

VILLAGE OF GRAFTON

AUDIT REPORT

For the Years Ended December 31, 2001 and 2002

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



**Auditor of State
Betty Montgomery**

The Honorable Mayor and Village Council
Village of Grafton
960 Main Street
Grafton, OH 44044

We have reviewed the Independent Auditor's Report of the Village of Grafton, Lorain County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2001 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 17, 2003

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VILLAGE OF GRAFTON
Audit Report
For the years ended December 31, 2001 and 2002

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VILLAGE OF GRAFTON
AUDIT REPORT
For the years ended December 31, 2001 and 2002

ELECTED OFFICIALS

| <u>ELECTED OFFICIAL</u> | <u>TITLE</u> | <u>TERM OF OFFICE</u> | <u>SURETY</u> |
|--------------------------------|---------------------|------------------------------|----------------------|
| Shari Szczepanski | Mayor | 1/1/00 - 12/31/03 | (A) |
| Thomas Smith | Council- President | 1/1/02 - 12/31/05 | (A) |
| Robert Frabotta | Council | 1/1/02 - 12/31/05 | (A) |
| Randal Moore | Council | 1/1/02 - 12/31/05 | (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. Blanket Bond in the amount of \$10,000

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

Law Director

Richard G. Lillie
Lillie & Holderman
75 Public Square, Suite 1111
Cleveland, Ohio 44113-2001

VILLAGE OF GRAFTON
AUDIT REPORT
For the years ended December 31, 2001 and 2002

ADMINISTRATIVE OFFICIALS

| <u>APPOINTED OFFICIALS</u> | <u>TITLE</u> | <u>TERM OF OFFICE</u> | <u>SURETY</u> |
|-----------------------------------|-----------------------|------------------------------|----------------------|
| Rick Kowalski | Village Administrator | Continuous | (A) |
| Jim Brearey | 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, 2001 and 2002

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

Police Equipment Fund

Police Youth Activity Fund

Law Enforcement Trust Fund

Police Pension Fund

Enforcement and Education Fund

Tree Commission 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

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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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, 2001 and 2002, 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, 2001 and 2002, 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 April 25, 2003 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.
April 25, 2003

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH
BALANCES - ALL FUND TYPES
As of December 31, 2001 and 2002

| | <u>2001</u> <u>Balances</u> | <u>2002</u> <u>Balances</u> |
|---------------------------|--------------------------------|--------------------------------|
| Cash and Cash Equivalents | \$ <u>6,059,301</u> | \$ <u>3,950,206</u> |
| Total | \$ <u><u>6,059,301</u></u> | \$ <u><u>3,950,206</u></u> |

Cash Balances By Fund Class

Governmental Fund Types:

| | | |
|------------------------|------------|------------|
| General Fund | \$ 947,426 | \$ 745,257 |
| Special Revenue Funds | 46,842 | 19,808 |
| Capital Projects Funds | 591,205 | 573,479 |

Proprietary Fund Type:

| | | |
|------------------|-----------|-----------|
| Enterprise Funds | 4,451,912 | 2,590,991 |
|------------------|-----------|-----------|

Fiduciary Fund Type:

| | | |
|--------------|---------------|---------------|
| Agency Funds | <u>21,916</u> | <u>20,671</u> |
|--------------|---------------|---------------|

| | | |
|-------|----------------------------|----------------------------|
| Total | \$ <u><u>6,059,301</u></u> | \$ <u><u>3,950,206</u></u> |
|-------|----------------------------|----------------------------|

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2001

| | Governmental Fund Types | | | (Memorandum Only) |
|---|-------------------------|--------------------|---------------------|----------------------|
| | General | Special Revenue | Capital Projects | Total |
| Receipts: | | | | |
| Taxes | \$ 711,890 | \$ 11,859 | \$ 722,059 | \$ 1,445,808 |
| Intergovernmental | 160,411 | 167,551 | 43,395 | 371,357 |
| Charges for Services | 96,535 | - | - | 96,535 |
| Fines, Licenses, and Permits | 50,277 | 4,357 | - | 54,634 |
| Earnings on Investments | 242,745 | 2,039 | - | 244,784 |
| Miscellaneous | 55,575 | - | 65,291 | 120,866 |
| Total Receipts | 1,317,433 | 185,806 | 830,745 | 2,333,984 |
| Disbursements: | | | | |
| Security of Persons & Property | 512,155 | 14,838 | - | 526,993 |
| Public Health Services | 35,310 | - | - | 35,310 |
| Leisure Time Activities | 54,703 | - | - | 54,703 |
| Community Environment | 6,092 | 24,000 | - | 30,092 |
| Basic Utility Services | 97,655 | - | - | 97,655 |
| Transportation | - | 143,050 | - | 143,050 |
| General Government | 427,661 | - | - | 427,661 |
| Capital Outlay | 662,164 | 12,964 | 1,300,559 | 1,975,687 |
| Debt Service: | | | | |
| Principal | - | - | 186,114 | 186,114 |
| Interest & Fiscal Charges | - | - | 63,886 | 63,886 |
| Total Disbursements | 1,795,740 | 194,852 | 1,550,559 | 3,541,151 |
| Excess of Receipts Over/(Under) Disbursements | (478,307) | (9,046) | (719,814) | (1,207,167) |
| Other Financing Sources/(Uses): | | | | |
| Proceeds of Loans | - | - | 725,332 | 725,332 |
| Transfers-In | 60,599 | 10,000 | - | 70,599 |
| Transfers-Out | (69,281) | - | - | (69,281) |
| Advances-In | 2,587 | - | - | 2,587 |
| Advances-Out | - | (2,587) | - | (2,587) |
| Other Uses | (10,000) | - | (85,345) | (95,345) |
| Total Other Financing Sources/(Uses) | (16,095) | 7,413 | 639,987 | (94,027) |
| Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses | (494,402) | (1,633) | (79,827) | (575,862) |
| Fund Balance January 1, 2001 | 1,441,828 | 48,475 | 671,032 | 2,161,335 |
| Fund Balance December 31, 2001 | \$ 947,426 | \$ 46,842 | \$ 591,205 | \$ 1,585,473 |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2002

| | Governmental Fund Types | | | (Memorandum Only) |
|---|-------------------------|--------------------|---------------------|----------------------|
| | General | Special Revenue | Capital Projects | Total |
| Receipts: | | | | |
| Taxes | \$ 699,426 | \$ 11,741 | \$ 722,905 | \$ 1,434,072 |
| Intergovernmental | 147,396 | 160,369 | 129,584 | 437,349 |
| Charges for Services | 103,107 | - | - | 103,107 |
| Fines, Licenses, and Permits | 52,952 | 3,415 | - | 56,367 |
| Earnings on Investments | 83,290 | - | - | 83,290 |
| Miscellaneous | 45,361 | 3,147 | 47,636 | 96,144 |
| Total Receipts | 1,131,532 | 178,672 | 900,125 | 2,210,329 |
| Disbursements: | | | | |
| Security of Persons & Property | 544,777 | 13,475 | - | 558,252 |
| Public Health Services | 39,122 | - | - | 39,122 |
| Leisure Time Activities | 28,155 | - | - | 28,155 |
| Community Environment | 17,099 | 21,316 | - | 38,415 |
| Basic Utility Services | 112,726 | - | - | 112,726 |
| Transportation | - | 151,066 | - | 151,066 |
| General Government | 453,549 | - | - | 453,549 |
| Capital Outlay | 80,318 | 55,020 | 774,418 | 909,756 |
| Debt Service: | | | | |
| Principal | - | - | 67,983 | 67,983 |
| Interest & Fiscal Charges | - | - | 33,915 | 33,915 |
| Total Disbursements | 1,275,746 | 240,877 | 876,316 | 2,392,939 |
| Excess of Receipts Over/(Under) Disbursements | (144,214) | (62,205) | 23,809 | (182,610) |
| Other Financing Sources/(Uses): | | | | |
| Proceeds of Loans | - | - | 14,398 | 14,398 |
| Transfers-In | 110,185 | 35,000 | 16,400 | 161,585 |
| Transfers-Out | (160,358) | - | - | (160,358) |
| Advances-In | 2,408 | 2,579 | - | 4,987 |
| Advances-Out | (2,579) | (2,408) | - | (4,987) |
| Other Financing Sources | 2,389 | - | - | 2,389 |
| Other Financing Uses | (10,000) | - | (72,333) | (82,333) |
| Total Other Financing Sources/(Uses) | (57,955) | 35,171 | (41,535) | (78,717) |
| Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses | (202,169) | (27,034) | (17,726) | (246,929) |
| Fund Balance January 1, 2002 | 947,426 | 46,842 | 591,205 | 1,585,473 |
| Fund Balance December 31, 2002 | \$ 745,257 | \$ 19,808 | \$ 573,479 | \$ 1,338,544 |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND AND SIMILAR FIDUCIARY FUNDS
For the Year Ended December 31, 2001

| | <u>Proprietary Fund Type Enterprise</u> | <u>Fiduciary Fund Type Agency</u> | <u>Total (Memorandum Only)</u> |
|--|---|---|--|
| Receipts: | | | |
| Charges for Services | \$ 3,489,333 | \$ - | \$ 3,489,333 |
| Miscellaneous | 38,742 | - | 38,742 |
| Total Receipts | 3,528,075 | - | 3,528,075 |
| Disbursements: | | | |
| Personal Services | 339,593 | - | 339,593 |
| Travel Transportation | 16,013 | - | 16,013 |
| Contractual Services | 1,712,614 | - | 1,712,614 |
| Supplies and Materials | 184,778 | - | 184,778 |
| Capital Outlay | 741,560 | - | 741,560 |
| Total Disbursements | 2,994,558 | - | 2,994,558 |
| Excess Receipts Over/(Under) Disbursements | 533,517 | - | 533,517 |
| Non-Operating Revenues: | | | |
| Proceeds of Notes | 1,500,000 | - | 1,500,000 |
| Miscellaneous | - | 62,876 | 62,876 |
| Total Non-Operating Revenues | 1,500,000 | 62,876 | 1,562,876 |
| Non-Operating Expenses: | | | |
| Debt Service: | | | |
| Principal | (1,639,108) | - | (1,639,108) |
| Interest | (491,116) | - | (491,116) |
| Other Non-Operating Expenses | - | (56,429) | (56,429) |
| Total Non-Operating Expenses | (2,130,224) | (56,429) | (2,186,653) |
| Excess of Receipts Over/(Under) Disbursements | (96,707) | 6,447 | (90,260) |
| Transfers-In | 59,281 | 1,000 | 60,281 |
| Transfers-Out | (59,431) | (2,168) | (61,599) |
| Net Receipts Over/(Under) Disbursements | (96,857) | 5,279 | (91,578) |
| Fund Balance January 1, 2001 | 4,548,769 | 16,637 | 4,565,406 |
| Fund Balance December 31, 2001 | \$ 4,451,912 | \$ 21,916 | \$ 4,473,828 |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
For the Year Ended December 31, 2002

| | Proprietary Fund Type <u>Enterprise</u> | Fiduciary Fund Type <u>Agency</u> | Total (Memorandum Only) |
|---|---|---|-------------------------------|
| Receipts: | | | |
| Charges for Services | \$ 3,435,549 | \$ 8,157 | \$ 3,443,706 |
| Miscellaneous | <u>5,888</u> | <u>-</u> | <u>5,888</u> |
| Total Receipts | 3,441,437 | 8,157 | 3,449,594 |
| Disbursements: | | | |
| Personal Services | 362,161 | - | 362,161 |
| Travel Transportation | 10,752 | - | 10,752 |
| Contractual Services | 1,805,169 | 5,508 | 1,810,677 |
| Material and Supplies | 298,962 | 237 | 299,199 |
| Capital Outlay | <u>1,174,923</u> | <u>-</u> | <u>1,174,923</u> |
| Total Disbursements | 3,651,967 | 5,745 | 3,657,712 |
| Excess Receipts Over/(Under) Disbursements | (210,530) | 2,412 | (208,118) |
| Non-Operating Revenues: | | | |
| Proceeds of O.W.D.A. Loan | 700,000 | - | 700,000 |
| Miscellaneous | <u>-</u> | <u>50,425</u> | <u>50,425</u> |
| Total Non-Operating Revenues | 700,000 | 50,425 | 750,425 |
| Non-Operating Expenses: | | | |
| Debt Service: | | | |
| Principal | (1,787,023) | - | (1,787,023) |
| Interest | (563,368) | - | (563,368) |
| Other Non-Operating Expenses | <u>-</u> | <u>(52,855)</u> | <u>(52,855)</u> |
| Total Non-Operating Expenses | (2,350,391) | (52,855) | (2,403,246) |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers | (1,860,921) | (18) | (1,860,939) |
| Transfers-In | 108,958 | - | 108,958 |
| Transfers-Out | <u>(108,958)</u> | <u>(1,227)</u> | <u>(110,185)</u> |
| Net Receipts Over/(Under) Disbursements | (1,860,921) | (1,245) | (1,862,166) |
| Fund Balance January 1, 2002 | 4,451,912 | 21,916 | 4,473,828 |
| Fund Balance December 31, 2002 | \$ <u>2,590,991</u> | \$ <u>20,671</u> | \$ <u>2,611,662</u> |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2001

| <u>Fund Types/Funds:</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|--|----------------------------|----------------------------|--|
| <u>Governmental Fund Types:</u> | | | |
| General Fund | \$ 1,348,476 | \$ 1,380,619 | \$ 32,143 |
| Special Revenue | 204,131 | 195,806 | (8,325) |
| Capital Projects | 1,506,331 | 1,556,077 | 49,746 |
| <u>Proprietary Fund Types:</u> | | | |
| Enterprise Funds | 4,816,457 | 5,087,356 | 270,899 |
| <u>Fiduciary Funds</u> | | | |
| Agency Funds | <u>79,357</u> | <u>63,877</u> | <u>(15,480)</u> |
| Total (Memorandum Only) | \$ <u>7,954,752</u> | \$ <u>8,283,735</u> | \$ <u>328,983</u> |

See Accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

| <u>Fund Types/Funds:</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|------------------------------------|-------------------------|-------------------------|--|
| <u>Governmental Fund Types:</u> | | | |
| General Fund | \$ 1,272,831 | \$ 1,246,514 | \$ (26,317) |
| Special Revenue | 216,844 | 216,251 | (593) |
| Capital Projects | 904,428 | 930,923 | 26,495 |
| <u>Proprietary Fund Types:</u> | | | |
| Enterprise Funds | 4,018,960 | 4,250,395 | 231,435 |
| <u>Fiduciary Funds</u> | | | |
| Agency Funds | <u>82,657</u> | <u>58,582</u> | <u>(24,075)</u> |
| Total (Memorandum Only) | <u>\$ 6,495,720</u> | <u>\$ 6,702,665</u> | <u>\$ 206,945</u> |

See Accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2001

| <u>Fund Types/Funds</u> | <u>Carryover Appropriations</u> | <u>Year Ending 2001 Appropriations</u> | <u>Total</u> | <u>Actual 2001 Disbursements</u> | <u>Encumbrances as of 12/31/01</u> | <u>Total</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|--------------------------------|-------------------------------------|--|----------------------|--|--|---------------------|--|
| Governmental Funds: | | | | | | | |
| General Fund | \$ 239,054 | \$ 2,551,250 | \$ 2,790,304 | \$ 1,875,021 | \$ 92,792 | \$ 1,967,813 | \$ 822,491 |
| Special Revenue Funds | 2,814 | 249,792 | 252,606 | 197,439 | 818 | 198,257 | 54,349 |
| Capital Projects Funds | 318,301 | 1,859,061 | 2,177,362 | 1,635,904 | 127,388 | 1,763,292 | 414,070 |
| Proprietary Funds: | | | | | | | |
| Enterprise Funds | 273,587 | 9,091,640 | 9,365,227 | 5,184,213 | 396,769 | 5,580,982 | 3,784,245 |
| Fiduciary Funds: | | | | | | | |
| Agency | - | 95,994 | 95,994 | 58,597 | - | 58,597 | 37,397 |
| Total (Memorandum Only) | \$ 833,756 | \$ 13,847,737 | \$ 14,681,493 | \$ 8,951,174 | \$ 617,767 | \$ 9,568,941 | \$ 5,112,552 |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
LORAIN COUNTY, OHIO
COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
For the Year Ended December 31, 2002

| <u>Fund Types/Funds</u> | <u>Carryover Appropriations</u> | <u>Year Ending 2002 Appropriations</u> | <u>Total</u> | <u>Actual 2002 Disbursements</u> | <u>Encumbrances as of 12/31/02</u> | <u>Total</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|--------------------------------|-------------------------------------|--|----------------------|--|--|---------------------|--|
| Governmental Funds: | | | | | | | |
| General Fund | \$ 92,792 | \$ 2,127,465 | \$ 2,220,257 | \$ 1,448,683 | \$ 17,969 | \$ 1,466,652 | \$ 753,605 |
| Special Revenue Funds | 818 | 262,868 | 263,686 | 243,285 | 303 | 243,588 | 20,098 |
| Capital Projects Funds | 127,388 | 1,368,244 | 1,495,632 | 948,649 | 24,307 | 972,956 | 522,676 |
| Proprietary Funds: | | | | | | | |
| Enterprise Funds | 396,769 | 8,074,103 | 8,470,872 | 6,111,316 | 107,304 | 6,218,620 | 2,252,252 |
| Proprietary Funds: | | | | | | | |
| Agency Funds | - | 104,573 | 104,573 | 59,827 | - | 59,827 | 44,746 |
| Total (Memorandum Only) | \$ 617,767 | \$ 11,937,253 | \$ 12,555,020 | \$ 8,811,760 | \$ 149,883 | \$ 8,961,643 | \$ 3,593,377 |

See accompanying Notes to the Financial Statements.

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

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, 2001 and 2002

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, 2001 and 2002

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, 2001 and 2002

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 2001 and 2002.

Budget receipts, as shown in the accompanying financial statements do not include the unencumbered fund balances as of January 1, 2001. However, those fund balances are available for appropriation.

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

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, 2001 and 2002

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, 2001 and 2002 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 years ended December 31, 2000 and 2001 (for revenues received in 2001 and 2002) was \$4.76 per \$1,000 of assessed valuation.

The following represents the assessed property values for the revenues received during the years 2001 and 2002.

| | <u>2001</u> | <u>2002</u> |
|----------------------------|----------------------|----------------------|
| Real Property | | |
| Residential/Agricultural | \$ 27,816,890 | \$ 28,842,880 |
| Commercial/Industrial | | |
| Mineral/Railroads | 7,505,880 | 7,591,950 |
| Tangible Personal Property | | |
| Personal Property | 6,821,720 | 8,126,160 |
| Public Utilities | <u>1,040,350</u> | <u>945,980</u> |
| Total Valuation | <u>\$ 43,184,840</u> | <u>\$ 45,506,970</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, 2001 and 2002

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 \$1,168,043 in 2001 and to the General Fund, Capital Improvement Fund and Capital Improvement Parks Fund in the amount of \$1,226,927 in 2002.

4. RISK MANAGEMENT

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

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

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

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, As of December 31, 2001 and 2002".

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.

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

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

Legal Requirements – (continued)

"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;
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).

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

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

Legal Requirements – (continued)

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 \$(14,107) in 2001 and \$ 945,575 in 2002 and the bank balance was \$1,040,074 in 2001 and \$1,110,917 in 2002. Of the bank balances:

1. \$100,000 was covered by federal depository insurance in 2001 and \$100,000 was covered in 2002; and
2. \$940,074 in 2001 and \$1,010,917 in 2002 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.

The negative carrying value in 2001 was due to overnight repurchase agreements not reflected in balance but reflected as investments.

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

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, 2001 and 2002:

| | <u>2001 Risk Category</u> | | | <u>Carrying Value</u> | <u>Fair Value</u> |
|--------------------------|---------------------------|------------------|----------|-----------------------|--------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | | |
| StarOhio | - | - | - | \$5,163,408 | \$5,163,408 |
| Repurchase Agree. | - | \$910,000 | - | <u>910,000</u> | <u>910,000</u> |
| Total Investments | <u>-</u> | <u>\$910,000</u> | <u>-</u> | <u>\$6,073,408</u> | <u>\$6,073,408</u> |

| | <u>2002 Risk Category</u> | | | <u>Carrying Value</u> | <u>Fair Value</u> |
|--------------------------|---------------------------|----------|----------|-----------------------|--------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | | |
| StarOhio | - | - | - | \$3,004,631 | \$3,004,631 |
| Total Investments | <u>-</u> | <u>-</u> | <u>-</u> | <u>\$3,004,631</u> | <u>\$3,004,631</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, 2001 and 2002

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 2001 and 2002 is shown below.

| <u>2001</u> | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|----------------------|---|-------------------------|
| GASB Statement 9 | \$ 6,059,301 | \$ - 0 - |
| Investments: | | |
| StarOhio | (5,163,408) | 5,163,408 |
| Repurchase Agreement | <u>(910,000)</u> | <u>910,000</u> |
| GASB Statement 3 | \$ <u>(14,107)</u> | \$ <u>6,073,408</u> |

| <u>2002</u> | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|----------------------|---|-------------------------|
| GASB Statement 9 | \$ 3,950,206 | \$ - 0 - |
| Investments: | | |
| StarOhio | (3,004,631) | <u>3,004,631</u> |
| GASB Statement 3 | \$ <u>945,575</u> | \$ <u>3,004,631</u> |

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

6. DEBT OBLIGATIONS

The changes in the Village's debt during fiscal year 2001 were as follows:

| | Balance Outstanding <u>12/31/00</u> | <u>Additions</u> | <u>Deductions</u> | Balance Outstanding <u>12/31/01</u> |
|-----------------------------------|---|------------------------|--------------------------|---|
| <u>O.P.W.C</u> | | | | |
| Main Street Waterline - 0% | \$89,307 | \$- 0 - | \$(25,517) | \$63,790 |
| Hickory St. Reconstruction - 0% | 205,370 | 3,511 | - 0 - | 208,881 |
| WW Treatment Plant Imp. - 0% | 123,822 | - 0 - | (20,637) | 103,185 |
| Hyanis Rd. San. Sewer Repl. - 0% | 170,286 | - 0 - | (10,017) | 160,269 |
| Willow St. Reconstruction - 0% | - 0 - | 114,953 | - 0 - | 114,953 |
| Elm St. Reconstruction - 0% | <u>99,251</u> | <u>- 0 -</u> | <u>(11,677)</u> | <u>87,574</u> |
| Total O.P.W.C. | 688,036 | 118,464 | (67,848) | 738,652 |
| <u>O.W.D.A.</u> | | | | |
| Water System Imp. - 7.24% | 665,445 | - 0 - | (21,118) | 644,327 |
| Southerly Interceptor - 7.21% | 511,104 | - 0 - | (28,220) | 482,884 |
| Southerly Inter. Supple. - 6.75% | 114,804 | - 0 - | (6,519) | 108,285 |
| Sewer Plant - 8.26% | 1,801,048 | - 0 - | (82,374) | 1,718,674 |
| Westerly Interceptor - 7.84% | 221,809 | - 0 - | (15,429) | 206,380 |
| Rural Water Hookup - 6.56% | 121,326 | - 0 - | (21,284) | 100,042 |
| WWTP Improvements - 6.41% | 2,474,583 | 606,868 | (28,736) | 3,052,715 |
| WWTP Improvements - 6.87% | <u>1,406,145</u> | <u>- 0 -</u> | <u>(53,694)</u> | <u>1,352,451</u> |
| Total O.W.D.A. | <u>7,316,264</u> | <u>606,868</u> | <u>(257,374)</u> | <u>7,665,758</u> |
| AMP-Ohio Electric System Note | <u>1,500,000</u> | <u>1,500,000</u> | <u>(1,500,000)</u> | <u>1,500,000</u> |
| Grand Total | <u>\$9,504,300</u> | <u>\$2,225,332</u> | <u>\$(1,825,222)</u> | <u>\$9,904,410</u> |

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

6. DEBT OBLIGATIONS – (continued)

The changes in the Village's debt during fiscal year 2002 were as follows:

| | Balance Outstanding <u>12/31/01</u> | <u>Additions</u> | <u>Deductions</u> | Principal Adjustment | Balance Outstanding <u>12/31/02</u> |
|----------------------------------|---|------------------|----------------------|-------------------------|---|
| <u>O.P.W.C</u> | | | | | |
| Main Street Waterline - 0% | \$63,790 | \$- 0 - | \$(25,516) | \$- 0 - | \$38,274 |
| Hickory St. Reconstruction - 0% | 208,881 | - 0 - | (13,925) | - 0 - | 194,956 |
| WW Treatment Plant Imp. - 0% | 103,185 | - 0 - | (20,637) | - 0 - | 82,548 |
| Hyanis Rd. San. Sewer Repl. - 0% | 160,269 | - 0 - | (10,017) | - 0 - | 150,252 |
| Willow St. Reconstruction - 0% | 114,953 | - 0 - | - 0 - | - 0 - | 114,953 |
| Sunshine Court - 0% | - 0 - | 14,398 | - 0 - | - 0 - | 14,398 |
| Elm St. Reconstruction - 0% | <u>87,574</u> | <u>- 0 -</u> | <u>(11,677)</u> | <u>- 0 -</u> | <u>75,897</u> |
| Total O.P.W.C. | 738,652 | 14,398 | (81,772) | - 0 - | 671,278 |
| <u>O.W.D.A.</u> | | | | | |
| Water System Imp. - 7.24% | 644,327 | - 0 - | (22,646) | - 0 - | 621,681 |
| Southerly Interceptor - 7.21% | 482,884 | - 0 - | (30,255) | - 0 - | 452,629 |
| Southerly Inter. Supple. - 6.75% | 108,285 | - 0 - | (6,959) | - 0 - | 101,326 |
| Sewer Plant - 8.26% | 1,718,674 | - 0 - | (89,179) | - 0 - | 1,629,495 |
| Westerly Interceptor - 7.84% | 206,380 | - 0 - | (16,638) | - 0 - | 189,742 |
| Rural Water Hookup - 6.56% | 100,042 | - 0 - | (22,680) | - 0 - | 77,362 |
| WWTP Improvements - 6.41% | 3,052,715 | - 0 - | (27,494) | (23,382) | 3,001,839 |
| WWTP Improvements - 6.87% | <u>1,352,451</u> | <u>- 0 -</u> | <u>(57,383)</u> | <u>- 0 -</u> | <u>1,295,068</u> |
| Total O.W.D.A. | <u>7,665,758</u> | <u>- 0 -</u> | <u>(273,234)</u> | <u>(23,382)</u> | <u>7,369,142</u> |
| AMP-Ohio Electric System Note | <u>1,500,000</u> | <u>700,000</u> | <u>(1,500,000)</u> | <u>- 0 -</u> | <u>700,000</u> |
| Grand Total | <u>\$9,904,410</u> | <u>\$714,398</u> | <u>\$(1,855,006)</u> | <u>\$ (23,382)</u> | <u>\$8,740,420</u> |

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

6. DEBT OBLIGATIONS – (continued)

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.

The principal adjustment to the Wastewater Treatment Plant Improvement issue was made by O.W.D.A. to the Village's loan agreement.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

| <u>Year</u> <u>Ended</u> | <u>O.P.W.C.</u> <u>Loans</u> | <u>O.W.D.A.</u> <u>Loans</u> |
|-----------------------------|---------------------------------|---------------------------------|
| 2003 | \$ 91,318 | \$841,062 |
| 2004 | 78,560 | 841,062 |
| 2005 | 65,802 | 841,062 |
| 2006 | 65,800 | 811,820 |
| 2007 | 56,164 | 811,820 |
| 2008-2012 | 168,469 | 4,805,286 |
| 2013-2018 | 132,729 | 2,441,244 |
| 2019-2021 | <u>12,436</u> | <u>1,990,440</u> |
| Total | \$ <u>671,278</u> | \$ <u>13,383,796</u> |

7. RETIREMENT SYSTEMS

The Ohio Public Employees Retirement System (OPERS) is a state operated, cost sharing, multiple employer public employee retirement system. OPERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. OPERS also provides survivor and disability benefits to vested employees.

Contributions rates are prescribed by the Ohio Revised Code. The Village's OPERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of the participant's gross salaries. The Village has paid all contributions required through December 31, 2002.

Police officers of the Village are members of the Ohio Police and Fire Pension Fund (OP & F), a state operated, cost sharing, multiple-employer defined benefit pension plan. OP & F provides retirement and disability benefits to plan members and beneficiaries.

VILLAGE OF GRAFTON
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2002

7. RETIREMENT SYSTEMS – (continued)

The Ohio Revised Code prescribes contributions. The Village's OP & F members contributed 10% of their gross salaries. The Village contributed an amount equal to 19.5% of the participant's gross salaries through December 31, 2002 for police officers. The Village has paid all contributions required through December 31, 2002.

8 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, mat 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 not have a material adverse effect on the financial condition 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, 2001 and 2002, and have issued our report thereon dated April 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated April 25, 2003.

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 April 25, 2003.

This report is intended solely for the information and use of management and village council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
April 25, 2003

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 1999 and 2000, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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VILLAGE OF GRAFTON

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 7, 2003**