

***VILLAGE OF GRAFTON***

**AUDIT REPORT**

**For the Years Ended December 31, 1999 and 2000**

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants**





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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The Honorable Mayor and Members  
of Village Council  
Village of Grafton  
Grafton, Ohio

We have reviewed the independent auditor's report of the Village of Grafton, Lorain County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 1999 through December 31, 2000. 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.

JIM PETRO  
Auditor of State

May 29, 2001

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**VILLAGE OF GRAFTON**  
**Audit Report**  
**For the years ended December 31, 1999 and 2000**

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**VILLAGE OF GRAFTON**  
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For the years ended December 31, 1999 and 2000

**ELECTED OFFICIALS**

<b><u>ELECTED OFFICIAL</u></b>	<b><u>TITLE</u></b>	<b><u>TERM OF OFFICE</u></b>	<b><u>SURETY</u></b>
Shari Kerner	Mayor	1/1/00 - 12/31/03	(A)
Thomas Smith	Council- President	1/1/98 - 12/31/01	(A)
Robert Frabotta	Council	1/1/98 - 12/31/01	(A)
Randy Moore	Council	1/1/98 - 12/31/01	(A)
John Lescher	Council	1/1/00 - 12/31/03	(A)
Daniel Spencer	Council	1/1/00 - 12/31/03	(A)
Linda Bales	Clerk-Treasurer	1/1/00 - 12/31/03	(B)

(A) Ohio Farmers Insurance Co. in the amount of \$10,000

(B) Ohio Farmers Insurance Co. in the amount of \$25,000

**Law Director**

Richard G. Lillie  
Lillie & Holderman  
75 Public Square, Suite 300  
Cleveland, Ohio 44113-2001

**VILLAGE OF GRAFTON**  
**AUDIT REPORT**  
For the years ended December 31, 1999 and 2000

**ADMINISTRATIVE OFFICIALS**

<b><u>APPOINTED OFFICIALS</u></b>	<b><u>TITLE</u></b>	<b><u>TERM OF OFFICE</u></b>	<b><u>SURETY</u></b>
Rick Kowalski	Village Administrator	Continuous	(A)
Thomas Davis	Police Chief	Continuous	(A)
John Cutter	Fire Chief	Continuous	(A)

(A) Ohio Farmers Insurance Co. in the amount of \$10,000

**VILLAGE OF GRAFTON**  
**AUDIT REPORT**  
For the years ended December 31, 1999 and 2000

**INDEX OF FUNDS**

**GOVERNMENTAL FUND TYPES:**

**General Fund Types:**

General Fund

**Special Revenue Fund Types:**

Street Construction, Maintenance and Repair Fund

Street Highway Improvement Fund

Computer Service Fund

Tree Commission Fund

Law Enforcement Education Fund

Law Enforcement Trust Fund

Police Pension Fund

**Capital Projects Funds:**

Capital Improvement I Fund

Capital Improvement II Fund

Capital Improvement – Parks Fund

Historic Preservation Fund

**PROPRIETARY FUND TYPES:**

**Enterprise Funds:**

Water Fund

Sanitary Sewer Fund

Electric Fund

Utilities Deposit Fund

**FIDUCIARY FUND TYPES:**

**Agency Funds:**

Sidewalk Bonds Fund

Industrial Commerce Fund

Rental Deposit Fund

Mayor's Court Fund

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**REPORT OF INDEPENDENT ACCOUNTANTS**

**The Honorable Mayor and Members  
of Village Council  
Village of Grafton  
Grafton, Ohio**

We have audited the accompanying financial statements of the Village of Grafton (the Village), as of and for the years ended December 31, 1999 and 2000, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and fund cash balances of the Village, as of December 31, 1999 and 2000, and the combined receipts, disbursements, and changes in fund cash balances, its combined statement of receipts-budget and actual and combined statement of expenditures and encumbrances compared with expenditure authority for the year then ended in conformity with the basis of accounting referred to above.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code and is not intended to be and should not be used by anyone other than these specified parties.

*Charles E. Harris & Associates, Inc.*  
March 29, 2001

**VILLAGE OF GRAFTON**  
 COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND  
 CASH BALANCES - ALL FUND TYPES  
 December 31, 1999

Cash and Cash Equivalents	\$ <u>5,188,010</u>
 Total	 \$ <u><u>5,188,010</u></u>

CASH BALANCES BY FUND CLASS

Governmental Funds:	
General	\$ 1,213,278
Special Revenue	30,396
Capital Projects	<u>753,264</u>
 Total Governmental Funds	 1,996,938
 Proprietary Funds:	
Enterprise Funds	<u>3,172,757</u>
 Total Enterprise Funds	 3,172,757
 Fiduciary Funds:	
Agency Funds	<u>18,315</u>
 Total Fiduciary Funds	 <u>18,315</u>
 Total	 \$ <u><u>5,188,010</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
 COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND  
 CASH BALANCES - ALL FUND TYPES  
 December 31, 2000

Cash and Cash Equivalents	\$ <u>6,726,741</u>
Total	\$ <u><u>6,726,741</u></u>

CASH BALANCES BY FUND CLASS

Governmental Funds:	
General	\$ 1,441,828
Special Revenue	48,475
Capital Projects	<u>671,032</u>
Total Governmental Funds	2,161,335
Proprietary Funds:	
Enterprise Funds	<u>4,548,769</u>
Total Enterprise Funds	4,548,769
Fiduciary Funds:	
Agency Funds	<u>16,637</u>
Total Fiduciary Funds	<u>16,637</u>
Total	\$ <u><u>6,726,741</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND**  
**CHANGES IN FUND CASH BALANCES**  
All Governmental Fund Types  
For the Year Ended December 31, 1999

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<i>Receipts:</i>				
Local Taxes	\$ 643,954	\$ 9,728	\$ 614,498	\$ 1,268,180
Intergovernmental	136,756	171,779	203,788	512,323
Charges for Services	92,877	-	-	92,877
Fines, Licenses, and Permits	50,960	4,383	-	55,343
Miscellaneous	311,211	576	116,778	428,565
<b>Total Receipts</b>	<b>1,235,758</b>	<b>186,466</b>	<b>935,064</b>	<b>2,357,288</b>
<i>Disbursements:</i>				
Security of Persons & Property	440,312	9,904	-	450,216
Public Health Services	17,260	-	-	17,260
Leisure Time Activities	27,465	-	-	27,465
Community Environment	14,237	24,986	-	39,223
Basic Utility Service	99,962	-	-	99,962
Transportation	-	154,068	-	154,068
General Government	433,204	-	-	433,204
Capital Outlay	91,872	12,175	1,150,632	1,254,679
Debt Service:				
Principal	-	-	105,839	105,839
Interest	-	-	14,268	14,268
<b>Total Disbursements</b>	<b>1,124,312</b>	<b>201,133</b>	<b>1,270,739</b>	<b>2,596,184</b>
<b>Total Receipts Over/ (Under) Disbursements</b>	<b>111,446</b>	<b>(14,667)</b>	<b>(335,675)</b>	<b>(238,896)</b>
<i>Other Financing Sources/(Uses):</i>				
Transfers-In	8,650	35,000	-	43,650
Transfers-Out	(36,065)	-	-	(36,065)
Advances - In	10,143	-	-	10,143
Advances - Out	-	(10,143)	-	(10,143)
Other Uses	(229,224)	-	(128,784)	(358,008)
<b>Total Other Financing Sources/(Uses)</b>	<b>(246,496)</b>	<b>24,857</b>	<b>(128,784)</b>	<b>(350,423)</b>
<b>Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses</b>	<b>(135,050)</b>	<b>10,190</b>	<b>(464,459)</b>	<b>(589,319)</b>
<b>Fund Balance, January 1, 1999</b>	<b>1,348,328</b>	<b>20,206</b>	<b>1,217,723</b>	<b>2,586,257</b>
<b>Fund Balance, December 31, 1999</b>	<b>\$ 1,213,278</b>	<b>\$ 30,396</b>	<b>\$ 753,264</b>	<b>\$ 1,996,938</b>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN FUND CASH BALANCES  
 All Governmental Fund Types  
 For the Year Ended December 31, 2000

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<i>Receipts:</i>				
Local Taxes	\$ 694,858	\$ 7,497	\$ 693,961	\$ 1,396,316
Intergovernmental	143,811	165,485	52,927	362,223
Charges for Services	95,668	-	-	95,668
Fines, Licenses, and Permits	56,310	4,643	-	60,953
Miscellaneous	401,782	592	52,068	454,442
<b>Total Receipts</b>	<b>1,392,429</b>	<b>178,217</b>	<b>798,956</b>	<b>2,369,602</b>
<i>Disbursements:</i>				
Security of Persons & Property	459,775	7,609	-	467,384
Public Health Services	38,351	-	-	38,351
Leisure Time Activities	85,053	-	-	85,053
Community Environment	34,677	24,000	-	58,677
Basic Utility Service	105,431	-	-	105,431
Transportation	-	153,268	-	153,268
General Government	439,048	-	-	439,048
Capital Outlay	138,314	25,225	3,325,426	3,488,965
Debt Service:				
Principal	-	-	111,676	111,676
Interest	-	-	14,269	14,269
<b>Total Disbursements</b>	<b>1,300,649</b>	<b>210,102</b>	<b>3,451,371</b>	<b>4,962,122</b>
Total Receipts Over/ (Under) Disbursements	91,780	(31,885)	(2,652,415)	(2,592,520)
<i>Other Financing Sources/(Uses):</i>				
Proceeds of Notes	-	-	2,679,953	2,679,953
Transfers-In	1,449	53,201	5,260	59,910
Transfers-Out	(58,511)	-	-	(58,511)
Advances - In	3,237	-	-	3,237
Advances - Out	-	(3,237)	-	(3,237)
Other Sources	200,000	-	-	200,000
Other Uses	(9,405)	-	(115,030)	(124,435)
<b>Total Other Financing Sources/(Uses)</b>	<b>136,770</b>	<b>49,964</b>	<b>2,570,183</b>	<b>2,756,917</b>
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	228,550	18,079	(82,232)	164,397
Fund Balance, January 1, 2000	1,213,278	30,396	753,264	1,996,938
Fund Balance, December 31, 2000	<u>\$ 1,441,828</u>	<u>\$ 48,475</u>	<u>\$ 671,032</u>	<u>\$ 2,161,335</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN FUND CASH BALANCES**  
**PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS**  
For the Year Ended December 31, 1999

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Receipts:			
Charges for Services	\$ 2,863,075	-	\$ 2,863,075
Miscellaneous	<u>25,080</u>	<u>-</u>	<u>25,080</u>
Total Receipts	2,888,155	-	2,888,155
Disbursements:			
Personal Services	311,626	-	311,626
Travel and Transportation	7,916	-	7,916
Contractual Services	1,555,263	-	1,555,263
Materials and Supplies	317,751	-	317,751
Capital Outlay	160,873	-	160,873
Debt Service:			
Principal	174,551	-	174,551
Interest	<u>379,983</u>	<u>-</u>	<u>379,983</u>
Total Disbursements	2,907,963	-	2,907,963
Excess of Receipts Over (Under) Disbursements	(19,808)	-	(19,808)
Nonoperating Receipts (Disbursements):			
Miscellaneous	-	\$ 68,461	68,461
Other Non-operating Expenses	<u>-</u>	<u>(60,660)</u>	<u>(60,660)</u>
Total Nonoperating Receipts (Disbursements)	<u>-</u>	<u>7,801</u>	<u>7,801</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	(19,808)	7,801	(12,007)
Transfer-In	1,065	-	1,065
Transfer - Out	<u>(7,833)</u>	<u>(817)</u>	<u>(8,650)</u>
Net Receipts Over(Under) Disbursements	(26,576)	6,984	(19,592)
Fund Cash Balance, January 1, 1999	<u>3,199,333</u>	<u>11,331</u>	<u>3,210,664</u>
Fund Cash Balance, December 31, 1999	<u>\$ 3,172,757</u>	<u>\$ 18,315</u>	<u>\$ 3,191,072</u>

The accompanying notes are an integral part of the financial statements

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN FUND CASH BALANCES**  
**PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS**  
**For the Year Ended December 31, 2000**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Receipts:			
Charges for Services	\$ 3,071,206	-	\$ 3,071,206
Miscellaneous	<u>55,544</u>	<u>-</u>	<u>55,544</u>
Total Receipts	3,126,750	-	3,126,750
Disbursements:			
Personal Services	318,621	-	318,621
Travel and Transportation	14,461	-	14,461
Contractual Services	1,758,166	-	1,758,166
Materials and Supplies	215,236	-	215,236
Capital Outlay	410,192	-	410,192
Debt Service:			
Principal	168,904	-	168,904
Interest	<u>365,158</u>	<u>-</u>	<u>365,158</u>
Total Disbursements	3,250,738	-	3,250,738
Excess of Receipts Over (Under) Disbursements	(123,988)	-	(123,988)
Nonoperating Receipts (Disbursements):			
Sale of Notes	1,500,000	-	1,500,000
Miscellaneous	-	\$ 70,692	70,692
Other Non-operating Expenses	<u>-</u>	<u>(70,971)</u>	<u>(70,971)</u>
Total Nonoperating Receipts (Disbursements)	<u>1,500,000</u>	<u>(279)</u>	<u>1,499,721</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	1,376,012	(279)	1,375,733
Transfer-In	-	50	50
Transfer - Out	<u>-</u>	<u>(1,449)</u>	<u>(1,449)</u>
Net Receipts Over(Under) Disbursements	1,376,012	(1,678)	1,374,334
Fund Cash Balance, January 1, 2000	<u>3,172,757</u>	<u>18,315</u>	<u>3,191,072</u>
Fund Cash Balance, December 31, 2000	<u>\$ 4,548,769</u>	<u>\$ 16,637</u>	<u>\$ 4,565,406</u>

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF RECEIPTS -**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 1999

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 1,219,789	\$ 1,254,551	\$ 34,762
Special Revenue	219,529	221,466	1,937
Capital Projects	896,883	935,064	38,181
Proprietary:			
Enterprise	2,764,886	2,889,220	124,334
Fiduciary:			
Agency	<u>72,460</u>	<u>68,461</u>	<u>(3,999)</u>
Total (Memorandum Only)	<u>\$ 5,173,547</u>	<u>\$ 5,368,762</u>	<u>\$ 195,215</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF RECEIPTS -**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 2000

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General	\$ 1,527,799	\$ 1,597,115	\$ 69,316
Special Revenue	231,259	231,418	159
Capital Projects	3,464,526	3,484,169	19,643
Proprietary:			
Enterprise	4,368,143	4,626,750	258,607
Fiduciary:			
Agency	<u>71,393</u>	<u>70,742</u>	<u>(651)</u>
Total (Memorandum Only)	<u>\$ 9,663,120</u>	<u>\$ 10,010,194</u>	<u>\$ 347,074</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
 COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES  
 COMPARED WITH EXPENDITURE AUTHORITY  
 For the Year Ended December 31, 1999

Fund Types/Funds	Prior Year Carryover Appropriations	1999 Appropriations	Total	Actual 1999 Disbursements	Encumbrances Outstanding at 12/31/99	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General	\$ 1,969	\$ 2,566,148	\$ 2,568,117	\$ 1,389,601	\$ 40,825	\$ 1,430,426	\$ 1,137,691
Special Revenue	838	238,896	239,734	211,276	260	211,536	28,198
Capital Projects	239,580	1,875,026	2,114,606	1,399,523	247,588	1,647,111	467,495
Proprietary:							
Enterprise	5,719	5,958,501	5,964,220	2,915,796	223,607	3,139,403	2,824,817
Fiduciary:							
Agency	-	83,791	83,791	61,477	-	61,477	22,314
Total (Memorandum Only)	<u>\$ 248,106</u>	<u>\$ 10,722,362</u>	<u>\$ 10,970,468</u>	<u>\$ 5,977,673</u>	<u>\$ 512,280</u>	<u>\$ 6,489,953</u>	<u>\$ 4,480,515</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES**  
**COMPARED WITH EXPENDITURE AUTHORITY**  
**For the Year Ended December 31, 2000**

Fund Types/Funds	Prior Year Carryover Appropriations	2000 Appropriations	Total	Actual 2000 Disbursements	Encumbrances Outstanding at 12/31/00	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General	\$ 40,824	\$ 2,700,253	\$ 2,741,077	\$ 1,368,565	\$ 239,054	\$ 1,607,619	\$ 1,133,458
Special Revenue	260	251,633	251,893	213,339	2,814	216,153	35,740
Capital Projects	247,588	3,970,201	4,217,789	3,566,401	318,301	3,884,702	333,087
Proprietary:							
Enterprise	223,608	7,317,293	7,540,901	3,250,738	273,587	3,524,325	4,016,576
Fiduciary:							
Agency	-	89,709	89,709	72,420	-	72,420	17,289
Total (Memorandum Only)	<u>\$ 512,280</u>	<u>\$ 14,329,089</u>	<u>\$ 14,841,369</u>	<u>\$ 8,471,463</u>	<u>\$ 833,756</u>	<u>\$ 9,305,219</u>	<u>\$ 5,536,150</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE ENTITY**

The Village of Grafton is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected Officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including a mayor's court, police and fire protection, emergency medical, recreation (including parks), street maintenance and repair, and general administrative services.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials have the ability to exercise direct operating control.

**B. REPORTING ENTITY**

In evaluating how to define the Village for financial reporting purposes, management has considered all agencies, departments and organizations making up the Village of Grafton (the primary government) and its potential component units consistent with Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." There were no significant changes in the reporting entity related to the implementation of this statement for the current audit period.

Component units are legally separate organizations for which the Village, as the primary government, 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 financial support to, the organization; or the Village is obligated for the debt of the organization. Component units may also include organizations for which the Village approves the budget, the issuance of debt, or the levying of taxes.

Based on the above definitions, the Village has determined that there are no component units required to be included in the financial statements.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

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

C. **BASIS OF ACCOUNTING**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved.)

These statements include adequate disclosure of material matters, as prescribed by the Auditor of State.

D. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchase investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received. See Note 5 for further description.

E. **FUND ACCOUNTING**

The Village maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**Governmental Fund Types:**

**General Fund**

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**Special Revenue Funds**

To account for the proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

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

E. **FUND ACCOUNTING** - (continued)

**Governmental Fund Types:** - (continued)

**Capital Project Funds:**

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

**Proprietary Fund Types:**

**Enterprise Funds:**

To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

**Fiduciary Fund Types:**

**Agency Funds**

To account for custodial funds held by the Village acting as an agent for another government, organization, individual or fund.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

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

F. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by Council, and submitted to the county auditor, as secretary of the county budget commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. **Estimated Resources**

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the village. The certificate is approved by the county budget commission and sent to the village clerk/treasurer by September 1.

Prior to December 31, the Village must revise the budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

On or about January 1, the clerk/treasurer sends the county auditor a certificate which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate and submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or decreases in revenue are identified by the clerk/treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificates issued during 1999 and 2000.

Budget receipts, as shown in the accompanying financial statements do not include the unencumbered fund balances as of January 1, 2000. However, those fund balances are available for appropriation.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

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

F. **BUDGETARY PROCESS** - (continued)

3. **Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. **Encumbrances**

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated. In the budgetary financial statements, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

G. **PROPERTY, PLANT AND EQUIPMENT**

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

H. **UNPAID VACATION AND SICK LEAVE**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

I. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statement are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**2. PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2000.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. 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 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal years ended December 31, 1999 and 2000 was \$4.76 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.76 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$4.76 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2000 was \$4.76 per \$1,000 of assessed valuation.

The following represents the assessed property values for the revenues received during the years 1999 and 2000.

	<u>1998</u>	<u>1999</u>
Real Property		
Residential/Agricultural	\$ 21,945,490	\$ 22,667,800
Commercial/Industrial		
Mineral/Railroads	6,755,350	6,934,620
 Tangible Personal Property		
Personal Property	5,983,410	5,737,750
Public Utilities	<u>1,091,190</u>	<u>1,153,540</u>
 Total Valuation	 <u>\$ 35,775,440</u>	 <u>\$ 36,493,710</u>

The Lorain County Treasurer collects property tax on behalf of all taxing districts within the county. The Lorain County Auditor periodically remits to the taxing districts their portions of the taxes collected.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**3. LOCAL INCOME TAX**

This locally levied tax of 1.5 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to net income of business organizations conducted within the Village. Tax receipts were credited to the General Fund and the Capital Improvement Fund in the amount of \$1,113,827 in 1999 and \$1,234,528 in 2000.

**4. RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During 1999 and 2000 the Village contracted with one insurance company for coverage of buildings and contents.

The following is a list of insurance coverage of the Village and the deductibles associated with each:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Westfield Companies	Blanket Building	\$11,192,050	\$250
	General Liability	1,000,000	250
	Automobile	1,000,000	250
	Uninsured Motorist	500,000	250
	Comprehensive	Actual Cost	250
	Collision	Actual Cost	250
	Inland Marine	Various	250
	Employee Blanket Bond	10,000	0

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

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

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

**5. EQUITY IN POOLED CASH AND INVESTMENTS**

The Village maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments, and Fund Cash Balances - All Fund Types, December 31, 1999 and 2000".

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**5. EQUITY IN POOLED CASH AND INVESTMENTS – (continued)**

**Legal Requirements**

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

"Active deposits" are public deposits necessary to meet current demands on the 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 two 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 may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligations guaranteed as to principal or 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, 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 services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities, subject to the repurchase agreements, must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**5. EQUITY IN POOLED CASH AND INVESTMENTS - (continued)**

**Legal Requirements - (continued)**

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in the is division are made only through eligible institutions; and
6. 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 be purchased within 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 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.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk/Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No.3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**Deposits**

At year-end, the carrying amount of the Village's deposits was \$2,819 in 1999 and \$ (56,285) in 2000 and the bank balance was \$620,837 in 1999 and \$629,073 in 2000. Of the bank balances:

1. \$100,000 was covered by federal depository insurance in 1999 and \$100,000 was covered in 2000; and
2. \$520,837 in 1999 and \$529,073 of the balance was uninsured, but collateralized by securities pooled by the depository not in the Village's name. As with all deposits, there is a risk of loss of resources, but management believes this collateral gives the Village its safest deposit of money.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**5. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (continued)**

**Investments**

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or by its trust department but not in the Village's name.

The following list represents all investments of the Village, categorized by risk category using the definitions above as of December 31, 1999 and 2000:

	<u>1999 Risk Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
StarOhio	-	-	-	\$4,700,191	\$4,700,191
Repurchase Agree.	-	<u>\$485,000</u>	-	<u>485,000</u>	<u>485,000</u>
<b>Total Investments</b>	<u>-</u>	<u>\$485,000</u>	<u>-</u>	<u>\$5,185,191</u>	<u>\$4,185,191</u>

	<u>2000 Risk Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
StarOhio	-	-	-	\$6,258,026	\$6,258,026
Repurchase Agree.	-	<u>\$525,000</u>	-	<u>525,000</u>	<u>525,000</u>
<b>Total Investments</b>	<u>-</u>	<u>\$525,000</u>	<u>-</u>	<u>\$6,783,026</u>	<u>\$6,783,026</u>

StarOhio is an unclassified investment since it is not evidenced by securities that exist in physical or book form.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**5. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (continued)**

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and classifications of deposits and investments presented above per GASB Statement No. 3 for 1999 and 2000 is shown below.

<u>1999</u>	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 5,188,010	\$ - 0 -
Investments:		
StarOhio	(4,700,191)	4,700,191
Repurchase Agreement	<u>(485,000)</u>	<u>485,000</u>
 GASB Statement 3	 \$ <u>2,819</u>	 \$ <u>5,185,191</u>

<u>2000</u>	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 6,726,741	\$ - 0 -
Investments:		
StarOhio	(6,258,026)	6,258,026
Repurchase Agreement	<u>(525,000)</u>	<u>525,000</u>
 GASB Statement 3	 \$ <u>(56,285)</u>	 \$ <u>6,783,026</u>

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**6. DEBT OBLIGATIONS**

The changes in the Village's debt during fiscal year 1999 were as follows:

	Balance Outstanding <u>12/31/98</u>	<u>Additions</u>	<u>Deductions</u>	Balance Outstanding <u>12/31/99</u>
<b><u>O.P.W.C.</u></b>				
Main Street Waterline – 0%	\$ 140,340	\$ - 0 -	\$ (25,516)	\$ 114,824
Waterline Replacement II – 0%	20,440	- 0 -	(20,440)	- 0 -
WW Treat. Plant Imp. – 0%	165,096	- 0 -	(20,637)	144,459
Hyanis Rd. San. Sewer Repl. – 0%	190,319	- 0 -	(10,016)	180,303
Elm St. Reconstruction – 0%	<u>116,765</u>	<u>- 0 -</u>	<u>( 5,838)</u>	<u>110,927</u>
Total O.P.W.C.	632,960	- 0 -	(82,447)	550,513
<b><u>O.W.D.A.</u></b>				
Water System Imp. – 7.24%	703,499	- 0 -	(18,362)	685,137
Southerly Interceptor – 7.21%	561,978	- 0 -	(24,552)	537,426
Southerly Inter. Supple. – 6.75%	126,632	- 0 -	( 5,721)	120,911
Sewer Plant – 8.26%	1,947,421	- 0 -	(70,284)	1,877,137
Westerly Interceptor – 7.84%	249,383	- 0 -	(13,267)	236,116
Rural Water Hookup – 6.56%	160,043	- 0 -	(18,744)	141,299
WWTP Improvements- 6.87%	<u>1,503,401</u>	<u>- 0 -</u>	<u>(47,013)</u>	<u>1,456,388</u>
Total O.W.D.A.	<u>5,252,357</u>	<u>- 0 -</u>	<u>(197,943)</u>	<u>5,054,414</u>
Grand Total	\$ <u>5,885,317</u>	\$ <u>- 0 -</u>	\$ <u>(280,390)</u>	\$ <u>5,604,927</u>

The changes in the Village's debt during fiscal year 2000 were as follows:

	Balance Outstanding <u>12/31/99</u>	<u>Additions</u>	<u>Deductions</u>	Balance Outstanding <u>12/31/00</u>
<b><u>O.P.W.C.</u></b>				
Main Street Waterline – 0%	\$ 114,824	\$ - 0 -	\$ (25,517)	\$ 89,307
Hickory St. Reconstructin – 0%	- 0 -	205,370	- 0 -	205,370
WW Treat. Plant Imp. – 0%	144,459	- 0 -	(20,637)	123,822
Hyanis Rd. San. Sewer Repl. – 0%	180,303	- 0 -	(10,017)	170,286
Elm St. Reconstruction – 0%	<u>110,927</u>	<u>- 0 -</u>	<u>(11,676)</u>	<u>99,251</u>
Total O.P.W.C.	550,513	205,370	(67,847)	688,036

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**6. DEBT OBLIGATIONS – (continued)**

<u>O.W.D.A.</u>	Balance Outstanding <u>12/31/99</u>	<u>Additions</u>	<u>Deductions</u>	Balance Outstanding <u>12/31/00</u>
Water System Imp. – 7.24%	685,137	- 0 -	(19,692)	665,445
Southerly Interceptor – 7.21%	537,426	- 0 -	(26,322)	511,104
Southerly Inter. Supple. – 6.75%	120,911	- 0 -	( 6,107)	114,804
Sewer Plant – 8.26%	1,877,137	- 0 -	(76,089)	1,801,048
Westerly Interceptor – 7.84%	236,116	- 0 -	(14,307)	221,809
Rural Water Hookup – 6.56%	141,299	- 0 -	(19,973)	121,326
WWTP Improvements – 6.41%	- 0 -	2,474,583	- 0 -	2,474,583
WWTP Improvements- 6.87%	<u>1,456,388</u>	<u>- 0 -</u>	<u>(50,243)</u>	<u>1,406,145</u>
Total O.W.D.A.	5,054,414	2,474,583	(212,733)	7,316,264
AMP-Ohio Electric Systems Note	<u>- 0 -</u>	<u>1,500,000</u>	<u>- 0 -</u>	<u>1,500,000</u>
Grand Total	\$ <u>5,604,927</u>	\$ <u>4,179,953</u>	\$ <u>(280,580)</u>	\$ <u>9,504,300</u>

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

The AMP-Ohio note proceeds were used for improvements to the Village's electric system. The note will be paid from user charges.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2000 are as follows:

<u>Year Ended</u>	<u>O.P.W.C. Loans</u>	<u>O.W.D.A. Loans</u>
2001	\$ 75,754	\$ 441,836
2002	83,661	441,836
2003	83,661	441,836
2004	70,903	441,836
2005	58,145	441,836
2006-2010	163,824	1,928,122
2011-2017	<u>152,088</u>	<u>1,337,173</u>
Total	\$ <u>688,036</u>	\$ <u>5,474,475</u>

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**6. DEBT OBLIGATIONS – (continued)**

The amortization schedule for the Waste Water Treatment Plant Improvement O.W.D.A. loan issued in 2000 had not been finalized by O.W.D.A. and is not included in the above amortization schedule.

**7. PENSION AND RETIREMENT PLANS**

The employees of the Village of Grafton are covered by either the Public Employees Retirement System of Ohio or the Ohio Police and Fire Pension Fund. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

**Public Employee Retirement System (PERS)**

The Public Employees Retirement System (PERS) of Ohio is a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. For local government employer units the rate was 10.84% of covered payroll which reflects a temporary employer contribution rollback for calendar year 2000. The contribution rates are determined actuarially. The Village's contributions for pension obligations to PERS for the years ended December 31, 2000, 1999, and 1998 were \$73,838, \$88,979 and \$75,631 respectively. The full amount has been contributed for 1999 and 1998. 74% has been contributed for 2000.

**Ohio Police and Fire Pension Fund**

The Village of Grafton contributes to the Ohio Police and Fire Pension Fund (OPFP), a cost sharing, multiple-employer defined benefit pension plan. OPFP 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. The OPFP 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.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**7. PENSION AND RETIREMENT PLANS - (continued)**

**Ohio Police and Fire Pension Fund – (continued)**

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The Village does not have any full-time firefighters. The Village's contributions to OPFP for the years ending December 31, 2000, 1999, and 1998 were \$25,051, \$23,893, and \$22,449, respectively. The full amount has been contributed for 1999 and 1998. 73% has been contributed for 2000.

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**Public Employees Retirement System of Ohio**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio Service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was rolled back for the year 2000. For local government employers the contribution rate was 10.84% of covered payroll; 4.30% was the portion that was used to fund health care.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 1999. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investments assets. The investment assumption rate for 1999 was 7.75%. An annual increase of 4.75% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above 4.75% base increase, were assumed to range from 0.54% to 5.1%.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS – (continued)**

**Public Employees Retirement System of Ohio**

Benefits are advance-funded on an actuarially determined basis. The number of active contributing participants was 401,339. OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. \$10,805.5 million represents the actuarial value of the Retirement Systems's net assets available for OPEB at December 31, 1999. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

During 2000, the Retirement Board initiated significant policy changes during 2000. The Retirement enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both state and local government divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for these reasons.

The Village's actual contributions for 2000 that were used to fund post-employment benefits were \$29,291.

**Ohio Police and Fire Pension Fund**

The Fund provides post-retirement health care coverage to any person who received or is eligible to receive a monthly 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Ohio Police and Fire Pension Fund shall be included in the employers's contribution rate. The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll of which 7.25% of covered payroll was applied to the postemployment health care program during 2000. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

**VILLAGE OF GRAFTON**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 1999 and 2000**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS – (continued)**

**Ohio Police and Fire Pension Fund**

The number of participants eligible to receive health care benefits as of December 31, 1999 (the latest information available) are 12,467 for Police and 9,807 for Firefighters.

The Village's actual contributions for 2000 which were used to fund post-employment benefits were \$9,319.

The Fund's total health care expense for the year ending December 31, 1999 (the latest information available) was \$95,004,633, which was net of member contributions of \$5,518,098.

**9. CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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 is 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 no have a material adverse effect on the financial conditions of the Village.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members  
of Village Council  
Village of Grafton  
Grafton, Ohio

We have audited the financial statements of the Village of Grafton as and for the years ended December 31, 1999 and 2000, and have issued our report thereon dated March 29, 2001. We conducted our audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated March 29, 2001.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Charles E. Harris & Associates, Inc.*  
March 29, 2001

**STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the period ending December 31, 1998 and 1997, did not include material citations or recommendations.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**VILLAGE OF GRAFTON**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 5, 2001**