



Dave Yost • Auditor of State



**VILLAGE OF GRAFTON  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of 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 years ended December 31, 2010 and 2009, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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 financial statements referred to above present fairly, in all material respects, the respective cash 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, 2010 and 2009, and the respective changes in cash financial position, thereof and the budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2011 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

July 29, 2011

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
(Unaudited)

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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, 2010, 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 2010 are as follows:

*Overall:*

- For governmental activities, net assets decreased \$43,953 which represents a 2 percent decrease from 2009.
- General receipts accounted for \$1,909,480 in receipts or 81 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$440,479 or 19 percent of total governmental receipts of \$2,349,959
- The Village had \$2,393,912 in disbursements related to governmental activities; only \$440,479 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$1,909,480 helped provide for these programs.
- Among major funds, the General Fund had \$1,763,907 in receipts and \$1,866,105 in disbursements. The General Fund's fund balance decreased to \$1,289,780 from \$1,391,978.
- For business-type activities, program receipts were \$4,804,169. These helped offset disbursements of \$5,271,094.

**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, 2010  
(Unaudited)

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The *Statement of Net Assets* and *Statement of Activities* provide 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 governmental 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 2010, 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, 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, 2010  
(Unaudited)

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**Reporting the Village's Most Significant Funds**

*Fund Financial Statements*

The analysis of the Village's major funds begins on page 13. Fund financial statements 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 I Fund.

**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.

**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 for 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, 2010  
(Unaudited)

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**The Village as a Whole**

Table 1 provides a summary of the Village's net assets for 2010 compared to 2009 on the cash basis:

**Table 1**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 2,285,373	\$ 2,329,326	\$ 2,754,111	\$ 3,041,826	\$ 5,039,484	\$ 5,371,152
<i>Total Assets</i>	<u>2,285,373</u>	<u>2,329,326</u>	<u>2,754,111</u>	<u>3,041,826</u>	<u>5,039,484</u>	<u>5,371,152</u>
<b>Net Assets:</b>						
Restricted for:						
Capital Projects	934,137	879,181	-	-	934,137	879,181
Other Purposes	61,456	58,167	-	-	61,456	58,167
Unrestricted	<u>1,289,780</u>	<u>1,391,978</u>	<u>2,754,111</u>	<u>3,041,826</u>	<u>4,043,891</u>	<u>4,433,804</u>
<i>Total Net Assets</i>	<u>\$ 2,285,373</u>	<u>\$ 2,329,326</u>	<u>\$ 2,754,111</u>	<u>\$ 3,041,826</u>	<u>\$ 5,039,484</u>	<u>\$ 5,371,152</u>

Table 2 shows the net changes in net assets for 2010 and 2009:

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
(Unaudited)

**Table 2**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Receipts:</b>						
Program Receipts:						
Charges for Services and Sales	\$ 289,535	\$ 265,935	\$ 4,804,169	\$ 4,431,549	\$ 5,093,704	\$ 4,697,484
Operating Grants and Contributions	150,944	187,486	-	-	150,944	187,486
Capital Grants and Contributions	-	230,250	-	-	-	230,250
General Receipts:						
Property Taxes	307,552	254,570	-	-	307,552	254,570
Municipal Income Taxes	1,190,739	1,277,198	-	-	1,190,739	1,277,198
Grants and Entitlements	181,457	191,847	-	-	181,457	191,847
Special Assessments	2,585	2,998	-	-	2,585	2,998
Loan Proceeds	133,119	333,868	-	-	133,119	333,868
Interest	35,866	80,677	-	-	35,866	80,677
Other Financing Sources	-	7,258	-	167,497	-	174,755
Miscellaneous	58,162	48,120	179,210	21,860	237,372	69,980
Transfers	-	2,550	-	-	-	2,550
<b>Total Receipts</b>	<b>2,349,959</b>	<b>2,882,757</b>	<b>4,983,379</b>	<b>4,620,906</b>	<b>7,333,338</b>	<b>7,503,663</b>
<b>Disbursements:</b>						
Current:						
General Government	448,093	447,360	-	-	448,093	447,360
Security of Persons and Property	699,742	620,820	-	-	699,742	620,820
Public Health Services	63,216	75,595	-	-	63,216	75,595
Leisure Time Activities	62,057	22,826	-	-	62,057	22,826
Community Environment	100,000	38,593	-	-	100,000	38,593
Basic Utility Services	210,967	167,045	-	-	210,967	167,045
Transportation	177,212	183,541	-	-	177,212	183,541
Other Financing Uses	-	43,682	-	-	-	43,682
Capital Outlay	487,425	1,289,304	-	-	487,425	1,289,304
Debt Service:						
Principal Retirement	113,970	108,455	-	-	113,970	108,455
Fiscal and Interest Charges	31,230	34,558	-	-	31,230	34,558
Water	-	-	580,537	647,787	580,537	647,787
Sewer	-	-	1,312,896	1,285,226	1,312,896	1,285,226
Electric	-	-	3,363,115	3,085,424	3,363,115	3,085,424
Other	-	-	14,546	14,975	14,546	14,975
<b>Total Disbursements</b>	<b>2,393,912</b>	<b>3,031,779</b>	<b>5,271,094</b>	<b>5,033,412</b>	<b>7,665,006</b>	<b>8,065,191</b>
Changes in Net Assets	<b>\$ (43,953)</b>	<b>\$ (149,022)</b>	<b>\$ (287,715)</b>	<b>\$ (412,506)</b>	<b>\$ (331,668)</b>	<b>\$ (561,528)</b>

***Governmental Activities***

Net assets of the Village's governmental activities decreased by \$43,953. The governmental disbursements of \$2,393,912 were primarily offset by program receipts of \$440,479, general receipts of \$1,909,480 and the prior year cash balance. Program receipts supported 19% 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 64% of total governmental receipts.

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
(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 2010 and 2009. 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**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>	
	2010		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 448,093	\$ (159,335)	-	-
Security of Persons and Property	699,742	(695,313)	-	-
Public Health Services	63,216	(63,216)	-	-
Leisure Time Activities	62,057	(62,057)	-	-
Community Environment	100,000	(100,000)	-	-
Basic Utility Services	210,967	(210,967)	-	-
Transportation	177,212	(29,920)	-	-
Capital Outlay	487,425	(487,425)	-	-
Redemption of Principal	113,970	(113,970)	-	-
Interest and Fiscal Charges	31,230	(31,230)	-	-
Water	-	-	\$ 580,537	\$ 96,390
Sewer	-	-	1,312,896	(96,862)
Electric	-	-	3,363,115	(468,653)
Other Enterprise Funds	-	-	14,546	2,200
<b>Total Program Services</b>	<b>\$ 2,393,912</b>	<b>\$ (1,953,433)</b>	<b>\$ 5,271,094</b>	<b>\$ (466,925)</b>

  

	<b>Governmental Activities</b>		<b>Business Type Activities</b>	
	2009		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 447,360	\$ (184,890)	-	-
Security of Persons and Property	620,820	(614,342)	-	-
Public Health Services	75,595	(75,595)	-	-
Leisure Time Activities	22,826	(22,826)	-	-
Community Environment	38,593	1,407	-	-
Basic Utility Services	167,045	(167,045)	-	-
Transportation	183,541	(41,978)	-	-
Capital Outlay	1,289,304	(1,056,144)	-	-
Redemption of Principal	108,455	(108,455)	-	-
Interest and Fiscal Charges	34,558	(34,558)	-	-
Other Financing Uses	43,682	(43,682)	-	-
Water	-	-	\$ 647,787	\$ (7,193)
Sewer	-	-	1,285,226	(55,231)
Electric	-	-	3,085,424	(543,689)
Other Enterprise Funds	-	-	14,975	4,250
<b>Total Program Services</b>	<b>\$ 3,031,779</b>	<b>\$ (2,348,108)</b>	<b>\$ 5,033,412</b>	<b>\$ (601,863)</b>

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
(Unaudited)

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Only 19 percent of general government activities are supported through program receipts. For all governmental activities, general receipts and prior year cash balance support disbursements 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 receipts is apparent as 91 percent of business-type activities are supported through these receipts for 2010. 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 13. These funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$2,806,953 and expenditures of \$2,850,906. The net change in fund balance for the year was most significant in the General Fund, where the fund's balance decreased by \$102,198 for 2010.

**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 2010 the Village amended its General Fund receipt 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, final budget basis receipts were \$1,747,413, the original estimate was \$1,707,936. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,872,189, \$108,282 under receipts.

**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 was anticipated that this program would be fully functional for 2010 but reductions in staff have delayed the implementation.

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
(Unaudited)

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***Debt***

At December 31, 2010, the Village had \$5,036,312 in OPWC, OWDA and County Engineer loans. These issues were used for improvements to the Village's streets, 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 Village's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have 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, 2010*

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	Governmental Activities	Business - Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,285,373	\$ 2,754,111	\$ 5,039,484
<i>Total Assets</i>	<u>\$ 2,285,373</u>	<u>\$ 2,754,111</u>	<u>\$ 5,039,484</u>
<b>Net Assets</b>			
Restricted for:			
Capital Projects	\$ 934,137	-	\$ 934,137
Other Purposes	61,456	-	61,456
Unrestricted	<u>1,289,780</u>	<u>\$ 2,754,111</u>	<u>4,043,891</u>
<i>Total Net Assets</i>	<u>\$ 2,285,373</u>	<u>\$ 2,754,111</u>	<u>\$ 5,039,484</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, 2010

	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
<b>Governmental Activities</b>							
General Government	\$ 448,093	\$ 288,758	-	-	\$ (159,335)	-	\$ (159,335)
Security of Persons and Property	699,742	777	\$ 3,652	-	(695,313)	-	(695,313)
Public Health Services	63,216	-	-	-	(63,216)	-	(63,216)
Leisure Time Activities	62,057	-	-	-	(62,057)	-	(62,057)
Community Environment	100,000	-	-	\$ -	(100,000)	-	(100,000)
Basic Utility Services	210,967	-	-	-	(210,967)	-	(210,967)
Transportation	177,212	-	147,292	-	(29,920)	-	(29,920)
Capital Outlay	487,425	-	-	-	(487,425)	-	(487,425)
Debt Service:							
Principal Retirement	113,970	-	-	-	(113,970)	-	(113,970)
Interest and Fiscal Charges	31,230	-	-	-	(31,230)	-	(31,230)
<i>Total Governmental Activities</i>	2,393,912	289,535	150,944	-	(1,953,433)	-	(1,953,433)
<b>Business Type Activities</b>							
Water	580,537	676,927	-	-	-	\$ 96,390	96,390
Sewer	1,312,896	1,216,034	-	-	-	(96,862)	(96,862)
Electric	3,363,115	2,894,462	-	-	-	(468,653)	(468,653)
Other Enterprise Funds	14,546	16,746	-	-	-	2,200	2,200
<i>Total Business Type Activities</i>	5,271,094	4,804,169	-	-	-	(466,925)	(466,925)
<b>Total</b>	<b>\$ 7,665,006</b>	<b>\$ 5,093,704</b>	<b>\$ 150,944</b>	<b>\$ -</b>	<b>(1,953,433)</b>	<b>(466,925)</b>	<b>(2,420,358)</b>
<b>General Receipts</b>							
Property Taxes Levied for:							
General Purposes					291,617	-	291,617
Special Purposes					15,935	-	15,935
Municipal Income Taxes					1,190,739	-	1,190,739
Grants and Entitlements not Restricted to Special Programs					181,457	-	181,457
Special Assessments					2,585	-	2,585
Loan Proceeds					133,119	-	133,119
Interest					35,866	-	35,866
Miscellaneous					58,162	179,210	237,372
<i>Total General Receipts</i>					1,909,480	179,210	2,088,690
Change in Net Assets					(43,953)	(287,715)	(331,668)
<i>Net Assets, Beginning of Year</i>					2,329,326	3,041,826	5,371,152
<i>Net Assets, End of Year</i>					<u>\$ 2,285,373</u>	<u>\$ 2,754,111</u>	<u>\$ 5,039,484</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, 2010*

	<u>General</u>	<u>Capital Improvement I Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,289,780	\$ 685,382	\$ 310,211	\$ 2,285,373
<i>Total Assets</i>	<u>\$ 1,289,780</u>	<u>\$ 685,382</u>	<u>\$ 310,211</u>	<u>\$ 2,285,373</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$ 6,084	\$ 269,517	\$ 21,444	\$ 297,045
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	1,283,696	-	-	1,283,696
Special Revenue Funds	-	-	60,329	60,329
Capital Projects Funds	-	415,865	228,438	644,303
<i>Total Fund Balances</i>	<u>\$ 1,289,780</u>	<u>\$ 685,382</u>	<u>\$ 310,211</u>	<u>\$ 2,285,373</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, 2010*

	General	Capital Improvement I Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Municipal Income Taxes	\$ 793,567	\$ 364,831	\$ 32,341	\$ 1,190,739
Property and Other Local Taxes	291,617	-	15,935	307,552
Special Assessments	2,585	-	-	2,585
Charges for Services	253,959	-	-	253,959
Fines, Licenses and Permits	32,849	-	2,727	35,576
Intergovernmental	181,457	-	150,944	332,401
Interest	35,866	-	-	35,866
Miscellaneous	45,013	-	13,149	58,162
<i>Total Receipts</i>	<u>1,636,913</u>	<u>364,831</u>	<u>215,096</u>	<u>2,216,840</u>
<b>Disbursements</b>				
Current:				
General Government	446,593	-	1,500	448,093
Security of Persons and Property	678,635	-	21,107	699,742
Public Health Services	63,216	-	-	63,216
Leisure Time Activities	9,700	-	52,357	62,057
Community Environment	-	-	100,000	100,000
Basic Utility Services	210,967	-	-	210,967
Transportation	-	-	177,212	177,212
Capital Outlay	-	487,425	-	487,425
Debt Service:				
Principal Retirement	-	113,970	-	113,970
Interest and Fiscal Charges	-	31,230	-	31,230
<i>Total Disbursements</i>	<u>1,409,111</u>	<u>632,625</u>	<u>352,176</u>	<u>2,393,912</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>227,802</u>	<u>(267,794)</u>	<u>(137,080)</u>	<u>(177,072)</u>
<b>Other Financing Sources (Uses)</b>				
Loan Proceeds	-	33,119	100,000	133,119
Transfers In	126,994	300,000	30,000	456,994
Transfers Out	(456,994)	-	-	(456,994)
<i>Total Other Financing Sources (Uses)</i>	<u>(330,000)</u>	<u>333,119</u>	<u>130,000</u>	<u>133,119</u>
<i>Net Change in Fund Balances</i>	(102,198)	65,325	(7,080)	(43,953)
<i>Fund Balances, Beginning of Year</i>	<u>1,391,978</u>	<u>620,057</u>	<u>317,291</u>	<u>2,329,326</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,289,780</u>	<u>\$ 685,382</u>	<u>\$ 310,211</u>	<u>\$ 2,285,373</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, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Municipal Income Taxes	\$ 808,089	\$ 801,875	\$ 793,567	(\$8,308)
Property and Other Local Taxes	259,709	259,709	291,617	31,908
Special Assessments	2,632	2,612	2,585	(27)
Charges for Services	258,606	256,618	253,959	(2,659)
Fines, Licenses and Permits	33,450	33,193	32,849	(344)
Intergovernmental	184,778	183,357	181,457	(1,900)
Interest	36,522	36,241	35,866	(375)
Miscellaneous	45,837	45,484	45,013	(471)
<i>Total receipts</i>	<u>1,629,623</u>	<u>1,619,089</u>	<u>1,636,913</u>	<u>17,824</u>
<b>Disbursements</b>				
Current:				
General Government	516,000	516,000	452,677	63,323
Security of Persons and Property	762,100	762,100	678,635	83,465
Public Health Services	85,500	85,500	63,216	22,284
Leisure Time Activities	27,500	27,500	9,700	17,800
Community Environment	5,000	5,000	-	5,000
Basic Utility Services	175,000	175,000	210,967	(35,967)
<i>Total Disbursements</i>	<u>1,571,100</u>	<u>1,571,100</u>	<u>1,415,195</u>	<u>155,905</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>58,523</u>	<u>47,989</u>	<u>221,718</u>	<u>173,729</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	78,313	128,324	126,994	(1,330)
Transfers Out	(590,000)	(590,000)	(456,994)	133,006
Other Financing Uses	(924,617)	(964,094)	-	964,094
<i>Total Other Financing Sources (Uses)</i>	<u>(1,436,304)</u>	<u>(1,425,770)</u>	<u>(330,000)</u>	<u>1,095,770</u>
<i>Net Change in Fund Balance</i>	(1,377,781)	(1,377,781)	(108,282)	1,269,499
<i>Fund Balance, Beginning of Year</i>	1,377,781	1,377,781	1,377,781	-
Prior Year Encumbrances Appropriated	14,197	14,197	14,197	-
<i>Fund Balance, End of Year</i>	<u>\$ 14,197</u>	<u>\$ 14,197</u>	<u>\$ 1,283,696</u>	<u>\$ 1,269,499</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, 2010*

	Business-Type Activities				
	Water	Sewer	Electric	Other Enterprise Funds	Total Enterprise Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 292,821	\$ 851,429	\$ 1,567,071	\$ 42,790	\$ 2,754,111
<b>Net Assets</b>					
Unrestricted	\$ 292,821	\$ 851,429	\$ 1,567,071	\$ 42,790	\$ 2,754,111

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, 2010*

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
<b>Operating Receipts</b>					
Charges for Services	\$ 676,927	\$ 1,216,034	\$ 2,894,462	\$ 16,746	\$ 4,804,169
Other Operating Receipts	1,337	1,489	176,385	-	179,210
<i>Total Operating Receipts</i>	<u>678,263</u>	<u>1,217,523</u>	<u>3,070,847</u>	<u>16,746</u>	<u>4,983,379</u>
<b>Operating Disbursements</b>					
Personal Services	40,546	232,188	249,010	-	521,744
Travel Transportation	6,104	10,111	12,018	-	28,233
Contractual Services	495,397	112,392	2,355,453	14,546	2,977,788
Materials and Supplies	38,490	230,135	133,998	-	402,623
Capital Outlay	-	-	612,636	-	612,636
<i>Total Operating Disbursements</i>	<u>580,537</u>	<u>584,826</u>	<u>3,363,115</u>	<u>14,546</u>	<u>4,543,024</u>
<i>Operating Income (Loss)</i>	97,726	632,697	(292,268)	2,200	440,355
<b>Non-Operating Receipts/ (Disbursements)</b>					
Redemption of Principal	-	(448,459)	-	-	(448,459)
Interest and Other Fiscal Charges	-	(279,611)	-	-	(279,611)
<i>Income (Loss) before Transfers</i>	97,726	(95,373)	(292,268)	2,200	(287,715)
Transfers In	-	-	126,994	-	126,994
Transfers Out	-	-	(126,994)	-	(126,994)
<i>Change in Net Assets</i>	97,726	(95,373)	(292,268)	2,200	(287,715)
<i>Net Assets , Beginning of Year</i>	<u>195,095</u>	<u>946,802</u>	<u>1,859,339</u>	<u>40,590</u>	<u>3,041,826</u>
<i>Net Assets , End of Year</i>	<u>\$ 292,821</u>	<u>\$ 851,429</u>	<u>\$ 1,567,071</u>	<u>\$ 42,790</u>	<u>\$ 2,754,111</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, 2010*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$13,269</u>
<b>Net Assets</b>	
Unrestricted	<u>\$13,269</u>

See accompanying notes to the basic financial statements

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2010

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**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 five 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, utility (including water, sewer, and electricity) 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.

**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 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 Basic Financial Statements  
For the Year Ended December 31, 2010

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**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 Basic Financial Statements  
For the Year Ended December 31, 2010

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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 Basic Financial Statements  
For the Year Ended December 31, 2010

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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 appropriation 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 Basic Financial Statements  
For the Year Ended December 31, 2010

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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 2010, 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, 2010.

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 2010 was \$35,866.

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 Basic Financial Statements  
For the Year Ended December 31, 2010

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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 do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither 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 2010.

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

Transactions 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 Basic Financial Statements  
For the Year Ended December 31, 2010

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**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 \$6,084 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 Basic Financial Statements  
For the Year Ended December 31, 2010

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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 2010, the Village had \$440 in undeposited cash on hand, which is included on the Statement of Cash Basis Assets and Fund Balances 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, 2010, \$1,468,482 of the Village's bank balance of \$3,233,912, which includes \$2,500,000 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, 2010, the Village had \$1,842,086 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.

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2010

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**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.

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.

Beginning December 1, 2006, the Village contracted with Regional Income Tax Agency to collect its income taxes.

**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 2010 represent the collection of 2009 taxes. Real property taxes received in 2010 were levied after October 1, 2009, on the assessed values as of January 1, 2009, 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 2010 represent the collection of 2009 taxes. Public utility real and tangible personal property taxes received in 2010 became a lien on December 31, 2008, were levied after October 1, 2009, 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.

Taxes collected from tangible personal property (other than public utility) received during calendar year 2010 represent the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied April 1, 2009 on the values listed as of December 31, 2009. Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The full tax rate for all Village operations for the year ended December 31, 2010, was \$5.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2010 property tax receipts were based are as follows:

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Real Property	
Residential and Agricultural	\$ 44,882,670
Other	13,104,540
Tangible Personal Property	
General	39,240
Public Utility	456,580
Total Assessed Value	<u>\$ 58,483,030</u>

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

**Note 7 – Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village 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 three 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**

Plan Description – The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.



*VILLAGE OF GRAFTON*  
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OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The Village's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the Village's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The Village's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$110,268, \$125,779, and \$107,453, respectively; the full amount has been contributed for all three years.

#### 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.

Funding policy – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers. The Village's required contributions to the Fund for the years ended December 31, 2010, 2009, and 2008 were \$30,401, \$25,126, and \$31,510. The full amount has been contributed for all three years.

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2010

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**Note 9 - Postemployment Benefits**

**A. Ohio Public Employees Retirement System**

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

*VILLAGE OF GRAFTON*  
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For the Year Ended December 31, 2010

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The Village's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$43,319, \$62,889, and \$53,727, respectively; 100 percent has been contributed for all three years.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

Plan Description - The Village contributes to the Ohio police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publically available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

*VILLAGE OF GRAFTON*  
 Lorain County, Ohio  
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The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police were \$10,519 for the year ended December 31, 2010, \$12,153 for the year ended December 31, 2009, and \$10,902 for the year ended December 31, 2008. The full amount has been contributed for all three years.

**Note 10 – Debt**

The Village's long-term debt activity for the year ended December 31, 2010, was as follows:

	<u>Interest Rates</u>	<u>Balance at 1/1/2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2010</u>
<b>Governmental Activities:</b>					
O.P.W.C. Loans	0%	\$ 497,841	\$ -	\$ 32,620	\$ 465,221
O.W.D.A. Loans	6.75% to 7.84%	452,466	100,000	51,350	501,116
County note		199,692	33,119	30,000	202,811
<b>Total Governmental Activities</b>		<u>\$ 1,149,999</u>	<u>\$ 133,119</u>	<u>\$ 113,970</u>	<u>\$ 1,169,148</u>
<b>Business-Type Activities:</b>					
O.P.W.C. Loans	0%	\$ 80,134	\$ -	\$ 10,017	\$ 70,117
O.W.D.A. Loans	6.41% to 7.84%	4,235,489	-	438,442	3,797,047
<b>Total Business-Type Activities</b>		<u>\$ 4,315,623</u>	<u>\$ -</u>	<u>\$ 448,459</u>	<u>\$ 3,867,164</u>

The Ohio Public Works Commission and Ohio Water Development Authority governmental activities loans were used for improvements to the Village's street reconstruction and water treatment systems. These loans will be repaid with income taxes.

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 County note is for the State Route 57 widening project and will be paid from income taxes.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010 are as follows:

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For the Year Ended December 31, 2010

Year Ending December 31:	O.P.W.C Loans Principal	O.W.D.A Loans Principal	O.W.D.A Loans Interest	County Note
2011	\$ 48,053	\$ 511,709	\$ 268,611	\$ 30,000
2012	48,053	548,793	252,406	30,000
2013	46,613	509,433	212,427	30,000
2014	46,613	315,459	175,260	30,000
2015	46,613	336,297	154,422	82,811
2016-2020	147,314	937,787	520,603	-
2021-2025	94,946	1,018,064	226,589	-
2026-2030	57,133	120,621	3,865	-
Total	<u>\$ 535,338</u>	<u>\$ 4,298,163</u>	<u>\$ 1,814,183</u>	<u>\$ 202,811</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 \$251,834 at December 31, 2010. 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](http://www.auditor.state.oh.us).

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
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For the Year Ended December 31, 2010

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2010 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

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.

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2010

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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, 2010 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 \$69,139 at December 31, 2010. 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](http://www.auditor.state.oh.us).

**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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**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

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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, 2009, 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 2009 are as follows:

*Overall:*

- For governmental activities, net assets decreased \$149,022, which represents a 6 percent decrease from 2008.
- General receipts accounted for \$2.2 million in receipts or 76 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$683,671 or 24 percent of total governmental receipts of \$2.9 million.
- The Village had \$3 million in disbursements related to governmental activities; only \$683,671 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$2.2 million helped provide for these programs.
- Among major funds, the General Fund had \$1.8 million in receipts and \$2.2 million in disbursements. The General Fund's fund balance decreased to \$1,391,978 from \$1,749,638.
- For business-type activities, program receipts were \$4.4 million. These offset disbursements of \$5 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, 2009  
(Unaudited)

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The *Statement of Net Assets* and *Statement of Activities* provide 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 governmental 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 2009, 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, 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, 2009  
(Unaudited)

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**Reporting the Village's Most Significant Funds**

*Fund Financial Statements*

The analysis of the Village's major funds begins on page 47. Fund financial statements 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, Capital Improvement I Fund and Capital Improvement Issue II Fund.

**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.

**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 for 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, 2009  
(Unaudited)

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**The Village as a Whole**

Table 1 provides a summary of the Village's net assets for 2009 compared to 2008 on the cash basis:

**Table 1**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 2,329,326	\$ 2,478,348	\$ 3,041,826	\$ 3,454,332	\$ 5,371,152	\$ 5,932,680
<i>Total Assets</i>	<u>2,329,326</u>	<u>2,478,348</u>	<u>3,041,826</u>	<u>3,454,332</u>	<u>5,371,152</u>	<u>5,932,680</u>
<b>Net Assets:</b>						
Restricted for:						
Capital Projects	879,181	669,033	-	-	879,181	669,033
Other Purposes	58,167	59,677	-	-	58,167	59,677
Unrestricted	<u>1,391,978</u>	<u>1,749,638</u>	<u>3,041,826</u>	<u>3,454,332</u>	<u>4,433,804</u>	<u>5,203,970</u>
<i>Total Net Assets</i>	<u>\$ 2,329,326</u>	<u>\$ 2,478,348</u>	<u>\$ 3,041,826</u>	<u>\$ 3,454,332</u>	<u>\$ 5,371,152</u>	<u>\$ 5,932,680</u>

Table 2 shows the net changes in net assets for 2009 and 2008:

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

**Table 2**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Receipts:</b>						
Program Receipts:						
Charges for Services and Sales	\$ 265,935	\$ 182,284	\$ 4,431,549	\$ 4,284,890	\$ 4,697,484	\$ 4,467,174
Operating Grants and Contributions	187,486	70,000	-	-	187,486	70,000
Capital Grants and Contributions	230,250	188,137	-	-	230,250	188,137
General Receipts:						
Property Taxes	254,570	302,731	-	-	254,570	302,731
Municipal Income Taxes	1,277,198	1,279,329	-	-	1,277,198	1,279,329
Grants and Entitlements	191,847	285,713	-	-	191,847	285,713
Special Assessments	2,998	-	-	-	2,998	-
Loan Proceeds	333,868	-	-	-	333,868	-
Interest	80,677	205,610	-	-	80,677	205,610
Other Financing Sources	7,258	-	167,497	-	174,755	-
Miscellaneous	48,120	254,342	21,860	60,813	69,980	315,155
Transfers	2,550	5,000	-	-	2,550	5,000
<b>Total Receipts</b>	<b>2,882,757</b>	<b>2,773,146</b>	<b>4,620,906</b>	<b>4,345,703</b>	<b>7,503,663</b>	<b>7,118,849</b>
<b>Disbursements:</b>						
Current:						
General Government	447,360	461,553	-	-	447,360	461,553
Security of Persons and Property	620,820	643,859	-	-	620,820	643,859
Public Health Services	75,595	65,408	-	-	75,595	65,408
Leisure Time Activities	22,826	27,871	-	-	22,826	27,871
Community Environment	38,593	45,148	-	-	38,593	45,148
Basic Utility Services	167,045	156,560	-	-	167,045	156,560
Transportation	183,541	169,136	-	-	183,541	169,136
Other Financing Uses	43,682	214,891	-	-	43,682	214,891
Capital Outlay	1,289,304	1,033,946	-	-	1,289,304	1,033,946
Debt Service:						
Principal Retirement	108,455	78,585	-	-	108,455	78,585
Fiscal and Interest Charges	34,558	37,664	-	-	34,558	37,664
Water	-	-	647,787	597,580	647,787	597,580
Sewer	-	-	1,285,226	1,267,592	1,285,226	1,267,592
Electric	-	-	3,085,424	2,359,026	3,085,424	2,359,026
Other	-	-	14,975	15,022	14,975	15,022
<b>Total Disbursements</b>	<b>3,031,779</b>	<b>2,934,621</b>	<b>5,033,412</b>	<b>4,239,220</b>	<b>8,065,191</b>	<b>7,173,841</b>
Changes in Net Assets	\$ (149,022)	\$ (161,475)	\$ (412,506)	\$ 106,483	\$ (561,528)	\$ (54,992)

***Governmental Activities***

Net assets of the Village's governmental activities decreased by \$149,022. The governmental disbursements of \$3 million were primarily offset by program receipts of \$683,671, general receipts of \$2.2 million and the prior year cash balance. Program receipts supported 24% 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 53% of total governmental receipts.

**Village of Grafton**  
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Management's Discussion and Analysis  
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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 2009 and 2008. 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**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>	
	2009		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 447,360	\$ (184,890)	-	-
Security of Persons and Property	620,820	(614,342)	-	-
Public Health Services	75,595	(75,595)	-	-
Leisure Time Activities	22,826	(22,826)	-	-
Community Environment	38,593	1,407	-	-
Basic Utility Services	167,045	(167,045)	-	-
Transportation	183,541	(41,978)	-	-
Capital Outlay	1,289,304	(1,056,144)	-	-
Redemption of Principal	108,455	(108,455)	-	-
Interest and Fiscal Charges	34,558	(34,558)	-	-
Other Financing Uses	43,682	(43,682)	-	-
Water	-	-	\$ 647,787	\$ (7,193)
Sewer	-	-	1,285,226	(55,231)
Electric	-	-	3,085,424	(543,689)
Other Enterprise Funds	-	-	14,975	4,250
<b>Total Program Services</b>	<b>\$ 3,031,779</b>	<b>\$ (2,348,108)</b>	<b>\$ 5,033,412</b>	<b>\$ (601,863)</b>

  

	<b>Governmental Activities</b>		<b>Business Type Activities</b>	
	2008		2008	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 461,553	\$ (279,269)	-	-
Security of Persons and Property	643,859	(643,859)	-	-
Public Health Services	65,408	(65,408)	-	-
Leisure Time Activities	27,871	(27,871)	-	-
Community Environment	45,148	24,852	-	-
Basic Utility Services	156,560	(156,560)	-	-
Transportation	169,136	(169,136)	-	-
Capital Outlay	1,033,946	(845,809)	-	-
Redemption of Principal	78,585	(78,585)	-	-
Interest and Fiscal Charges	37,664	(37,664)	-	-
Miscellaneous	214,891	(214,891)	-	-
Water	-	-	\$ 597,580	\$ 15,536
Sewer	-	-	1,267,592	(85,784)
Electric	-	-	2,359,026	113,215
Other Enterprise Funds	-	-	15,022	2,703
<b>Total Program Services</b>	<b>\$ 2,934,621</b>	<b>\$ (2,494,200)</b>	<b>\$ 4,239,220</b>	<b>\$ 45,670</b>

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

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Only 37 percent of general government activities are supported through program receipts. For all governmental activities, general receipts and prior year cash balance support disbursements 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 receipts is apparent as 88 percent of business-type activities are supported through these receipts for 2009. 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 47. These funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$3.6 million and expenditures of \$3.7 million. The net change in fund balance for the year was most significant in the General Fund, where the fund's balance decreased by \$357,660 for 2009.

**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 2009 the Village amended its General Fund receipt 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, final budget basis receipts were \$1.79 million, the original estimate was \$1.82 million. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$2.17 million, \$371,857 over receipts.

**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 was anticipated that this program would be fully functional for 2009 but reductions in staff have delayed the implementation.

**Village of Grafton**  
**Lorain County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

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***Debt***

At December 31, 2009, the Village had \$5,465,622 in OPWC, OWDA and County Engineer loans. These issues were used for improvements to the Village's streets, 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 Village's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have 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, 2009*

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	Governmental Activities	Business - Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,329,326	\$ 3,041,826	\$ 5,371,152
<i>Total Assets</i>	<u>\$ 2,329,326</u>	<u>\$ 3,041,826</u>	<u>\$ 5,371,152</u>
<b>Net Assets</b>			
Restricted for:			
Capital Projects	\$ 879,181	-	\$ 879,181
Other Purposes	58,167	-	58,167
Unrestricted	<u>1,391,978</u>	<u>\$ 3,041,826</u>	<u>4,433,804</u>
<i>Total Net Assets</i>	<u>\$ 2,329,326</u>	<u>\$ 3,041,826</u>	<u>\$ 5,371,152</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, 2009

	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
<b>Governmental Activities</b>							
General Government	\$ 447,360	\$ 262,470	-	-	\$ (184,890)	-	\$ (184,890)
Security of Persons and Property	620,820	1,755	\$ 4,723	-	(614,342)	-	(614,342)
Public Health Services	75,595	-	-	-	(75,595)	-	(75,595)
Leisure Time Activities	22,826	-	-	-	(22,826)	-	(22,826)
Community Environment	38,593	-	40,000	-	1,407	-	1,407
Basic Utility Services	167,045	-	-	-	(167,045)	-	(167,045)
Transportation	183,541	-	141,563	-	(41,978)	-	(41,978)
Capital Outlay	1,289,304	1,710	1,200	\$ 230,250	(1,056,144)	-	(1,056,144)
Debt Service:							
Principal Retirement	108,455	-	-	-	(108,455)	-	(108,455)
Interest and Fiscal Charges	34,558	-	-	-	(34,558)	-	(34,558)
Other Financing Uses	43,682	-	-	-	(43,682)	-	(43,682)
<i>Total Governmental Activities</i>	3,031,779	265,935	187,486	230,250	(2,348,108)	-	(2,348,108)
<b>Business Type Activities</b>							
Water	647,787	640,594	-	-	-	\$ (7,193)	(7,193)
Sewer	1,285,226	1,229,995	-	-	-	(55,231)	(55,231)
Electric	3,085,424	2,541,735	-	-	-	(543,689)	(543,689)
Other Enterprise Funds	14,975	19,225	-	-	-	4,250	4,250
<i>Total Business Type Activities</i>	5,033,412	4,431,549	-	-	-	(601,863)	(601,863)
<b>Total</b>	<b>\$ 8,065,191</b>	<b>\$ 4,697,484</b>	<b>\$ 187,486</b>	<b>\$ 230,250</b>	<b>(2,348,108)</b>	<b>(601,863)</b>	<b>(2,949,971)</b>
<b>General Receipts</b>							
Property Taxes Levied for:							
General Purposes					238,525	-	238,525
Special Purposes					16,045	-	16,045
Municipal Income Taxes					1,277,198	-	1,277,198
Grants and Entitlements not Restricted to Special Programs					191,847	-	191,847
Special Assessments					2,998	-	2,998
Loan Proceeds					333,868	-	333,868
Interest					80,677	-	80,677
Other Financing Sources					7,258	167,497	174,755
Miscellaneous					48,120	21,860	69,980
<i>Total General Receipts</i>					2,196,536	189,357	2,385,893
Transfer from Fiduciary Funds					2,550	-	2,550
Change in Net Assets					(149,022)	(412,506)	(561,528)
<i>Net Assets, Beginning of Year</i>					2,478,348	3,454,332	5,932,680
<i>Net Assets, End of Year</i>					<u>\$ 2,329,326</u>	<u>\$ 3,041,826</u>	<u>\$ 5,371,152</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, 2009*

	<u>General</u>	<u>Capital Improvement I Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,391,978	\$ 620,057	\$ 317,291	\$ 2,329,326
<i>Total Assets</i>	<u>\$ 1,391,978</u>	<u>\$ 620,057</u>	<u>\$ 317,291</u>	<u>\$ 2,329,326</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$ 14,197	\$ 308,824	\$ 1,174	\$ 324,195
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	1,377,781	-	-	1,377,781
Special Revenue Funds	-	-	57,547	57,547
Capital Projects Funds	-	311,233	258,570	569,803
<i>Total Fund Balances</i>	<u>\$ 1,391,978</u>	<u>\$ 620,057</u>	<u>\$ 317,291</u>	<u>\$ 2,329,326</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, 2009*

	General	Capital Improvement I Fund	Capital Improvement Issue II Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Municipal Income Taxes	\$ 850,835	\$ 395,319	\$ -	\$ 31,044	\$ 1,277,198
Property and Other Local Taxes	238,525	-	-	16,045	254,570
Special Assessments	2,998	-	-	-	2,998
Charges for Services	233,506	-	-	-	233,506
Fines, Licenses and Permits	28,964	-	-	3,465	32,429
Intergovernmental	191,847	-	230,250	187,486	609,583
Interest	80,568	-	-	109	80,677
Miscellaneous	42,181	-	-	5,939	48,120
<i>Total Receipts</i>	<u>1,669,424</u>	<u>395,319</u>	<u>230,250</u>	<u>244,088</u>	<u>2,539,081</u>
<b>Disbursements</b>					
Current:					
General Government	447,360	-	-	-	447,360
Security of Persons and Property	620,820	-	-	-	620,820
Public Health Services	56,333	-	-	19,262	75,595
Leisure Time Activities	22,826	-	-	-	22,826
Community Environment	4,864	-	-	33,729	38,593
Basic Utility Services	167,045	-	-	-	167,045
Transportation	-	-	-	183,541	183,541
Capital Outlay	85,417	715,678	435,250	52,959	1,289,304
Debt Service:					
Principal Retirement	-	108,455	-	-	108,455
Interest and Fiscal Charges	-	34,558	-	-	34,558
<i>Total Disbursements</i>	<u>1,404,665</u>	<u>858,691</u>	<u>435,250</u>	<u>289,491</u>	<u>2,988,097</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>264,759</u>	<u>(463,372)</u>	<u>(205,000)</u>	<u>(45,403)</u>	<u>(449,016)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	126,005	550,000	-	40,000	716,005
Transfers Out	(713,455)	-	-	-	(713,455)
Loan Proceeds	-	128,868	205,000	-	333,868
Other Financing Sources	-	7,258	-	-	7,258
Other Financing Uses	(34,969)	-	-	(8,713)	(43,682)
<i>Total Other Financing Sources (Uses)</i>	<u>(622,419)</u>	<u>686,126</u>	<u>205,000</u>	<u>31,287</u>	<u>299,994</u>
<i>Net Change in Fund Balances</i>	<u>(357,660)</u>	<u>222,754</u>	<u>-</u>	<u>(14,116)</u>	<u>(149,022)</u>
<i>Fund Balances, Beginning of Year</i>	<u>1,749,638</u>	<u>397,303</u>	<u>-</u>	<u>331,407</u>	<u>2,478,348</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,391,978</u>	<u>\$ 620,057</u>	<u>\$ -</u>	<u>\$ 317,291</u>	<u>\$ 2,329,326</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, 2009*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Municipal Income Taxes	\$ 838,082	\$ 818,389	\$ 850,835	\$32,446
Property and Other Local Taxes	294,200	294,200	238,525	(55,675)
Special Assessments	2,953	2,884	2,998	114
Charges for Services	230,006	224,601	233,506	8,905
Fines, Licenses and Permits	28,530	27,859	28,964	1,105
Intergovernmental	188,971	184,531	191,847	7,316
Interest	79,360	77,496	80,568	3,072
Miscellaneous	41,549	40,572	42,181	1,609
<i>Total receipts</i>	<u>1,703,651</u>	<u>1,670,532</u>	<u>1,669,424</u>	<u>(1,108)</u>
<b>Disbursements</b>				
Current:				
General Government	534,500	534,500	461,557	72,943
Security of Persons and Property	726,100	726,100	620,820	105,280
Public Health Services	99,400	99,400	56,333	43,067
Leisure Time Activities	30,000	30,000	22,826	7,174
Community Environment	15,500	15,500	4,864	10,636
Basic Utility Services	175,000	175,000	167,045	7,955
Capital Outlay	-	-	85,417	(85,417)
<i>Total Disbursements</i>	<u>1,580,500</u>	<u>1,580,500</u>	<u>1,418,862</u>	<u>161,638</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>123,151</u>	<u>90,032</u>	<u>250,562</u>	<u>160,530</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	111,003	121,200	126,005	4,805
Transfers Out	(593,000)	(593,000)	(713,455)	(120,455)
Other Financing Uses	(1,380,339)	(1,357,418)	(34,969)	1,322,449
<i>Total Other Financing Sources (Uses)</i>	<u>(1,862,336)</u>	<u>(1,829,218)</u>	<u>(622,419)</u>	<u>1,206,799</u>
<i>Net Change in Fund Balance</i>	(1,739,185)	(1,739,186)	(371,857)	1,367,329
<i>Fund Balance , Beginning of Year</i>	1,739,235	1,739,235	1,739,235	-
Prior Year Encumbrances Appropriated	10,403	10,403	10,403	-
<i>Fund Balance , End of Year</i>	<u>\$ 10,453</u>	<u>\$ 10,452</u>	<u>\$ 1,377,781</u>	<u>\$ 1,367,329</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, 2009*

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 195,095	\$ 946,802	\$ 1,859,339	\$ 40,590	\$ 3,041,826
<b>Net Assets</b>					
Unrestricted	\$ 195,095	\$ 946,802	\$ 1,859,339	\$ 40,590	\$ 3,041,826

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, 2009*

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
<b>Operating Receipts</b>					
Charges for Services	\$ 640,594	\$ 1,229,995	\$ 2,541,735	\$ 19,225	\$ 4,431,549
Other Operating Receipts	4,078	1,283	16,499	-	21,860
<i>Total Operating Receipts</i>	<u>644,672</u>	<u>1,231,278</u>	<u>2,558,234</u>	<u>19,225</u>	<u>4,453,409</u>
<b>Operating Disbursements</b>					
Personal Services	45,017	239,722	253,299	-	538,038
Travel Transportation	4,279	8,789	8,467	-	21,535
Contractual Services	561,694	113,301	2,372,571	14,975	3,062,541
Materials and Supplies	34,636	195,482	164,196	-	394,314
Capital Outlay	2,161	2,161	286,891	-	291,213
<i>Total Operating Disbursements</i>	<u>647,787</u>	<u>559,455</u>	<u>3,085,424</u>	<u>14,975</u>	<u>4,307,641</u>
<i>Operating Income (Loss)</i>	(3,115)	671,823	(527,190)	4,250	145,768
<b>Non-Operating Receipts/ (Disbursements)</b>					
Redemption of Principal	-	(418,127)	-	-	(418,127)
Interest and Other Fiscal Charges	-	(307,644)	-	-	(307,644)
Other Financing Sources	-	-	167,497	-	167,497
<i>Income (Loss) before Transfers</i>	(3,115)	(53,948)	(359,693)	4,250	(412,506)
Transfers In	-	-	123,455	-	123,455
Transfers Out	-	-	(123,455)	-	(123,455)
<i>Change in Net Assets</i>	(3,115)	(53,948)	(359,693)	4,250	(412,506)
<i>Net Assets , Beginning of Year</i>	<u>198,210</u>	<u>1,000,750</u>	<u>2,219,032</u>	<u>36,340</u>	<u>3,454,332</u>
<i>Net Assets , End of Year</i>	<u>\$ 195,095</u>	<u>\$ 946,802</u>	<u>\$ 1,859,339</u>	<u>\$ 40,590</u>	<u>\$ 3,041,826</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, 2009*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$12,986</u>
<b>Net Assets</b>	
Unrestricted	<u>\$12,986</u>

See accompanying notes to the basic financial statements



*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

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**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 five 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, utility (including water, sewer, and electricity) 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.

**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 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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**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 Basic Financial Statements  
For the Year Ended December 31, 2009

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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 and II Funds. 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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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 certificate of estimated resources in effect at the time final appropriation 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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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 2009, 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, 2009.

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 2009 was \$80,568.

#### 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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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 do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither 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 2009.

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

Transactions 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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**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 \$14,197 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 Basic Financial Statements  
For the Year Ended December 31, 2009

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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 2009, the Village had \$440 in undeposited cash on hand, which is included on the Statement of Cash Basis Assets and Fund Balances 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, 2009, \$2,130,543 of the Village's bank balance of \$3,647,688, which includes \$2,250,000 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, 2009, the Village had \$2,294,669 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.



*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

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**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.

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.

Beginning December 1, 2006, the Village contracted with Regional Income Tax Agency to collect its income taxes.

**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 2009 represent the collection of 2008 taxes. Real property taxes received in 2009 were levied after October 1, 2008, on the assessed values as of January 1, 2008, 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 2009 represent the collection of 2008 taxes. Public utility real and tangible personal property taxes received in 2009 became a lien on December 31, 2007, were levied after October 1, 2008, 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 2009 (other than public utility property) represent the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied or collected. Tangible personal property taxes received in 2009 were levied after October 1, 2008, on the true value as of December 31, 2008. 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, 2009, was \$5.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2009 property tax receipts were based are as follows:

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
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For the Year Ended December 31, 2009

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Real Property	
Residential and Agricultural	\$ 44,728,040
Other	13,064,890
Tangible Personal Property	
General	31,370
Public Utility	406,490
Total Assessed Value	<u>\$ 58,230,790</u>

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

**Note 7 – Risk Management**

The Village is exposed to various risk loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees and natural disasters. The Village 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 three 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 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**

Plan Description- The Village Participates in the Ohio Public Retirement System (OPERS). OPER administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is 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. Under the Combined Plan, OPERS invest employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit. Member contributions, the investment of which is less self-directed by the members, accumulate retirement assets in a manner similar to the Member Directed Plan.

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
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OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension 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.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, member in the state and local classification contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The Village's contribution rate for 2009 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the Village's contribution was 17.63 percent of covered payroll. For the period January 1, through March 31, the Village's portion of 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1, through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate of for the Village of 14.0 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$125,779, \$107,453, and \$136,708, respectively; 100 percent has been contributed for 2009, 2008, and 2007. The Village had no members in the Member-Directed Plan.

#### B. Ohio Police and Fire Pension Fund

Plan Description - 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.

Funding Policy- Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers. The Village's contributions to the OP & F for police were \$25,126 for the year ended December 31, 2009, \$31,510 for the year ended December 31, 2008, and \$30,473 for the year ended December 31, 2007. The full amount has been contributed for 2009, 2008, and 2007.

#### Note 9 - Postemployment Benefits

##### A. Ohio Public Employees Retirement System

Plan Description- Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

*VILLAGE OF GRAFTON*  
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In order to qualify for the post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy - The post employment health care plan was established under, and is administered in accordance with Internal Revenue Code (401h). State statute requires that public employers fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll for active members. In 2009, state and local employers contributed at rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, and 5.5 percent from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Village's contribution allocated to the fund post-employment health care benefits were \$62,889 for the year ended December 31, 2009, \$53,727 for the year ended December 31, 2008, and \$44,418 for the year ended December 31, 2007. The Village has contributed the full amount for 2009, 2008, and 2007.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2008. 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

Plan Description - The Village contributes to the Ohio Police and Fire Pension Fund (OP & F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment health care plan administered by the OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

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For the Year Ended December 31, 2009

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OP&F provides access to the post-retirement health care coverage for 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. The healthcare coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45

The Ohio Revised Code Allows, but does not mandate, OP&F benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publically available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of covered payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and employers respectively. The Ohio Revised Code states that employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account as an employer for retiree healthcare benefits. For the year ended December 31, 2009, the employer contributions allocated to healthcare plan was 6.75 percent of the covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustee's primary responsibility to ensure the pension benefits are adequately funded and is limited by provisions of section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police were \$12,153 for the year ended December 31, 2009, \$10,902 for the year ended December 31, 2008, and \$12,098 for the year ended December 31, 2007. The full amount has been contributed for 2009, 2008, and 2007. The Village had no firefighters.

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

**Note 10 – Debt**

The Village’s long-term debt activity for the year ended December 31, 2009, was as follows:

	<u>Interest Rates</u>	<u>Balance at 1/1/2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2009</u>
Governmental Activities:					
O.P.W.C. Loans	0%	\$ 323,362	\$ 205,000	\$ 30,521	\$ 497,841
O.W.D.A. Loans	6.75% to 7.84%	500,400	-	47,934	452,466
County note		100,824	128,868	30,000	199,692
Total Governmental Activities		<u>\$ 924,586</u>	<u>\$ 333,868</u>	<u>\$ 108,455</u>	<u>\$ 1,149,999</u>

	<u>Interest Rates</u>	<u>Balance at 1/1/2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2009</u>
Business-Type Activities:					
O.P.W.C. Loans	0%	\$ 90,151	\$ -	\$ 10,017	\$ 80,134
O.W.D.A. Loans	6.41% to 7.84%	4,643,599	-	408,110	4,235,489
Total Business-Type Activities		<u>\$ 4,733,750</u>	<u>\$ -</u>	<u>\$ 418,127</u>	<u>\$ 4,315,623</u>

The Ohio Public Works Commission and Ohio Water Development Authority Loans of the governmental activities were used for improvements to the Village’s street reconstruction and water treatment systems. These loans will be repaid from income taxes.

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.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are as follows:

	<u>O.P.W.C Loans Principal</u>	<u>O.W.D.A Loans Principal</u>	<u>O.W.D.A Loans Interest</u>	<u>County Note</u>
Year Ending December 31:				
2010	\$ 37,220	\$ 489,791	\$ 310,843	\$ 30,000
2011	48,053	493,254	265,066	30,000
2012	48,053	529,558	249,422	30,000
2013	46,613	489,448	210,213	109,692
2014	46,613	294,698	173,825	
2015-2019	171,256	1,084,683	593,300	-
2020-2024	101,859	955,822	288,838	-
2025-2029	74,056	350,701	22,715	
2030	4,250	-	-	-
Total	<u>\$ 577,973</u>	<u>\$ 4,687,955</u>	<u>\$ 2,114,222</u>	<u>\$ 199,692</u>

*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

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**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 \$251,845 at December 31, 2009. 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](http://www.auditor.state.oh.us).

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2009 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119

*VILLAGE OF GRAFTON*  
 Lorain County, Ohio  
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 For the Year Ended December 31, 2009

Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

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, 2009 Grafton has not 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.



*VILLAGE OF GRAFTON*  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

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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 \$76,692 at December 31, 2009. 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](http://www.auditor.state.oh.us).

**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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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Members of 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 years ended December 31, 2010 and 2009, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 29, 2011.

We intend this report solely for the information and use of management, Village Council, and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

July 29, 2011

VILLAGE OF GRAFTON  
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2010 and 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	Appropriations Exceeding Available Resources	Yes	Corrected

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# Dave Yost • 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 11, 2011