

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2004

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, 2004 through December 31, 2004. 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 6, 2005

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Lorain County, Ohio
Audit Report
For the year ended December 31, 2004

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Charles E. Harris & Associates, Inc.
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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 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, 2004, 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 the Comptroller General of the United States *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, 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 financial statements referred to above present fairly, in all material respects, the respective cash basis 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 as of December 31, 2004, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the result 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.

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

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

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

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 fiscal year ended December 31, 2004, within the limitations of the Village's modified 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 2004 are as follows:

Overall:

- For governmental activities, net assets increased \$302,364, which represents a 25.2 percent increase from 2003.
- General receipts accounted for \$1.8 million in revenue or 78.8 percent of all governmental receipts. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$485,326 or 21 percent of total governmental revenues of \$2.3 million.
- The Village had \$2 million in expenses related to governmental activities; only \$485,326 of these expenses were offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$1.8 million were adequate to provide for these programs.
- Among major funds, the general fund had \$1.6 million in revenues and \$1.3 million in expenditures. The general fund's fund balance increased to \$642,508 from \$387,508.
- For Business-Type activities, program revenues were \$4.0 million and general revenues were \$350,150. These offset expenses of \$6.1 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.

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.

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

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 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activity of the Village at year end. The statement of activities compares cash disbursement with program receipts for each governmental program and business-type activity. 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 activity:

- 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 activity – 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 Fiscal Year Ended December 31, 2004

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 modified 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.

The Village as a Whole

Table 1 shows net assets for fiscal year 2004. Since this is the first year the Village has prepared financial statements following the modified cash basis of accounting, net asset comparisons to prior fiscal years are not available.

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

Table 1

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Investments	\$ 1,499,296	\$ 2,835,945	\$ 4,335,241
<i>Total Assets</i>	<u>1,499,296</u>	<u>2,835,945</u>	<u>4,335,241</u>
Net Assets:			
Restricted	797,672	-	797,672
Unrestricted	<u>701,624</u>	<u>2,835,945</u>	<u>3,537,569</u>
<i>Total Net Assets</i>	<u>\$ 1,499,296</u>	<u>\$ 2,835,945</u>	<u>\$ 4,335,241</u>

The table below shows the net changes in net assets for fiscal year 2004. Since this is the first year the Village has prepared the financial statements following modified cash basis, revenue and expense comparisons to fiscal year 2003 are not available.

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

Table 2

	Governmental Activities	Business-Type Activities	Total
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$ 150,660	\$ 3,975,468	\$ 4,126,128
Operating Grants and Contributions	157,882	-	157,882
Capital Grants and Contributions	176,784	-	176,784
General Receipts:			
Property Taxes	188,892	-	188,892
Municipal Income Taxes	1,215,780	-	1,215,780
Other Local Taxes	53,730	-	53,730
Grants and Entitlements	157,693	-	157,693
Interest	56,029	-	56,029
Sale of Notes	-	350,000	350,000
Miscellaneous	137,832	150	137,982
Total Receipts	2,295,282	4,325,618	6,620,900
Disbursements:			
Current:			
General Government	433,606	-	433,606
Security of Persons and Property	575,008	-	575,008
Public Health Services	39,037	-	39,037
Leisure Time Activities	10,617	-	10,617
Community Environment	31,877	-	31,877
Basic Utility Services	106,387	-	106,387
Transportation	113,074	-	113,074
Miscellaneous	152,229	-	152,229
Capital Outlay	374,162	-	374,162
Debt Service:			
Principal Retirement	105,276	-	105,276
Fiscal and Interest Charges	51,645	-	51,645
Water	-	495,514	495,514
Sewer	-	1,105,297	1,105,297
Electric	-	2,542,799	2,542,799
Other	-	8,175	8,175
Total Disbursements	1,992,918	4,151,785	6,144,703
Changes in Net Assets	\$ 302,364	\$ 173,833	\$ 476,197

Governmental Activities

Net assets of the Village's governmental activities increased by \$302,364. The governmental expenses of \$2 million were primarily offset by program revenues of

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

\$485,326, general revenues of \$1.8 and the prior year cash balance. Program revenues supported 21% 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% of total governmental revenue.

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. 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**

	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
Total Expenses	<u>\$ 1,992,918</u>	<u>\$ 1,507,592</u>

Only 24 percent of general government activities are supported through charges for services 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 electric/water operation of the Village is relatively small and routinely reports receipts and cash disbursement that are relatively equal. The infrastructure is beginning to age but the Village has ongoing maintenance projects to upgrade the infrastructure.

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

The Village's Funds

Information about the Village's major funds starts on page 12. These funds are accounted for using the modified cash basis of accounting. All governmental funds had total revenues of \$2.3 million and expenditures of \$2.0 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 \$255,000 for fiscal year 2004.

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 fiscal year 2004 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 1.2 million. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1.3 million, \$255,000 below 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.

Debt

At December 31, 2004, the Village had \$7,559,361 in OPWC, OWDA, and AMP – Ohio notes.

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.

Village Of Grafton
Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

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 - Modified Cash Basis
 December 31, 2004

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Investments	\$ 1,499,296	\$ 2,835,945	\$ 4,335,241
<i>Total Assets</i>	<u>\$ 1,499,296</u>	<u>\$ 2,835,945</u>	<u>\$ 4,335,241</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 729,939	\$ -	\$ 729,939
Other Purposes	67,733	-	67,733
Unrestricted	<u>701,624</u>	<u>2,835,945</u>	<u>3,537,569</u>
<i>Total Net Assets</i>	<u>\$ 1,499,296</u>	<u>\$ 2,835,945</u>	<u>\$ 4,335,241</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Statement of Modified Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2004

	General	Capital Improvement I	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 642,508	\$ 630,549	\$ 226,239	\$ 1,499,296
<i>Total Assets</i>	<u>\$ 642,508</u>	<u>\$ 630,549</u>	<u>\$ 226,239</u>	<u>\$ 1,499,296</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 11,949	\$ 189,622	\$ 1,215	\$ 202,786
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	630,559	-	-	630,559
Special Revenue Funds	-	-	66,518	66,518
Capital Projects Funds	-	440,927	158,506	599,433
<i>Total Fund Balances</i>	<u>\$ 642,508</u>	<u>\$ 630,549</u>	<u>\$ 226,239</u>	<u>\$ 1,499,296</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total Governmental Fund Balances	<u>\$ 1,499,296</u>
<i>Net Assets of Governmental Activities</i>	<u>\$ 1,499,296</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Capital Improvement I	Other Governmental Funds	Total Governmental Funds
Receipts				
Municipal Income Taxes	\$ 854,115	\$ 361,665	\$ 26,250	\$ 1,242,030
Property and Other Local Taxes	228,979	-	13,643	242,622
Charges for Services	107,279	-	-	107,279
Fines, Licenses and Permits	36,686	-	6,695	43,381
Intergovernmental	157,693	-	308,416	466,109
Interest	56,029	-	-	56,029
Miscellaneous	121,590	-	9,330	130,920
<i>Total Receipts</i>	1,562,371	361,665	364,334	2,288,370
Disbursements				
Current:				
General Government	433,606	-	-	433,606
Security of Persons and Property	561,306	-	13,702	575,008
Public Health Services	39,037	-	-	39,037
Leisure Time Activities	10,617	-	-	10,617
Community Environment	4,141	-	27,736	31,877
Basic Utility Services	106,387	-	-	106,387
Transportation	-	-	113,074	113,074
Capital Outlay	73,420	174,794	125,948	374,162
Debt Service:				
Principal Retirement	-	105,276	-	105,276
Interest and Fiscal Charges	-	51,645	-	51,645
<i>Total Disbursements</i>	1,228,514	331,715	280,460	1,840,689
<i>Excess of Receipts Over (Under) Disbursements</i>	333,857	29,950	83,874	447,681
Other Financing Sources (Uses)				
Transfers In	2,636	-	-	2,636
Transfers Out	(150)	-	-	(150)
Advances In	949	-	-	949
Advances Out	-	-	(949)	(949)
Other Financing Sources	3,327	-	-	3,327
Other Financing Uses	(85,619)	(65,511)	-	(151,130)
<i>Total Other Financing Sources (Uses)</i>	(78,857)	(65,511)	(949)	(145,317)
<i>Net Change in Fund Balances</i>	255,000	(35,561)	82,925	302,364
<i>Fund Balances Beginning of Year</i>	387,508	666,110	143,314	1,196,932
<i>Fund Balances End of Year</i>	\$ 642,508	\$ 630,549	\$ 226,239	\$ 1,499,296

See accompanying notes to the financial statements

VILLAGE OF GRAFTON, LORAIN COUNTY
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 302,364</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 302,364</u>
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See accompanying notes to the 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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Municipal Income Taxes	\$ 618,406	\$ 846,985	\$ 854,115	\$ 7,130
Property and Other Local Taxes	165,788	227,068	228,979	1,911
Charges for Services	77,673	106,383	107,279	896
Fines, Licenses and Permits	26,562	36,380	36,686	306
Intergovernmental	114,175	156,377	157,693	1,316
Interest	40,567	55,561	56,029	468
Miscellaneous	88,035	120,575	121,590	1,015
<i>Total receipts</i>	<u>1,131,206</u>	<u>1,549,329</u>	<u>1,562,371</u>	<u>13,042</u>
Disbursements				
Current:				
General Government	462,035	654,557	433,606	220,951
Security of Persons and Property	598,107	847,329	561,306	286,023
Public Health Services	41,596	58,929	39,037	19,892
Leisure Time Activities	11,313	16,027	10,617	5,410
Community Environment	4,412	6,251	4,141	2,110
Basic Utility Services	113,362	160,598	106,387	54,211
Capital Outlay	78,234	110,832	73,420	37,412
<i>Total Disbursements</i>	<u>1,309,059</u>	<u>1,854,523</u>	<u>1,228,514</u>	<u>626,009</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(177,853)</u>	<u>(305,194)</u>	<u>333,857</u>	<u>639,051</u>
Other Financing Sources (Uses)				
Transfers In	2,636	2,636	2,636	-
Transfers Out	(150)	(150)	(150)	-
Advances In	949	949	949	-
Other Financing Sources	3,327	3,327	3,327	-
Other Financing Uses	(85,619)	(85,619)	(85,619)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(78,857)</u>	<u>(78,857)</u>	<u>(78,857)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(256,710)	(384,051)	255,000	639,051
<i>Fund Balance Beginning of Year</i>	384,051	384,051	384,051	-
Prior Year Encumbrances Appropriated	<u>3,457</u>	<u>3,457</u>	<u>3,457</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 130,798</u>	<u>\$ 3,457</u>	<u>\$ 642,508</u>	<u>\$ 639,051</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2004

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
Assets					
Equity in Pooled Cash and Investments	\$ 170,760	\$ 1,000,000	\$ 1,642,120	\$ 23,065	\$ 2,835,945
<i>Total Assets</i>	<u>\$ 170,760</u>	<u>\$ 1,000,000</u>	<u>\$ 1,642,120</u>	<u>\$ 23,065</u>	<u>\$ 2,835,945</u>
Net Assets					
Unrestricted	<u>\$ 170,760</u>	<u>\$ 1,000,000</u>	<u>\$ 1,642,120</u>	<u>\$ 23,065</u>	<u>\$ 2,835,945</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2004*

	Business-Type Activities				
	Water	Sewer	Electric	Other Enterprise Funds	Total Enterprise Funds
Operating Receipts					
Charges for Services	\$ 460,724	\$ 1,245,445	\$ 2,250,637	\$ 12,090	\$ 3,968,896
Other Operating Receipts	625	14	5,933	-	6,572
<i>Total Operating Receipts</i>	<u>461,349</u>	<u>1,245,459</u>	<u>2,256,570</u>	<u>12,090</u>	<u>3,975,468</u>
Operating Disbursements					
Personal Services	30,481	184,178	160,664	-	375,323
Travel Transportation	3,718	5,024	6,064	-	14,806
Contractual Services	433,855	63,030	1,712,773	8,175	2,217,833
Materials and Supplies	24,960	112,863	123,272	-	261,095
Capital Outlay	2,500	2,932	8,500	-	13,932
<i>Total Operating Disbursements</i>	<u>495,514</u>	<u>368,027</u>	<u>2,011,273</u>	<u>8,175</u>	<u>2,882,989</u>
<i>Operating Income (Loss)</i>	(34,165)	877,432	245,297	3,915	1,092,479
Non-Operating Receipts/Disbursements					
Sale of Notes	-	-	350,000	-	350,000
Principal Retirement	-	(315,993)	(525,000)	-	(840,993)
Interest and Fiscal Charges	-	(421,277)	(6,526)	-	(427,803)
<i>Income (Loss) before Transfers</i>	(34,165)	140,162	63,771	3,915	173,683
Transfers In	-	-	-	150	150
<i>Total Transfers</i>	-	-	-	150	150
<i>Change in Net Assets</i>	(34,165)	140,162	63,771	4,065	173,833
<i>Net Assets Beginning of Year</i>	<u>204,925</u>	<u>859,838</u>	<u>1,578,349</u>	<u>19,000</u>	<u>2,662,112</u>
<i>Net Assets End 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>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Investments	\$ 18,619
<i>Total Assets</i>	<u>\$ 18,619</u>
Net Assets	
Unrestricted	<u>\$ 18,619</u>

See accompanying notes to the financial statements

Village of Grafton, Lorain County
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended December 31, 2004

	Agency
Additions	
Fines, Licenses and Permits	\$ 19,617
Miscellaneous	44,098
	63,715
Deductions	
Personal Services	17,796
Contractual Services	4,875
Supplies and Materials	246
Mayor's Court Disbursements	32,223
Return of Deposits	25,086
	80,226
Total Deductions	80,226
Change in Net Assets	(16,511)
Net Assets - Beginning of Year	35,130
Net Assets - End of Year	\$ 18,619

See accompanying notes to the financial statements

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2004

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, 2004

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

D. **FUND ACCOUNTING**

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.

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 major capital project fund:

Capital Improvement 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 major 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.

5. **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, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 2004 budgetary activity appears in Note 3.

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.

H. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

H. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (continued)

Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities, demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program receipts. Direct expenses are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the financial statements.

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, 2004 was as follows:

	2004
Demand Deposit	\$ 849,343
Certificates of Deposit	2,125,000
STAR Ohio	1,379,517
 Total deposits and investments	 \$ 4,353,860

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, 2004

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2004 is as follows:

2004 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,676,668	\$ 1,689,710	\$ 13,042
Capital Improvement I	350,000	361,665	11,665
Total	\$ 2,026,668	\$ 2,051,375	\$ 24,707

2004 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 2,064,175	\$ 1,458,608	\$ 605,567
Capital Improvement I	1,016,110	776,470	239,640
Total	\$ 3,080,285	\$ 2,235,078	\$ 845,207

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, 2004

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, 2004 was as follows:

	Principal	Interest Rates
Ohio Public Works Commission Loans	\$ 506,836	0%
Ohio Water Development Authority Loans	6,664,477	6.41% to 7.84%
AMP-Ohio Electric System Note	350,000	2.25%
Total	\$ 7,521,313	

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.

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, 2004 are as follows:

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2004

6. **DEBT** – (continued)

	O.P.W.C Loans	O.W.D.A Loans
Year Ending Dec. 31:		
2005	\$ 65,803	\$ 873,882
2006	65,803	844,640
2007	45,166	844,640
2008	45,166	841,640
2009	45,166	844,670
2010-2014	153,691	3,532,784
2015-2019	73,225	1,677,978
2020-2024	12,816	1,244,651
2025-2026	-	373,395
Total	\$ 506,836	\$ 11,078,280

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 2004, 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 2004. 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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2004

8. RISK MANAGEMENT – (continued)

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 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 \$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 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.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2004

9. JOINT VENTURE – (continued)

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, 2004 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 \$70,890 at December 31, 2004. 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, 2004

10. 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 material.

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.

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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Grafton as and for the year ended December 31, 2004, which collectively comprise the Village of Grafton's basic financial statements 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 also 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, 2003, 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**