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Certified Public Accountants, A.C.

**VILLAGE OF GRAFTON
LORAIN COUNTY
Regular Audit
For the Year Ended December 31, 2016**

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Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Grafton, Lorain County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Grafton is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 30, 2017

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**Village of Grafton
Lorain County, Ohio**

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INDEPENDENT AUDITOR'S REPORT

June 23, 2017

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Village of Grafton**, Lorain County, Ohio (the Village), as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinion

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, 2016, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

Village of Grafton
Lorain County, Ohio
Statement of Net Position - Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 3,066,922	\$ 5,395,023	\$ 8,461,945
Total assets	<u>3,066,922</u>	<u>5,395,023</u>	<u>8,461,945</u>
Net Position			
Restricted for:			
Capital projects	1,280,015	-	1,280,015
Other purposes	159,192	-	159,192
Unrestricted	<u>1,627,715</u>	<u>5,395,023</u>	<u>7,022,738</u>
Total net position	<u>\$ 3,066,922</u>	<u>\$ 5,395,023</u>	<u>\$ 8,461,945</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2016

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 494,435	\$ 24,617	\$ 5,956	\$ -	\$ (463,862)	\$ -	\$ (463,862)
Security of persons and property	552,919	68,179	2,118	-	(482,622)	-	(482,622)
Public health services	44,256	-	-	-	(44,256)	-	(44,256)
Leisure time activities	16,028	1,750	20,610	-	6,332	-	6,332
Community environment	51,372	-	-	-	(51,372)	-	(51,372)
Basic utility services	366,905	239,322	-	-	(127,583)	-	(127,583)
Transportation	187,777	129	211,591	19,436	43,379	-	43,379
Capital outlay	671,471	-	-	278,707	(392,764)	-	(392,764)
Debt service:							
Principal retirement	105,016	-	-	-	(105,016)	-	(105,016)
Interest and fiscal charges	6,838	-	-	-	(6,838)	-	(6,838)
Total governmental activities	2,497,017	333,997	240,275	298,143	(1,624,602)	-	(1,624,602)
Business Type Activities							
Water	963,648	934,662	-	-	-	(28,986)	(28,986)
Sewer	1,240,445	1,488,124	-	-	-	247,679	247,679
Electric	3,418,320	3,505,082	-	-	-	86,762	86,762
Other Enterprise	392,907	12,821	-	-	-	(380,086)	(380,086)
Total business-type activities	6,015,320	5,940,689	-	-	-	(74,631)	(74,631)
Total government	\$ 8,512,337	\$ 6,274,686	\$ 240,275	\$ 298,143	(1,624,602)	(74,631)	(1,699,233)
General Receipts							
Municipal income taxes levied for:							
General purposes					876,183	-	876,183
Capital outlay					441,373	-	441,373
Property taxes levied for:							
General purposes					242,346	-	242,346
Security of persons and property					16,301	-	16,301
Grants and entitlements not restricted							
to specific programs					98,350	-	98,350
OWDA debt issued					-	381,440	381,440
Earnings on investment					32,536	-	32,536
Miscellaneous					36,420	-	36,420
Total general receipts					1,743,509	381,440	2,124,949
Change in net position					118,907	306,809	425,716
Net position beginning of year					2,948,015	5,088,214	8,036,229
Net position end of year					\$ 3,066,922	\$ 5,395,023	\$ 8,461,945

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2016

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in pooled cash and cash equivalents	\$ 1,627,715	\$ 1,069,508	\$ 369,699	\$ 3,066,922
Fund Balances				
Restricted	-	1,069,508	369,699	1,439,207
Assigned	44,807	-	-	44,807
Unassigned	1,582,908	-	-	1,582,908
Total fund balances	<u>\$ 1,627,715</u>	<u>\$ 1,069,508</u>	<u>\$ 369,699</u>	<u>\$ 3,066,922</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Municipal income taxes	\$ 876,183	\$ 411,289	\$ 30,084	\$ 1,317,556
Property and other local taxes	242,346	-	16,301	258,647
Charges for services	270,248	-	-	270,248
Fines, licenses and permits	45,865	-	2,300	48,165
Intergovernmental	98,350	19,436	356,138	473,924
Special assessments	129	-	-	129
Earnings on Investment	32,536	-	561	33,097
Miscellaneous	51,075	-	163,083	214,158
Total receipts	1,616,732	430,725	568,467	2,615,924
Disbursements				
Current:				
General government	477,275	-	17,160	494,435
Security of persons and property	539,405	-	13,514	552,919
Public health services	44,256	-	-	44,256
Leisure time activities	16,028	-	-	16,028
Community environment	51,372	-	-	51,372
Basic utility services	223,801	126,018	17,086	366,905
Transportation	-	-	187,777	187,777
Capital outlay	-	359,638	311,833	671,471
Debt service:				
Principal retirement	-	105,016	-	105,016
Interest and fiscal charges	-	6,838	-	6,838
Total disbursements	1,352,137	597,510	547,370	2,497,017
Excess of receipts over (under) disbursements	264,595	(166,785)	21,097	118,907
Other financing sources (uses)				
Transfers in	-	-	7,500	7,500
Transfers out	(7,500)	-	-	(7,500)
Total other financing sources (uses)	(7,500)	-	7,500	-
Net change in fund balance	257,095	(166,785)	28,597	118,907
Fund balances beginning of year	1,370,620	1,236,293	341,102	2,948,015
Fund balances end of year	<u>\$ 1,627,715</u>	<u>\$ 1,069,508</u>	<u>\$ 369,699</u>	<u>\$ 3,066,922</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Municipal income taxes	\$ 875,845	\$ 810,000	\$ 876,183	\$ 66,183
Property and other local taxes	242,253	219,659	242,346	22,687
Charges for services	270,144	269,000	270,248	1,248
Fines, licenses and permits	45,847	61,000	45,865	(15,135)
Intergovernmental	98,312	102,737	98,350	(4,387)
Special assessments	129	20,500	129	(20,371)
Earnings on Investment	32,523	22,000	32,536	10,536
Miscellaneous	51,055	44,360	51,075	6,715
Total receipts	<u>1,616,109</u>	<u>1,549,256</u>	<u>1,616,732</u>	<u>67,476</u>
Disbursements				
Current:				
General government	660,500	671,000	487,346	183,654
Security of persons and property	609,000	609,000	542,503	66,497
Public health services	74,000	77,300	45,536	31,764
Leisure time activities	21,500	21,500	16,028	5,472
Community environment	66,000	76,000	51,372	24,628
Basic utility services	227,000	252,000	254,159	(2,159)
Total disbursements	<u>1,658,000</u>	<u>1,706,800</u>	<u>1,396,944</u>	<u>309,856</u>
Excess of receipts over (under) disbursements	<u>(41,891)</u>	<u>(157,544)</u>	<u>219,788</u>	<u>377,332</u>
Other financing sources (uses)				
Transfers in	-	128,000	-	(128,000)
Transfers out	<u>(375,000)</u>	<u>(385,000)</u>	<u>(7,500)</u>	<u>377,500</u>
Total other financing sources (uses)	<u>(375,000)</u>	<u>(257,000)</u>	<u>(7,500)</u>	<u>249,500</u>
Net change in fund balance	(416,891)	(414,544)	212,288	626,832
Fund balance at beginning of year	1,280,484	1,280,484	1,280,484	-
Prior year encumbrances appropriated	90,136	90,136	90,136	-
Fund balance at end of year	<u>\$ 953,729</u>	<u>\$ 956,076</u>	<u>\$ 1,582,908</u>	<u>\$ 626,832</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Funds
December 31, 2016

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 1,129,453	\$ 2,044,248	\$ 2,170,691	\$ 50,631	\$ 5,395,023
Net position					
Unrestricted	1,129,453	2,044,248	2,170,691	50,631	5,395,023
Total net position	\$ 1,129,453	\$ 2,044,248	\$ 2,170,691	\$ 50,631	\$ 5,395,023

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio

Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
Operating Receipts					
Charges for services	\$ 932,105	\$ 1,478,416	\$ 3,493,784	\$ 12,821	\$ 5,917,126
Other operating receipts	2,557	9,708	11,298	-	23,563
Total operating receipts	934,662	1,488,124	3,505,082	12,821	5,940,689
Operating Disbursements					
Personal services	42,593	162,210	152,099	-	356,902
Employee fringe benefits	16,195	62,587	78,495	-	157,277
Travel and transportation	1,925	7,870	10,700	-	20,495
Contractual services	761,154	80,645	2,589,677	11,467	3,442,943
Supplies and materials	53,801	277,151	226,596	-	557,548
Total operating disbursements	875,668	590,463	3,057,567	11,467	4,535,165
Operating income	58,994	897,661	447,515	1,354	1,405,524
Non-operating receipts (disbursements)					
Proceeds of OWDA loans	-	-	-	381,440	381,440
Capital outlay	-	(71,183)	(360,753)	(381,440)	(813,376)
Principal retirement	(77,713)	(376,080)	-	-	(453,793)
Interest and fiscal charges	(10,267)	(202,719)	-	-	(212,986)
Total non-operating receipts and disbursements	(87,980)	(649,982)	(360,753)	-	(1,098,715)
Change in net position	(28,986)	247,679	86,762	1,354	306,809
Net position beginning of year	1,158,439	1,796,569	2,083,929	49,277	5,088,214
Net position end of year	<u>\$ 1,129,453</u>	<u>\$ 2,044,248</u>	<u>\$ 2,170,691</u>	<u>\$ 50,631</u>	<u>\$ 5,395,023</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Fund
December 31, 2016

	<u>Agency</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 9,977
Net Position	
Restricted for:	
Deposits	\$ 9,977
Total net position	<u>\$ 9,977</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The Village of Grafton, Lorain County (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 are included to ensure that the financial statements of the Village are not misleading.

Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government of the Village of Grafton provides the following services to its citizens: police and fire protection, parks and recreation, building inspection, street maintenance and repairs, water, sewer, electric and refuse collection. Council has direct responsibility for these services.

Joint Ventures and Public Entity Risk Pools

The Village participates in joint ventures and a public entity risk pool. Notes 12 and 7 to the financial statements, respectively, provide additional information for these entities.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in the "Basis of Accounting" section of this note, 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. Following are the more significant of the Village's accounting policies.

Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position 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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

The statement of net position 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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants required to be used to support 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 general receipts of the Village.

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.

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.

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. The funds of the Village are presented in three categories: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions of the Village are financed. The following are the Village's major governmental funds:

General The general fund accounts for and reports all financial resources not accounted for and reported 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.

Capital Improvement Fund The capital improvements fund accounts for and reports that portion of municipal income tax committed by Council for the purpose of improving, constructing, and purchasing those items necessary to enhance the operation of the Village.

The other governmental funds of the Village account for and report grants and other resources, whose use is restricted, committed or assigned 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 funds.

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 following are the Village's major enterprise funds:

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Water Fund The water fund accounts for the provision of water treatment and distribution 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 Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Village does not have any trust funds. Agency funds are purely custodial in nature and are used to account for assets held by the Village for individuals, other governments, or other organizations. The Village's agency funds account for building and related permit fees, for compliance with building codes and for the operations of the Village's mayor's court.

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.

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 appropriations 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 Village Council may appropriate.

The appropriations ordinance is Village Council's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by Village Council. The legal level of control has been established by Village Council at the fund, department, and object level for all funds. The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by Village Council.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

The appropriations 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 Village Council during the year.

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”.

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.

The Village’s investment in the State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the Village. The Village measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2016 were \$32,536 which included \$26,515 assigned from other Village funds.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. 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.

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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

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.

Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for 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.

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.

Net Position

Net position is reported as restricted when there are limitations imposed on its use 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 expense is incurred for purposes for which both restricted and unrestricted resources are available.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions. Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution, as both are equally binding) of Village Council. Those committed amounts cannot be used for any other purpose unless Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the Village Council or a Village official delegated that authority by ordinance, or by State statute. State Statute authorizes the Village Clerk/Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Village Council can also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Internal Activity

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

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 assigned fund balance (cash basis). For 2016, the outstanding encumbrances at year end (budgetary basis) amounted to \$44,807 for the general fund.

Note 4 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories:

Active deposits are public deposits determined to be necessary to meet current demands upon 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 Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of 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 held by the Village 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments (continued)

3. No-load money market mutual funds consisting exclusively of obligations described in (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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

At year end, the Village had \$400 in undeposited cash on hand, which is included on the Statement of Cash Basis Asset and Fund Balances of the Village as part of "Equity in Pooled Cash and Cash Equivalents" for 2016.

Deposits

Custodial credit risk 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 year end 2016, none of the Village's bank balance of \$6,536,359 (including CD's and StarPlus) was exposed to custodial credit risk because those deposits were uninsured but 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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments (continued)

Investments

As of December 31, the Village had the following investments:

Investment type	Maturity	2016 Fair Value
STAR Ohio	Daily	\$ 1,993,029

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 the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. STAR Ohio carries a rating of AAAM by Standard and Poor’s. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 5 – Taxes

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received during 2016 for real and public utility property taxes represent collections of 2015 taxes.

2016 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected and intended to finance 2017.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility personal property currently is assessed at varying percentage of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 real property taxes.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 5 – Property Taxes (continued)

The full tax rates for all Village operations for the year ended December 31, 2016, were \$4.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2016 property tax receipts were based are as follows:

	<u>2016</u> <u>Collection Year</u>
Real Property	
Residential and Agricultural	\$ 45,009,320
Commercial, industrial and minerals	12,894,890
Public Utility	39,140
Tangible Personal Property	
Public Utility Personal	<u>633,790</u>
Total Assessed Value	<u>\$ 58,577,140</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

Note 6 – Income Taxes

The Village levies a 1.5 percent income tax on substantially all income earned in the Village as well as certain income of residents earned outside the Village. Employers within the Village withhold income tax on employee compensation. Corporations and other individual taxpayers remit estimated taxes quarterly and file a declaration annually. The Village contracts with the Regional Income Tax Agency (RITA) for the collection of taxes, including delinquencies and monitoring of compliance with filing requirements. In 2016, the receipts were allocated to the general, capital improvement and capital improvement parks funds

Note 7 – Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees. The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 7 – Risk Management (continued)

The aforementioned casualty and property reinsurance agreement does not discharge PEP’s primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP’s financial statements (audited by other auditor’s) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u><u>\$28,785,581</u></u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool’s membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Government’s share of these unpaid claims collectible in future years is approximately \$41,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>
<u>2016</u>
\$65,413

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description - Village employees participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Village employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 – Defined Benefit Pension Plans (continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 – Defined Benefit Pension Plans (continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Village’s contractually required contribution was \$84,465 for year 2016.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - Village full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 – Defined Benefit Pension Plans (continued)

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The Village's contractually required contribution to OPF was \$35,782 for 2016.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 9 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The 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 maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, 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 the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 9 - Postemployment Benefits (continued)

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the Village's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$13,718, \$13,691, and \$14,601, respectively. The full amount has been contributed for all three years.

Ohio Police and Fire Pension Fund

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF 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.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 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 OPF 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 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OPF 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, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 9 - Postemployment Benefits (continued)

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 2016, the portion of employer contributions allocated to health care was 0.5 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 OPF 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 contribution to OPF for healthcare for the years ended December 31, 2016, 2015, and 2014 were \$930, \$843, and \$888, respectively. The full amount has been contributed for all three years.

Note 10 – Debt

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Ohio Public Works Commission (OPWC) Loans:			
Grafton Road/Hyanis Road Sanitary Sewer - CI029	0.00%	200,336	July 1, 2017
Willow Street Reconstruction - CT22D	0.00%	114,953	July 1, 2022
Center Street Revitalization - CT79H	0.00%	21,014	January 1, 2026
Cleveland Street Drainage System Improvement - CI31J	0.00%	100,787	January 1, 2029
SR 57/Commerce Drive Storm Drainage - CI44M	0.00%	170,000	January 1, 1930
Parsons Road Improvements - CI31L	0.00%	35,000	January 1, 2025
Mechanic Street Improvements - CI21R	0.00%	249,000	July 1, 2045
Mechanic Street improvements Phase II - CI38S	0.00%	249,000	N/A
WWTP Improvements - CI41Q	0.00%	149,848	July 1, 2041
Elevated Water Storage Tank Replacement - CI55R	0.00%	545,834	N/A
Ohio Water Development Authority (OWDA) Loans:			
Grafton - 1595	7.24%	790,380	July 1, 2017
WWTP Improvements - 3265	6.41%	3,081,451	January 1, 2026
Pump Station Replacement - 6525	3.92%	340,418	July 1, 2019
Mechanic St Line Replacement - 6864	2.78%	342,788	July 1, 2025
Grafton WWTP Improvements - 6609	3.62%	3,134,068	January 1, 2040
Grafton Elm St Waterline Replacement - 6863	2.78%	236,003	January 1, 2026
Grafton - 7280	2.46%	453,607	January 1, 2027
County Engineer Loan:			
State Route 57	0.00%	300,000	July 6, 2018

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 10 – Debt (continued)

The Village’s long-term debt activity for the year ended December 31, 2016 was as follows:

2016	Interest Rates	Balance at 1/1/2016	Increase	Decrease	Balance at 12/31/2016	Due in 1 Year
Governmental Activities:						
O.P.W.C. Loans	0%	\$ 527,639	\$ -	\$ (44,899)	\$ 482,740	\$ 36,965
County Engineer Loan	0%	90,000	-	(30,000)	60,000	30,000
Capital Lease	3%	197,124	-	(30,117)	167,007	31,162
Total Governmental Activities		\$ 814,763	\$ -	\$ (105,016)	\$ 709,747	\$ 98,127
Business-Type Activities:						
O.P.W.C. Loans	0%	\$ 169,881	\$ -	\$ (10,017)	\$ 159,864	\$ 10,017
O.W.D.A. Loans	3.86% to 8.26%	6,024,419	381,440	(443,776)	5,962,083	406,775
Total Business-Type Activities		\$ 6,194,300	\$ 381,440	\$ (453,793)	\$ 6,121,947	\$ 416,792

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, 2016 are as follows:

Year Ending December 31:	O.P.W.C Loans	O.W.D.A Loans		County Engineer Loan
	Principal	Principal	Interest	Principal
2017	\$ 46,982	\$ 406,775	\$ 245,372	\$ 30,000
2018	36,965	358,396	224,455	30,000
2019	36,965	375,477	207,374	-
2020	36,965	317,076	190,139	-
2021	36,965	332,975	174,240	-
2022 - 2026	157,808	1,758,206	600,300	-
2027 - 2031	113,816	640,664	317,278	-
2032 - 2036	71,470	766,541	191,402	-
2037 - 2041	71,470	624,533	46,024	-
2042 - 2046	33,198	-	-	-
Total	\$ 642,604	\$ 5,580,643	\$ 2,196,584	\$ 60,000

The amortization schedule for OWDA Loan #7280 has not yet been completed. The above schedule does not include the principal balance of \$381,440 received for this loan during the year.

Leases

In 2012, the Village entered into a capital lease for the purchase of capital equipment. The Village disbursed \$36,957 to pay lease costs for the year ended December 31, 2016. Capital lease payments are reflected as functional disbursements in the financial statements for the governmental funds.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 10 – Debt (continued)

The following is a schedule of future minimum lease payments under this capital lease and present value of the net lease payments at December 31, 2016.

	Equipment Purchase
Year Ending December 31:	
2017	\$ 36,957
2018	36,957
2019	36,957
2020	36,957
2021	36,957
Total Minimum Lease Payment	184,785
Less: Amount Representing Interest	(17,778)
Present Value of Minimum Lease Payments	\$ 167,007

Note 11 - Contingent Liabilities

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

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.

Note 12 – Joint Ventures

AMP Generating Station (AMPGS) Project

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village’s project share was 2,399 kilowatts (kW) of a total 771,281kW, giving the Village a .31% project share. The AMPGS Project required participants to sign “take or pay” contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP’s pursuit of legal action to collect them from Bechtel. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village’s estimated share of the impaired costs at March 31, 2014 was \$414,845. The Village received a credit of \$146,685 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$108,494 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU). In addition, the Village made payments totaling \$44,596 leaving a net impaired cost balance of \$115,070. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village’s net impaired cost balance. These amounts will be recorded

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

as they become estimable.

Note 12 – Joint Ventures (Continued)

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$65,003 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$4,178 and interest expense incurred on AMP's line-of-credit is \$2,382, resulting in a net impaired cost estimate at December 31, 2016 of \$56,627. The Village does have a potential PHFU Liability of \$111,520 resulting in a net total potential liability of \$168,147, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include such negative items as property taxes as well as positive items such as revenue from leases or sale of all or a portion of the Meigs County site property.

The Village intends to recover these costs and repay AMP over the next 5 years through a power cost adjustment.

OMEGA JV2

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

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP 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 position will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP 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. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2016, the outstanding debt was \$4,142,633. The Village's net investment in OMEGA JV2 was \$104,866 at December 31, 2016. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 12 – Joint Ventures (continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2016 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
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	<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>

Under the Village's cash basis of accounting, the equity interest in OMEGA JV2 is not reported as an asset in the accompanying cash basis financial statements.

OMEGA JV5

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 partition in the OMEGA JV5 Project.

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

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, 2016

Note 12 – Joint Ventures (continued)

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 position 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, 2016 the Village of 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, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 13 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

2016			Other	Total
Fund Balances	<u>General</u>	Capital Improvement	<u>Governmental Funds</u>	<u>Governmental Funds</u>
<u>Restricted for</u>				
Computer service	\$ -	\$ -	\$ 2,165	\$ 2,165
Law enforcement	-	-	29,547	29,547
Street and highway repair	-	-	113,617	113,617
Village event	-	-	13,864	13,864
Capital improvements	-	1,069,505	210,506	1,280,011
Total restricted	<u>-</u>	<u>1,069,505</u>	<u>369,699</u>	<u>1,439,204</u>
<u>Assigned</u>				
Encumbrances	<u>44,807</u>	<u>-</u>	<u>-</u>	<u>44,807</u>
Unassigned	<u>1,582,908</u>	<u>-</u>	<u>-</u>	<u>1,582,908</u>
Total fund balances	<u>\$ 1,627,715</u>	<u>\$ 1,069,505</u>	<u>\$ 369,699</u>	<u>\$ 3,066,919</u>

Note 14 – Interfund Transfers

Interfund transfers for the year ended December 31, 2016 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>
<u>Other Governmental Funds</u>	<u>General</u>
	7,500

The general fund transfers to the other governmental funds were made to provide additional resources for current operations.



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1310 Market St., Suite 300
Wheeling, WV 26003
304.232.1358

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

June 23, 2017

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis 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, (the Village) as of and for the year ended December 31, 2016, and the related notes to the financial statements and have issued our report thereon dated June 23, 2017, wherein we noted the Village uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

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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, opining 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*.

Village's Response to Findings

The Village's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Perry & Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**Village of Grafton
Lorain County, Ohio**

**Schedule of Audit Findings
For the Year Ended December 31, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2016-001

Material Weakness

Posting Receipts and Disbursements

The Village should have procedures and controls in place to help prevent and detect errors in financial reporting.

During 2016, receipts and disbursements were not always posted or classified correctly. The following errors were noted:

- OWDA loan interest credits were not recorded on the Village's books in 2016.
- Debt Proceeds were recorded as Intergovernmental in 2016.
- Principal payments were recorded as interest in 2016.
- Intrafund transfers should have been eliminated for financial statement presentation purposes.
- Intergovernmental Receipts were recorded as Miscellaneous in 2016.
- Water and Sewer Improvement funds were included in Other Governmental Funds instead of Other Enterprise Funds.

Not posting receipts and disbursements or classifying funds accurately resulted in the financial statements requiring reclassifications. The financial statements reflect all reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Officials' Response – The Village will perform a review of the debt classification.

Village of Grafton
Lorain County, Ohio

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2015-001	Posting Receipts and Disbursements	No	Not Corrected; Repeated as Finding 2016-001

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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
SEPTEMBER 12, 2017