



Mary Taylor, CPA
Auditor of State

VILLAGE OF GRAFTON
LORAIN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio (the Village), as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio, as of December 31, 2007, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 14, 2009

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

The discussion and analysis of the Village of Grafton's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2007, within the limitations of the Village's cash basis of accounting. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

Overall:

- For governmental activities, net assets increased \$503,643, which represents a 24 percent increase from 2006.
- General receipts accounted for \$2.2 million in receipts or 83 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$456,342 or 17 percent of total governmental receipts of \$2.7 million.
- The Village had \$2.2 million in disbursements related to governmental activities; only \$456,342 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$2.2 million were adequate to provide for these programs.
- Among major funds, the general fund had \$2.1 million in receipts and \$1.6 million in disbursements. The general fund's fund balance increased to \$1,653,793 from \$1,165,134.
- For Business-Type activities, program receipts were \$4.5 million. These offset disbursements of \$4.1 million.

Using these Basic Financial Statements

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

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

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

Reporting the Village as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the Village did financially during 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

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

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

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the Village's major funds begins on page 13. Fund financial statements provide detailed information about the Village's major funds. The Village uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Village's most significant funds. The Village's major governmental funds are the General Fund and the Capital Improvement I Fund.

Governmental Funds Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed view of the Village's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs.

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

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

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

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2007 compared to 2006 on the cash basis:

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Cash and Investments	\$ 2,639,823	\$ 2,136,180	\$ 3,347,849	\$ 2,931,863	\$ 5,987,672	\$ 5,068,043
<i>Total Assets</i>	<u>2,639,823</u>	<u>2,136,180</u>	<u>3,347,849</u>	<u>2,931,863</u>	<u>5,987,672</u>	<u>5,068,043</u>
Net Assets:						
Restricted						
Capital Projects	934,200	921,443	-	-	934,200	921,443
Other Purposes	51,830	49,603	-	-	51,830	49,603
Unrestricted	1,653,793	1,165,134	3,347,849	2,931,863	5,001,642	4,096,997
<i>Total Net Assets</i>	<u>\$ 2,639,823</u>	<u>\$ 2,136,180</u>	<u>\$ 3,347,849</u>	<u>\$ 2,931,863</u>	<u>\$ 5,987,672</u>	<u>\$ 5,068,043</u>

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

Table 2 shows the net changes in net assets for 2007 and 2006.

Table 2

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$ 177,993	\$ 189,944	\$ 4,467,249	\$ 4,699,057	\$ 4,645,242	\$ 4,889,001
Operating Grants and Contributions	166,874	180,588	-	-	166,874	180,588
Capital Grants and Contributions	111,475	14,746	-	-	111,475	14,746
General Receipts:						
Property Taxes	295,177	260,505	-	-	295,177	260,505
Municipal Income Taxes	1,360,328	1,320,706	-	-	1,360,328	1,320,706
Grants and Entitlements	152,679	120,947	-	-	152,679	120,947
Interest	262,371	214,224	-	-	262,371	214,224
Miscellaneous	162,847	145,839	42,789	-	205,636	145,839
Total Receipts	2,689,744	2,447,499	4,510,038	4,699,057	7,199,782	7,146,556
Disbursements:						
Current:						
General Government	518,832	489,289	-	-	518,832	489,289
Security of Persons and Property	581,226	603,582	-	-	581,226	603,582
Public Health Services	51,993	50,902	-	-	51,993	50,902
Leisure Time Activities	13,545	45,558	-	-	13,545	45,558
Community Environment	37,977	3,121	-	-	37,977	3,121
Basic Utility Services	146,299	140,963	-	-	146,299	140,963
Transportation	161,289	153,614	-	-	161,289	153,614
Miscellaneous	229,916	57,467	-	-	229,916	57,467
Capital Outlay	335,986	395,102	-	-	335,986	395,102
Debt Service:						
Principal Retirement	70,627	72,304	-	-	70,627	72,304
Fiscal and Interest Charges	38,411	43,271	-	-	38,411	43,271
Water	-	-	548,601	525,743	548,601	525,743
Sewer	-	-	1,213,756	1,231,101	1,213,756	1,231,101
Electric	-	-	2,321,425	2,472,839	2,321,425	2,472,839
Other	-	-	10,270	12,675	10,270	12,675
Total Disbursements	2,186,101	2,055,173	4,094,052	4,242,358	6,280,153	6,297,531
Changes in Net Assets	\$ 503,643	\$ 392,326	\$ 415,986	\$ 456,699	\$ 919,629	\$ 849,025

Governmental Activities

Net assets of the Village's governmental activities increased by \$503,643. The governmental disbursements of \$2.2 million were primarily offset by program receipts of \$456,342, general receipts of \$2.2 million and the prior year cash balance. Program receipts supported 17% of the total governmental activities.

The primary sources of receipts for governmental activities are derived from property taxes, and income taxes. These two receipt sources represent 62% of total governmental receipts.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental and business-type activities, the total cost of services and the net cost of services for 2007 and 2006. That is, it identifies the cost of these services supported by tax receipts and unrestricted state entitlement.

Table 3
Total and Cost of Program Services

	Governmental Activities		Business Type Activities	
	2007		2007	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 518,832	\$ (340,839)	-	-
Security of Persons and Property	581,226	(581,226)	-	-
Public Health Services	51,993	(51,993)	-	-
Leisure Time Activities	13,545	(13,545)	-	-
Community Environment	37,977	(8,325)	-	-
Basic Utility Services	146,299	(146,299)	-	-
Transportation	161,289	(26,369)	-	-
Capital Outlay	335,986	(222,209)	-	-
Redemption of Principal	70,627	(70,627)	-	-
Interest and Fiscal Charges	38,411	(38,411)	-	-
Miscellaneous	229,916	(229,916)	-	-
Water	-	-	\$ 548,601	\$ 19,021
Sewer	-	-	1,213,756	15,076
Electric	-	-	2,321,425	336,738
Other Enterprise Funds	-	-	10,270	2,362
Total Program Services	\$ 2,186,101	\$ (1,729,759)	\$ 4,094,052	\$ 373,197
	Governmental Activities		Business Type Activities	
	2006		2006	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$ 489,289	\$ (305,638)	-	-
Security of Persons and Property	603,582	(600,669)	-	-
Public Health Services	50,902	(50,902)	-	-
Leisure Time Activities	45,558	(45,558)	-	-
Community Environment	3,121	26,531	-	-
Basic Utility Services	140,963	(140,963)	-	-
Transportation	153,614	(3,438)	-	-
Capital Outlay	395,102	(391,722)	-	-
Redemption of Principal	72,304	(72,304)	-	-
Interest and Fiscal Charges	43,271	(43,271)	-	-
Miscellaneous	57,467	(41,961)	-	-
Water	-	-	\$ 525,743	\$ 4,959
Sewer	-	-	1,231,101	32,066
Electric	-	-	2,472,839	415,774
Other Enterprise Funds	-	-	12,675	3,900
Total Program Services	\$ 2,055,173	\$ (1,669,895)	\$ 4,242,358	\$ 456,699

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

Only 21 percent of general government activities are supported through program receipts. For all governmental activities, general receipts and prior year cash balance support all disbursements as shown in the above table. The community, as a whole, is by far the primary support for the Village of Grafton.

Business-type Activities

The dependence upon program receipts is apparent as nearly 100 percent of Business-Type activities are supported through these receipts for 2007. The infrastructure is beginning to age but the Village has ongoing maintenance projects to upgrade the infrastructure.

The Village's Funds

Information about the Village's major funds starts on page 13. These funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$2.9 million and disbursements of \$2.4 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's balance increased by \$488,659 for 2007.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2007 the Village amended its General Fund budget numerous times. The Village uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis revenue was \$2.1 million, the original estimate was \$1.7 million. Total actual disbursements on the budget basis (cash outlays plus encumbrances) were \$1.6 million, \$478,305 under receipts.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure. The Village has acquired a software package to accomplish this task and is in the process of entering the necessary information. It was anticipated that this program would be fully functional for 2007 but reductions in staff have delayed the implementation.

Village of Grafton
Lorain County
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(unaudited)

Debt

At December 31, 2007, the Village had \$5,925,214 in OPWC and OWDA loans. These issues were used for improvements to the Village's streets, water and sewer systems.

Current Financial Related Activities

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

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information contact Linda Bales, Clerk/Treasurer at 960 Main Street, Grafton, Ohio 44044.

Village of Grafton, Lorain County

Statement of Net Assets - Cash Basis

December 31, 2007

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,639,823	\$ 3,347,849	\$ 5,987,672
<i>Total Assets</i>	<u>\$ 2,639,823</u>	<u>\$ 3,347,849</u>	<u>\$ 5,987,672</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 934,200	-	\$ 934,200
Other Purposes	51,830	-	51,830
Unrestricted	1,653,793	\$ 3,347,849	5,001,642
<i>Total Net Assets</i>	<u>\$ 2,639,823</u>	<u>\$ 3,347,849</u>	<u>\$ 5,987,672</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2007

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 518,832	\$ 177,993	\$ -	\$ -	\$ (340,839)	\$ -	\$ (340,839)
Security of Persons and Property	581,226	-	-	-	(581,226)	-	(581,226)
Public Health Services	51,993	-	-	-	(51,993)	-	(51,993)
Leisure Time Activities	13,545	-	-	-	(13,545)	-	(13,545)
Community Environment	37,977	-	29652	-	(8,325)	-	(8,325)
Basic Utility Services	146,299	-	-	-	(146,299)	-	(146,299)
Transportation	161,289	-	134,920	-	(26,369)	-	(26,369)
Capital Outlay	335,986	-	2,302	111,475	(222,209)	-	(222,209)
Debt Service:							
Principal Retirement	70,627	-	-	-	(70,627)	-	(70,627)
Interest and Fiscal Charges	38,411	-	-	-	(38,411)	-	(38,411)
Miscellaneous	229,916	-	-	-	(229,916)	-	(229,916)
<i>Total Governmental Activities</i>	2,186,101	177,993	166,874	111,475	(1,729,759)	-	(1,729,759)
Business Type Activities							
Water	548,601	567,622	-	-	-	19,021	19,021
Sewer	1,213,756	1,228,832	-	-	-	15,076	15,076
Electric	2,321,425	2,658,163	-	-	-	336,738	336,738
Other Enterprise Funds	10,270	12,632	-	-	-	2,362	2,362
<i>Total Business Type Activities</i>	4,094,052	4,467,249	-	-	-	373,197	373,197
Total	\$ 6,280,153	\$ 4,645,242	\$ 166,874	\$ 111,475	\$ (1,729,759)	\$ 373,197	\$ (1,356,562)
General Receipts							
Property Taxes Levied for:							
General Purposes					276,669	-	276,669
Special Purposes					18,508	-	18,508
Municipal Income Taxes					1,360,328	-	1,360,328
Grants and Entitlements not Restricted to Special Programs					152,679	-	152,679
Interest					262,371	-	262,371
Miscellaneous					162,847	42,789	205,636
<i>Total General Receipts</i>					2,233,402	42,789	2,276,191
Change in Net Assets					503,643	415,986	919,629
<i>Net Assets, Beginning of Year</i>					2,136,180	2,931,863	5,068,043
<i>Net Assets, End of Year</i>					\$ 2,639,823	\$ 3,347,849	\$ 5,987,672

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2007

	General	Capital Improvement I Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,653,793	\$ 685,555	\$ 300,475	\$ 2,639,823
<i>Total Assets</i>	<u>\$ 1,653,793</u>	<u>\$ 685,555</u>	<u>\$ 300,475</u>	<u>\$ 2,639,823</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 10,354	\$ 305,235	\$ 9,758	\$ 325,347
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	1,643,439	-	-	1,643,439
Special Revenue Funds	-	-	51,790	51,790
Capital Projects Funds	-	380,320	238,927	619,247
<i>Total Fund Balances</i>	<u>\$ 1,653,793</u>	<u>\$ 685,555</u>	<u>\$ 300,475</u>	<u>\$ 2,639,823</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Capital Improvement I Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Municipal Income Taxes	\$ 907,137	\$ 424,921	\$ 28,270	\$ 1,360,328
Property and Other Local Taxes	276,669	-	18,508	295,177
Charges for Services	127,877	-	-	127,877
Fines, Licenses and Permits	44,004	-	6,112	50,116
Intergovernmental	152,679	-	278,349	431,028
Interest	262,371	-	-	262,371
Miscellaneous	143,395	-	15,716	159,111
<i>Total Receipts</i>	<u>1,914,132</u>	<u>424,921</u>	<u>346,955</u>	<u>2,686,008</u>
Disbursements				
Current:				
General Government	516,239	-	2,593	518,832
Security of Persons and Property	565,488	-	15,738	581,226
Public Health Services	51,993	-	-	51,993
Leisure Time Activities	13,545	-	-	13,545
Community Environment	8,325	-	29,652	37,977
Basic Utility Services	146,299	-	-	146,299
Transportation	-	-	161,289	161,289
Capital Outlay	97,320	100,049	138,617	335,986
Debt Service:				
Principal Retirement	-	70,627	-	70,627
Interest and Fiscal Charges	-	38,411	-	38,411
<i>Total Disbursements</i>	<u>1,399,209</u>	<u>209,087</u>	<u>347,889</u>	<u>1,956,185</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>514,923</u>	<u>215,834</u>	<u>(934)</u>	<u>729,823</u>
Other Financing Sources (Uses)				
Transfers In	136,351	-	30,000	166,351
Transfers Out	(166,351)	-	-	(166,351)
Other Financing Sources	3,736	-	-	3,736
Other Financing Uses	-	(219,634)	(10,282)	(229,916)
<i>Total Other Financing Sources (Uses)</i>	<u>(26,264)</u>	<u>(219,634)</u>	<u>19,718</u>	<u>(226,180)</u>
<i>Net Change in Fund Balances</i>	488,659	(3,800)	18,784	503,643
<i>Fund Balances, Beginning of Year</i>	<u>1,165,134</u>	<u>689,355</u>	<u>281,691</u>	<u>2,136,180</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,653,793</u>	<u>\$ 685,555</u>	<u>\$ 300,475</u>	<u>\$ 2,639,823</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Cash Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Municipal Income Taxes	\$ 757,280	\$ 896,612	\$ 907,137	\$10,525
Property and Other Local Taxes	230,964	273,459	276,669	3,210
Charges for Services	106,752	126,393	127,877	1,484
Fines, Licenses and Permits	36,735	43,493	44,004	511
Intergovernmental	127,457	150,908	152,679	1,771
Interest	219,028	259,327	262,371	3,044
Miscellaneous	119,706	141,731	143,395	1,664
<i>Total Receipts</i>	<u>1,597,922</u>	<u>1,891,923</u>	<u>1,914,132</u>	<u>22,209</u>
Disbursements				
Current:				
General Government	1,004,423	1,004,423	526,593	477,830
Security of Persons and Property	1,078,611	1,078,611	565,488	513,123
Public Health Services	99,171	99,171	51,993	47,178
Leisure Time Activities	25,836	25,836	13,545	12,291
Community Environment	15,879	15,879	8,325	7,554
Basic Utility Services	279,051	279,051	146,299	132,752
Capital Outlay	185,628	185,628	97,320	88,308
<i>Total Disbursements</i>	<u>2,688,599</u>	<u>2,688,599</u>	<u>1,409,563</u>	<u>1,279,036</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,090,677)</u>	<u>(796,676)</u>	<u>504,569</u>	<u>1,301,245</u>
Other Financing Sources (Uses)				
Transfers In	113,826	134,769	136,351	1,582
Transfers Out	(166,351)	(166,351)	(166,351)	-
Other Financing Sources	3,119	3,693	3,736	43
<i>Total Other Financing Sources (Uses)</i>	<u>(49,406)</u>	<u>(27,889)</u>	<u>(26,264)</u>	<u>1,625</u>
<i>Net Change in Fund Balance</i>	(1,140,083)	(824,565)	478,305	1,302,870
<i>Fund Balance, Beginning of Year</i>	1,140,085	1,140,085	1,140,085	-
Prior Year Encumbrances Appropriated	25,049	25,049	25,049	-
<i>Fund Balance, End of Year</i>	<u>\$ 25,051</u>	<u>\$ 340,569</u>	<u>\$ 1,643,439</u>	<u>\$ 1,302,870</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2007

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 181,849	\$ 1,084,646	\$ 2,047,717	\$ 33,637	\$ 3,347,849
<i>Total Assets</i>	<u>\$ 181,849</u>	<u>\$ 1,084,646</u>	<u>\$ 2,047,717</u>	<u>\$ 33,637</u>	<u>\$ 3,347,849</u>
Net Assets					
Unrestricted	<u>\$ 181,849</u>	<u>\$ 1,084,646</u>	<u>\$ 2,047,717</u>	<u>\$ 33,637</u>	<u>\$3,347,849</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2007*

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Other Enterprise Funds	
Operating Receipts					
Charges for Services	\$ 567,622	\$ 1,228,832	\$ 2,658,163	\$ 12,632	\$ 4,467,249
Other Operating Receipts	150	780	41,859	-	42,789
<i>Total Operating Receipts</i>	<u>567,772</u>	<u>1,229,612</u>	<u>2,700,022</u>	<u>12,632</u>	<u>4,510,038</u>
Operating Disbursements					
Personal Services	39,791	199,630	188,830	-	428,251
Travel Transportation	7,296	10,413	10,383	-	28,092
Contractual Services	463,891	84,996	2,042,415	10,270	2,601,572
Materials and Supplies	34,403	183,462	51,476	-	269,341
Capital Outlay	3,220	6,440	28,321	-	37,981
<i>Total Operating Disbursements</i>	<u>548,601</u>	<u>484,941</u>	<u>2,321,425</u>	<u>10,270</u>	<u>3,365,237</u>
<i>Operating Income (Loss)</i>	19,171	744,671	378,597	2,362	1,144,801
Non-Operating Receipts/ (Disbursements)					
Redemption of Principal	-	(368,630)	-	-	(368,630)
Interest and Other Fiscal Charges	-	(360,185)	-	-	(360,185)
<i>Income (Loss) before Transfers</i>	19,171	15,856	378,597	2,362	415,986
Transfers In	-	-	136,351	-	136,351
Transfers Out	-	-	(136,351)	-	(136,351)
<i>Change in Net Assets</i>	19,171	15,856	378,597	2,362	415,986
<i>Net Assets, Beginning of Year</i>	<u>162,678</u>	<u>1,068,790</u>	<u>1,669,120</u>	<u>31,275</u>	<u>2,931,863</u>
<i>Net Assets, End of Year</i>	<u>\$ 181,849</u>	<u>\$ 1,084,646</u>	<u>\$ 2,047,717</u>	<u>\$ 33,637</u>	<u>\$ 3,347,849</u>

See accompanying notes to the basic financial statements

Village of Grafton, Lorain County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,350</u>
Net Assets	
Unrestricted	<u>\$16,350</u>

See accompanying notes to the basic financial statements

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 1 – Reporting Entity

The Village of Grafton, Lorain County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected officials include five council members, a clerk/treasurer, and a mayor. The Village provides various services including police and fire protection, recreation (including parks), street maintenance and repair, utility (including water, sewer, and electric) and general administrative services.

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

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village.

B. Component Units

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

C. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Village does not report assets for equity interests in joint ventures. The Village of Grafton is a Non-Financing Participant and an Owner Participant with an ownership percentage of .79% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). For more information on joint ventures see Note 11.

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds (Agency Funds)

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriation ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriation were passed by the Village Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2007, the Village invested in nonnegotiable certificates of deposit and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2007.

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 2007 was \$262,371.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village had no restricted assets.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no such transactions in 2007.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

O. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$10,354 for the general fund.

Note 4 – Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the Village treasury. Such monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Village has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end 2007, the Village had \$705 in undeposited cash on hand, which is included on the Statement of Cash Basis Assets and Fund Balances of the Village as part of "Equity in Pooled Cash and Cash Equivalents."

Custodial credit risk for deposits is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2007, \$3,851,082 of the Village's bank balance of \$3,951,082 which includes \$3,000,000 of non-negotiable certificates of deposit was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

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

As of December 31, 2007, the Village had \$2,104,026 invested in STAROhio.

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

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 5 – Income Taxes

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

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

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

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2007 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2007 became a lien on December 31, 2006, were levied after October 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2007 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property assessments are being phased out. The assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2007, was \$5.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2007 property tax receipts were based are as follows:

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Real Property	
Residential and Agricultural	\$ 44,421,450
Other	11,449,890
Tangible Personal Property	
General	3,653,156
Public Utility	578,140
Total Assessed Value	<u>\$ 60,102,636</u>

Note 7 – Risk Management

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

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

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

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

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

Note 8 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2007 was 13.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$136,708, \$100,274, and \$94,712, respectively. The full amount has been contributed for 2007, 2006 and 2005.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2007, 2006, and 2005 were \$30,473, \$33,773, and \$29,054. The full amount has been contributed for 2007, 2006 and 2005.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The number of active contributing participants in the traditional and combined plans was 374,979. Actual employer contributions for 2007 which were used to fund postemployment benefits were \$44,418. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006, were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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

B. Ohio Police and Fire Pension Fund

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

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

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

The Village's actual contributions that were used to fund postemployment benefits were \$12,098 in 2007 for police. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

Note 10 – Debt

The Village's long-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Interest Rates</u>	<u>Balance at 1/1/2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2007</u>
Governmental Activities:					
O.P.W.C. Loans	0%	\$ 290,255	-	\$ 33,840	\$ 256,415
O.W.D.A. Loans	6.75% to 7.24%	581,931	-	36,787	545,144
Total Governmental Activities		<u>\$ 872,186</u>	<u>\$ -</u>	<u>\$ 70,627</u>	<u>\$ 801,559</u>

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Interest Rates	Balance at 1/1/2007	Increase	Decrease	Balance at 12/31/2007
Business-Type Activities:					
O.P.W.C. Loans	0%	\$ 110,185	-	\$ 10,017	\$ 100,168
O.W.D.A. Loans	6.41% to 7.84%	5,382,099	-	358,612	5,023,487
Total Business-Type Activities		<u>\$ 5,492,284</u>	<u>\$ -</u>	<u>\$ 368,629</u>	<u>\$ 5,123,655</u>

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

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007 are as follows:

Year Ending December 31:	O.P.W.C Loans Principal	O.W.D.A Loans Principal	O.W.D.A Loans Interest
2008	\$ 43,858	\$ 424,630	\$ 371,408
2009	38,020	456,042	342,204
2010	32,180	489,792	310,843
2011	32,180	493,255	277,142
2012	32,180	529,558	243,355
2013-2017	140,500	1,563,358	780,132
2018-2022	33,992	842,500	402,151
2023-2027	3,673	769,496	101,759
Total	<u>\$ 356,583</u>	<u>\$ 5,568,631</u>	<u>\$ 2,828,994</u>

Note 11 – Joint Ventures

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

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

VILLAGE OF GRAFTON
Lorain County, Ohio
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For the Year Ended December 31, 2007

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-OHIO, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV 2 was \$309,916 at December 31, 2007. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The Village of Grafton is a Financing Participant with an ownership percentage of .64%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of participation in the OMEGA JV5 Project.

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Management Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2007 Grafton has met their debt coverage obligation.

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

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of the 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates

VILLAGE OF GRAFTON
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

The Village's net investment to date in OMEGA JV5 was \$57,277 at December 31, 2007. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Note 12 – Contingent Liabilities

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

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Members of Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio, (the Village) as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 14, 2009, wherein, we noted the Village uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the Village's management in a separate letter dated October 14, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We did note certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 14, 2009.

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

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



Mary Taylor, CPA
Auditor of State

October 14, 2009

**VILLAGE OF GRAFTON
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007**

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

FINDING NUMBER 2007-001

Material Noncompliance – Appropriations in Excess of Available Resources

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.

At December 31, 2007, we noted appropriations exceeded actual available resources in the following funds:

Fund	Unencumbered Balance	Actual Revenues	Appropriations	Variance
Street Construction Maintenance & Repair	\$24,774	\$155,016	\$220,274	(\$40,484)
State Highway	3,234	10,119	17,234	(3,881)
Law Enforcement Reimbursement	0	0	500	(500)
Law Enforcement Education	1,116	300	1,616	(200)
Capital Improvement Issue II	0	111,475	175,000	(63,525)
Capital Improvement CDBG	0	0	200,000	(200,000)
Storm Sewer	0	0	50,000	(50,000)
Sidewalks	8,000	5,500	16,000	(2,500)
Ind. Comm. Permits	5,687	9,685	30,687	(15,315)
Mayor's Court	700	39,562	45,700	(5,438)

While no funds had fund balance deficits, this condition could cause appropriations to exceed estimated resources or result in deficit fund balances if the expenditures equaled the appropriations for the fund.

The Village should compare actual available revenues at the end of the fiscal year with the final appropriations measure to ensure compliance with this requirement. If variances as noted are found, the Village should report the deficiencies to the County Budget Commission in order to obtain an amended official certificate and reduce the appropriations, if necessary.

Official's Response:

I understand the concerns about the funds possibly being over appropriated and monies spent from these funds. I do watch the fund balances so as to not have negative fund balances.



Mary Taylor, CPA
Auditor of State

VILLAGE OF GRAFTON

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 12, 2009**