
Other Local Taxes					22,964	-	22,964
Grants and Entitlements not Restricted to Special Programs					115,591	-	115,591
Interest					119,576	-	119,576
Miscellaneous					158,340	60,591	218,931
<i>Total General Receipts</i>					<u>1,994,620</u>	<u>60,591</u>	<u>2,055,211</u>
Change in Net Assets					244,558	(360,781)	(116,223)
<i>Net Assets Beginning of Year</i>					<u>1,499,296</u>	<u>2,835,945</u>	<u>4,335,241</u>
<i>Net Assets End of Year</i>					<u>\$ 1,743,854</u>	<u>\$ 2,475,164</u>	<u>\$ 4,219,018</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Capital Improvement I Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 735,777	\$ 715,362	\$ 292,715	\$ 1,743,854
<i>Total Assets</i>	<u>\$ 735,777</u>	<u>\$ 715,362</u>	<u>\$ 292,715</u>	<u>\$ 1,743,854</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 4,257	\$ 114,870	\$ 560	\$ 119,687
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	731,520	-	-	731,520
Special Revenue Funds	-	-	79,293	79,293
Capital Projects Funds	-	600,492	212,862	813,354
<i>Total Fund Balances</i>	<u>\$ 735,777</u>	<u>\$ 715,362</u>	<u>\$ 292,715</u>	<u>\$ 1,743,854</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Capital Improvement I Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Municipal Income Taxes	\$ 902,792	\$ 420,412	\$ 27,019	\$ 1,350,223
Property and Other Local Taxes	235,158	-	15,732	250,890
Charges for Services	111,853	-	-	111,853
Fines, Licenses and Permits	49,259	-	4,099	53,358
Intergovernmental	115,591	-	378,553	494,144
Interest	119,576	-	-	119,576
Miscellaneous	114,357	11,183	32,800	158,340
<i>Total Receipts</i>	<u>1,648,586</u>	<u>431,595</u>	<u>458,203</u>	<u>2,538,384</u>
Disbursements				
Current:				
General Government	454,693	-	1,000	455,693
Security of Persons and Property	553,025	-	16,884	569,909
Public Health Services	42,101	-	-	42,101
Leisure Time Activities	22,594	-	-	22,594
Community Environment	7,398	-	29,721	37,119
Basic Utility Services	114,869	-	-	114,869
Transportation	-	-	152,011	152,011
Capital Outlay	51,085	215,719	210,672	477,476
Debt Service:				
Principal Retirement	-	95,559	-	95,559
Interest and Fiscal Charges	-	47,598	-	47,598
<i>Total Disbursements</i>	<u>1,245,765</u>	<u>358,876</u>	<u>410,288</u>	<u>2,014,929</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>402,821</u>	<u>72,719</u>	<u>47,915</u>	<u>523,455</u>
Other Financing Sources (Uses)				
Proceeds of O.P.W.C. Notes	-	-	21,014	21,014
Transfers In	133,885	100,000	-	233,885
Transfers Out	(233,885)	-	-	(233,885)
Other Financing Sources	4,175	-	-	4,175
Other Financing Uses	(213,727)	(87,906)	(2,453)	(304,086)
<i>Total Other Financing Sources (Uses)</i>	<u>(309,552)</u>	<u>12,094</u>	<u>18,561</u>	<u>(278,897)</u>
<i>Net Change in Fund Balances</i>	93,269	84,813	66,476	244,558
<i>Fund Balances Beginning of Year</i>	<u>642,508</u>	<u>630,549</u>	<u>226,239</u>	<u>1,499,296</u>
<i>Fund Balances End of Year</i>	<u>\$ 735,777</u>	<u>\$ 715,362</u>	<u>\$ 292,715</u>	<u>\$ 1,743,854</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Municipal Income Taxes	\$720,200	\$907,857	\$902,792	(\$5,065)
Property and Other Local Taxes	236,742	236,742	235,158	(1,584)
Charges for Services	89,230	112,481	111,853	(628)
Fines, Licenses and Permits	39,296	49,235	49,259	24
Intergovernmental	92,212	116,240	115,591	(649)
Interest	95,391	120,247	119,576	(671)
Miscellaneous	63,305	116,073	114,357	(1,716)
<i>Total receipts</i>	<u>1,336,376</u>	<u>1,658,875</u>	<u>1,648,586</u>	<u>(10,289)</u>
Disbursements				
Current:				
General Government	720,491	720,491	458,950	261,541
Security of Persons and Property	873,307	873,307	553,025	320,282
Public Health Services	66,711	66,711	42,101	24,610
Leisure Time Activities	35,801	35,801	22,594	13,207
Community Environment	11,722	11,722	7,398	4,324
Basic Utility Services	185,017	185,017	114,869	70,148
Capital Outlay	80,947	80,947	51,085	29,862
<i>Total Disbursements</i>	<u>1,973,996</u>	<u>1,973,996</u>	<u>1,250,022</u>	<u>723,974</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(637,620)</u>	<u>(315,121)</u>	<u>398,564</u>	<u>713,685</u>
Other Financing Sources (Uses)				
Transfers In	133,885	133,885	133,885	-
Transfers Out	(131,000)	(233,885)	(233,885)	-
Other Financing Sources	4,175	4,175	4,175	-
Other Financing Uses	-	(213,727)	(213,727)	-
<i>Total Other Financing Sources (Uses)</i>	<u>7,060</u>	<u>(309,552)</u>	<u>(309,552)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(630,560)	(624,673)	89,012	713,685
<i>Fund Balance Beginning of Year</i>	630,559	630,559	630,559	-
Prior Year Encumbrances Appropriated	11,949	11,949	11,949	-
<i>Fund Balance End of Year</i>	<u>\$ 11,948</u>	<u>\$ 17,835</u>	<u>\$ 731,520</u>	<u>\$ 713,685</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2005

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 157,719	\$ 1,036,724	\$ 1,253,346	\$ 27,375	\$ 2,475,164
<i>Total Assets</i>	<u>\$ 157,719</u>	<u>\$ 1,036,724</u>	<u>\$ 1,253,346</u>	<u>\$ 27,375</u>	<u>\$ 2,475,164</u>
Net Assets					
Unrestricted	<u>\$ 157,719</u>	<u>\$ 1,036,724</u>	<u>\$ 1,253,346</u>	<u>\$ 27,375</u>	<u>\$2,475,164</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2005*

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
Operating Receipts					
Charges for Services	\$ 503,260	\$ 1,181,855	\$ 2,547,713	\$ 13,925	\$ 4,246,753
Other Operating Receipts	929	663	58,999	-	60,591
<i>Total Operating Receipts</i>	<u>504,189</u>	<u>1,182,518</u>	<u>2,606,712</u>	<u>13,925</u>	<u>4,307,344</u>
Operating Disbursements					
Personal Services	31,383	159,702	167,584	-	358,669
Travel Transportation	5,229	6,771	13,451	-	25,451
Contractual Services	452,237	64,478	2,241,704	9,615	2,768,034
Materials and Supplies	28,381	153,888	143,894	-	326,163
Capital Outlay	-	21,065	71,000	-	92,065
<i>Total Operating Disbursements</i>	<u>517,230</u>	<u>405,904</u>	<u>2,637,633</u>	<u>9,615</u>	<u>3,570,382</u>
<i>Operating Income (Loss)</i>	(13,041)	776,614	(30,921)	4,310	736,962
Non-Operating Receipts/ (Disbursements)					
Redemption of Principal	-	(338,203)	(350,000)	-	(688,203)
Interest and Other Fiscal Charges	-	(401,687)	(7,853)	-	(409,540)
<i>Income (Loss) before Transfers</i>	(13,041)	36,724	(388,774)	4,310	(360,781)
Transfers In	-	-	133,885	-	133,885
Transfers Out	-	-	(133,885)	-	(133,885)
<i>Change in Net Assets</i>	(13,041)	36,724	(388,774)	4,310	(360,781)
<i>Net Assets Beginning of Year</i>	<u>170,760</u>	<u>1,000,000</u>	<u>1,642,120</u>	<u>23,065</u>	<u>2,835,945</u>
<i>Net Assets End of Year</i>	<u>\$ 157,719</u>	<u>\$ 1,036,724</u>	<u>\$ 1,253,346</u>	<u>\$ 27,375</u>	<u>\$ 2,475,164</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$26,004</u>
Net Assets	
Unrestricted	<u>\$26,004</u>

See accompanying notes to the basic financial statements

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 1 – Reporting Entity

The Village of Grafton, Lorain County, Ohio (the Village), is a body politic and corporate established to exercise 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 police and fire protection, recreation (including parks), street maintenance and repair, and general administrative services.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village does not have any component units.

C. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Village does not report assets for equity interests in joint ventures. The Village of Grafton is a Non-Financing Participant and an Owner Participant with an Ownership 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). For more information on joint ventures see Note 11.

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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. The Village does not apply FASB statements issued after November 30, 1989, to its governmental activities, business-type activities or to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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.

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, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type 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 or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

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.

B. 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 divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund and Capital Improvement I Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. The Capital Improvement I 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. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the water, sewer and electric funds.

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

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

Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

C. 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.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation 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 appropriation 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 fund, department, and object level for all funds.

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 appropriation 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.

E. 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".

Cash and cash equivalents that are held separately in accounts at a financial institution for retainage and bond reserves and debt service are reported as "Cash and Cash Equivalents with Fiscal Agents."

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

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 2005, the Village invested in nonnegotiable certificates of deposit and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

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 2005 was \$119,576.

F. Restricted Assets

Cash, 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, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village had no restricted assets.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. 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.

I. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. 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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

K. 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 Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's cash basis financial statements 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 an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no such transactions in 2005.

M. 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.

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.

N. 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. Fund balance reserves have been established for encumbrances.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

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 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 that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$4,257 for the general fund.

Note 4 – Deposits and Investments

State statutes classify monies held by the Village into three categories.

Active deposits are public deposits necessary to meet current demands on the Village treasury. Such 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 the Village has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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 may 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;

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

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).

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 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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end 2005, the Village had \$1,138 in undeposited cash on hand, which is included on the balance sheet of the Village as part of "Equity in Pooled Cash and Cash Equivalents."

Custodial credit risk for deposits is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2005, \$2,354,747 of the Village's bank balance of \$2,454,747 which includes \$1,800,000 of non-negotiable certificates of deposit was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

As of December 31, 2005, the Village had \$1,950,616 invested in STAROhio.

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Village's investment policy addresses interest rate risk by requiring that the Village's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 5 – Income Taxes

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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

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.

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2005, was \$5.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential and Agricultural	\$ 37,061,950
Other	9,274,650
Tangible Personal Property	
Public Utility	895,090
General	5,849,725
Total Assessed Value	<u>\$ 53,081,415</u>

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 7 – 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.

Note 8 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, were required to contribute 8.5 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$94,712, \$93,512, and \$129,359 respectively. The full amount has been contributed for 2005, 2004 and 2003.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

B. Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 24 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2005, 2004, and 2003 were \$29,054, \$36,171, and \$35,391. The full amount has been contributed for 2005, 2004 and 2003.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$27,959. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

VILLAGE OF GRAFTON
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 For the Year Ended December 31, 2005

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll, the total firefighter contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Village's actual contributions that were used to fund postemployment benefits were \$22,517 in 2004 for police. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$120,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 10 – Debt

The Village's long-term debt activity for the year ended December 31, 2005, was as follows:

	<u>Interest Rates</u>	<u>Balance at 1/1/2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2005</u>
Business-Type Activities:					
O.P.W.C. Loans	0%	\$ 506,836	\$ 21,014	\$ 63,442	\$ 464,408
O.W.D.A. Loans	6.41% to 7.84%	6,702,525	-	370,320	6,332,205
AMP-Electric System Note	2.25%	350,000	-	350,000	-
Total Business-Type Activities		<u>\$ 7,559,361</u>	<u>\$ 21,014</u>	<u>\$ 783,762</u>	<u>\$ 6,796,613</u>

The O.W.D.A. beginning balance does not equal the prior audit report due to incorrect representations made by O.W.D.A.

VILLAGE OF GRAFTON
 Lorain County, Ohio
 Notes to the Financial Statements
 For the Year Ended December 31, 2005

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 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, 2005 are as follows:

Year Ending December 31:	<u>O.P.W.C Loans Principal</u>	<u>O.W.D.A Loans Principal</u>	<u>O.W.D.A Loans Interest</u>
2006	\$ 63,999	\$ 171,507	\$ 138,973
2007	43,856	185,117	125,363
2008	43,856	199,812	110,668
2009	38,018	215,677	94,801
2010	32,180	232,809	77,671
2011-2015	157,280	735,986	133,078
2016-2020	67,948	2,065,532	2,154,565
2021-2025	16,746	2,193,463	975,390
2026-2030	525	332,302	99,732
Total	<u>\$ 464,408</u>	<u>\$ 6,332,205</u>	<u>\$ 3,910,241</u>

Note 11 – Joint Ventures

The Village of Grafton is a Non-Financing Participant and an Owner Participant with an Ownership 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.

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 JV 2 was \$350,542 at December 31, 2005. 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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

The Village of Grafton is a Financing Participant with an ownership percentage of .64%, 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 participation in the OMEGA JV5 Project.

Pursuant to OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Management Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005 Grafton has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

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 the 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$59,405 at December 31, 2005. 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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 12 – Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed, by the grantor cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

The Village may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Solicitor, the resolution of these matters will not have a material adverse effect on the financial condition of the Village.

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Cleveland OH 44113-1306
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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Grafton
Lorain County
960 Main Street
Grafton, Ohio 44044

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's financial statements and have issued our report thereon dated March 23, 2007, wherein we noted that the Village uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 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 the cash basis of accounting 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.

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 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 to be 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, grant agreements and other matters, 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*.

We noted certain matters that we have reported to management of the Village in a separate letter dated March 23, 2007.

This report is intended solely for the information and use of the 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 and Associates, Inc.
March 23, 2007

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 2004, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

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
AUGUST 21, 2007**