



**VILLAGE OF GRAND RIVER
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Grand River
Lake County
P.O. Box 216
205 Singer Avenue
Grand River, Ohio 44045-0216

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Grand River, Lake County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Grand River, Lake County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General and Street Construction, Maintenance and Repair funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

March 24, 2006

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This discussion and analysis of the financial performance of the Village of Grand River, Cuyahoga County, Ohio, (the Village) provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities increased \$28,315, or 14.8 percent, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the General Fund.

The Village's general receipts are primarily property and income taxes. These receipts represent respectively 14.7 and 51.6 percent of the total cash received for governmental activities during the year. Property and income tax receipts for 2005 changed very little compared to 2004.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we express the Village's activities as the following:

Governmental activities – The Village's basic services are reported here, including police, fire, and streets. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General fund, the Streets Construction, Maintenance, and Repair fund, and the Capital Projects fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a modified cash basis:

(Table 1)

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$219,683	\$191,368
Total Assets	\$219,683	\$191,368
Net Assets		
Restricted for:		
Capital Projects	\$42,016	\$63,344
Debt Service	272	0
Other Purposes	32,210	16,201
Unrestricted	145,185	111,823
Total Net Assets	\$219,683	\$191,368

As mentioned previously, net assets of governmental activities increased \$28,315 or 14.8 percent during 2005. The primary reasons contributing to the increases in cash balances were decreases in expenditures the General fund and the Capital Projects fund.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 reflects the changes in net assets for 2005 compared to 2004 on a modified cash basis.

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2005	2004
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$54,221	\$38,750
Operating Grants and Contributions	1,000	28,444
Capital Grants and Contributions	144,223	340,651
Total Program Receipts	<u>199,444</u>	<u>407,845</u>
General Receipts:		
Property and Other Local Taxes	87,997	78,700
Income Taxes	308,708	347,043
Grants and Entitlements Not Restricted to Specific Programs	184,106	134,612
Interest	5,333	1,809
Miscellaneous	12,157	15,482
Total General Receipts	<u>598,301</u>	<u>577,646</u>
Total Receipts	<u>797,745</u>	<u>985,491</u>
Disbursements:		
General Government	142,509	142,827
Security of Persons and Property	405,023	512,507
Public Health Services	4,435	3,389
Leisure Time Activities	2,369	2,530
Community Environment	3,300	3,575
Transportation	28,246	36,614
Capital Outlay	178,091	281,801
Principal Retirement	4,792	1,045
Interest and Fiscal Charges	665	5,670
Total Disbursements	<u>769,430</u>	<u>989,958</u>
Increase (Decrease) in Net Assets	28,315	(4,467)
Net Assets, January 1	<u>191,368</u>	<u>195,835</u>
Net Assets, December 31	<u>\$219,683</u>	<u>\$191,368</u>

Program receipts represent only 25.0 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, mayor's court fines, and grants.

General receipts represent 75.0 percent of the Village's total receipts, and of this amount, over 66.3 percent are local taxes. State and federal grants and entitlements make up 30.8 percent of the Village's general receipts. Interest and Miscellaneous receipts are make up the balance of the Village's general receipts (2.9 percent).

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, and the Fiscal Officer, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs.

Security of Persons and Property are the costs of police and fire protection; Public Health Services are the county health department fees; Leisure Time Activities are the costs of maintaining the Village community activities; Community Environment is the cost of promoting the Village to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property and capital outlay, which account for 52.6 and 23.1 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 18.5 percent. The next three columns of the Statement, entitled Program Cash Receipts, identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net (Disbursements) Receipts and Changes in Net Assets column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2005	Net Cost of Services 2005
	<u>2005</u>	<u>2005</u>
General Government	\$142,509	\$137,681
Security of Persons and Property	405,023	367,170
Public Health Services	4,435	4,435
Leisure Time Activities	2,369	2,369
Community Environment	3,300	3,300
Basic Utilities		
Transportation	28,246	28,246
Capital Outlay	178,091	21,328
Principal Retirement	4,792	4,792
Interest and Fiscal Charges	665	665
Total Expenses	<u><u>\$769,430</u></u>	<u><u>\$569,986</u></u>

The dependence upon property and income tax receipts is apparent as over 74.1 percent of governmental activities are supported through these general receipts.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Village's Funds

Total governmental funds had receipts of \$797,745 and disbursements of \$769,430. The greatest change within governmental funds occurred within the General fund. The fund balance of the General fund increased \$33,362.

General Fund Budgeting Highlights

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

During 2005, the Government amended its General Fund budget, as needed, to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$612,737 while actual disbursements were \$577,552, which includes year end encumbrances. The Village kept spending close to budgeted amounts as demonstrated by the minor reported variances. The result is the increase in fund balance of \$29,132 for 2005.

Capital Assets and Debt Administration

Capital Assets

The Village maintains a listing of its capital assets and infrastructure. These records are not required to be presented in the financial statements.

Debt

At December 31, 2005, the Village's outstanding debt included \$1,667 for a rescue squad note, \$24,011 for a police cruiser note, and a \$10,617 Ohio Public Works Commission obligation for street improvements. For further information regarding the Village's debt, refer to Note 6 to the basic financial statements.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Rosie Hakola, Fiscal Officer, Village of Grand River, P.O. Box 216, 205 Singer Avenue, Grand River, Ohio 44045-0216.

VILLAGE OF GRAND RIVER
LAKE COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$219,683</u>
<i>Total Assets</i>	<u><u>\$219,683</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$42,016
Debt Service	272
Other Purposes	32,210
Unrestricted	<u>145,185</u>
<i>Total Net Assets</i>	<u><u>\$219,683</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF GRAND RIVER
LAKE COUNTY
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Street Construction, Maintenance, and Repair	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$145,185	\$26,722	\$42,016	\$5,760	\$219,683
<i>Total Assets</i>	<u>\$145,185</u>	<u>\$26,722</u>	<u>\$42,016</u>	<u>\$5,760</u>	<u>\$219,683</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$4,230		\$37,321		\$41,551
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	140,955				140,955
Special Revenue Funds		\$26,722		\$5,488	32,210
Debt Service Fund				272	272
Capital Projects Funds			4,695		4,695
<i>Total Fund Balances</i>	<u>\$145,185</u>	<u>\$26,722</u>	<u>\$42,016</u>	<u>\$5,760</u>	<u>\$219,683</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005*

Total Governmental Fund Balances	<u>\$219,683</u>
<i>Net Assets of Governmental Activities</i>	<u>\$219,683</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GRAND RIVER
LAKE COUNTY**
*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

	General	Street Construction, Maintenance, and Repair	Capital Projects	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$308,708				\$308,708
Property and Other Local Taxes	87,997				87,997
Charges for Services	4,828				4,828
Fines, Licenses and Permits	35,303		\$12,540	\$1,550	49,393
Intergovernmental	152,358	\$29,367	135,473	12,131	329,329
Interest	5,333				5,333
Miscellaneous	12,157				12,157
<i>Total Receipts</i>	<u>606,684</u>	<u>29,367</u>	<u>148,013</u>	<u>13,681</u>	<u>797,745</u>
Disbursements					
Current:					
General Government	142,509				142,509
Security of Persons and Property	402,743			2,280	405,023
Public Health Services	4,435				4,435
Leisure Time Activities	2,369				2,369
Community Environment	3,300				3,300
Transportation	12,509	13,394		2,343	28,246
Capital Outlay			169,341	8,750	178,091
Debt Service:					
Principal Retirement	4,792				4,792
Interest and Fiscal Charges	665				665
<i>Total Disbursements</i>	<u>573,322</u>	<u>13,394</u>	<u>169,341</u>	<u>13,373</u>	<u>769,430</u>
<i>Net Change in Fund Balances</i>	33,362	15,973	(21,328)	308	28,315
<i>Fund Balances Beginning of Year</i>	<u>111,823</u>	<u>10,749</u>	<u>63,344</u>	<u>5,452</u>	<u>191,368</u>
<i>Fund Balances End of Year</i>	<u>\$145,185</u>	<u>\$26,722</u>	<u>\$42,016</u>	<u>\$5,760</u>	<u>\$219,683</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds	<u>\$28,315</u>
<i>Change in Net Assets of Governmental Activities</i>	<u>\$28,315</u>

See accompanying notes to the basic financial statements

VILLAGE OF GRAND RIVER
LAKE COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	(Optional)
	<u>Original</u>	<u>Final</u>		Variance with Final Budget Positive (Negative)
Receipts				
Municipal Income Taxes	\$281,552	\$285,271	\$308,708	\$23,437
Property and Other Local Taxes	89,306	89,306	87,997	(1,309)
Charges for Services	4,403	4,462	4,828	366
Fines, Licenses and Permits	32,197	32,623	35,303	2,680
Intergovernmental	138,955	140,791	152,358	11,567
Interest	4,864	4,928	5,333	405
Miscellaneous	11,088	11,234	12,157	923
<i>Total receipts</i>	<u>562,365</u>	<u>568,615</u>	<u>606,684</u>	<u>38,069</u>
Disbursements				
Current:				
General Government	149,490	150,508	146,739	3,769
Security of Persons and Property	413,543	424,622	402,743	21,879
Public Health Services	4,475	4,475	4,435	40
Leisure Time Activities	2,700	3,275	2,369	906
Community Environment	3,000	3,400	3,300	100
Transportation	21,000	21,000	12,509	8,491
Debt Service:				
Principal Retirement	4,792	4,792	4,792	0
Interest and Fiscal Charges	665	665	665	0
<i>Total Disbursements</i>	<u>599,665</u>	<u>612,737</u>	<u>577,552</u>	<u>35,185</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(37,300)</u>	<u>(44,122)</u>	<u>29,132</u>	<u>73,254</u>
<i>Fund Balance Beginning of Year</i>	111,823	111,823	111,823	0
Prior Year Encumbrances Appropriated	<u>4,230</u>	<u>4,230</u>	<u>4,230</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$78,753</u></u>	<u><u>\$71,931</u></u>	<u><u>\$145,185</u></u>	<u><u>\$73,254</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$23,000	\$23,000	\$29,367	\$6,367
<i>Total receipts</i>	<u>23,000</u>	<u>23,000</u>	<u>29,367</u>	<u>6,367</u>
Disbursements				
Current:				
Transportation	32,214	32,214	12,608	19,606
Debt Service:				
Principal Retirement	786	786	786	0
<i>Total Disbursements</i>	<u>33,000</u>	<u>33,000</u>	<u>13,394</u>	<u>19,606</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(10,000)</u>	<u>(10,000)</u>	<u>15,973</u>	<u>25,973</u>
<i>Fund Balance Beginning of Year</i>	10,749	10,749	10,749	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$749</u></u>	<u><u>\$749</u></u>	<u><u>\$26,722</u></u>	<u><u>\$25,973</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF GRAND RIVER
LAKE COUNTY
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Fund
December 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$9,045</u>
<i>Total Assets</i>	<u><u>\$9,045</u></u>
Net Assets	
Unrestricted	<u><u>\$9,045</u></u>

See accompanying notes to the basic financial statements

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**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1. DESCRIPTION OF THE ENTITY

The Village of Grand River, Lake County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including road maintenance, police service, fire protection, and emergency medical services.

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

Northeast Ohio Public Energy Council

The Village is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The Village did not contribute to NOPEC during 2004. Financial information can be obtained by contacting NOPEC, 1615 Clarke Avenue, Cleveland, Ohio 44109.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

These financial statements follow a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State prescribes.

B. Fund Accounting

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Village's funds are classified as either governmental or fiduciary.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

General Fund – This fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for construction, maintaining and repairing Village streets.

Capital Projects Fund – This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Village under a trust agreement for individuals, private organizations or other governmental entities and are therefore not available to support the Village's own programs. The Village has no trust funds. Agency funds are custodial in nature, where the Village deposits and pays cash as directed by another entity or individual. The Village's agency fund accounts for funds held for the Mayor's Court, Village Hall Rental, and Street Opening.

C. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the Village, except for fiduciary funds.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Village at December 31, 2005. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Village's governmental activities. Program Cash Receipts include monies provided by the recipient of the services offered by the program, grants and contributions that are restricted to meeting the operations or capital requirements of particular program. Revenues which are not classified as program revenues are presented as general revenues of the Village, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the governmental programs are self-financing or draw from the general revenues of the Village.

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

D. Cash and Investments

The Village invested in STAR Ohio during the audit period.

E. Inventory

On the modified cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

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

H. Net Assets

The financial statements report restricted net assets when contributors, grantors, or other external factors impose limitations in their use.

I. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Budgetary Process (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

NOTE 3. DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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

At year end, the Village had \$250 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the Village's bank balance of \$65,291 was not exposed to custodial credit risk. Those deposits were fully insured.

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

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2005, the Village had the following investment:

	<u>Carrying Value</u>	<u>Investment Maturity</u>
STAR Ohio	<u>\$163,187</u>	< 1 year

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

NOTE 4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

NOTE 5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Central Collection Agency (CCA) either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Note 2005 - Police Cruiser	\$24,011	4.60%
Note 2003 - Emergency Rescue Squad	1,667	3.40%
OPWC 1999 - River Street Improvement	<u>10,617</u>	0.00%
Total	<u><u>\$36,295</u></u>	

The Village issued a note for a police cruiser in 2005 with Key Bank in the amount of \$25,469. The note is being paid in monthly installments over 4 years. In 2003, the Village issued a note for an emergency rescue squad with Key Bank in the amount of \$10,590. The note is being paid in semi-annual installments over 4 years. The 1999 Ohio Public Works Commission (OPWC) obligations are for the River Street Improvement. The Village is required to pay off the \$15,336, in semi-annual payments over 20 years.

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year ending December 31:</u>	<u>Police Cruiser Note</u>	<u>Rescue Squad Note</u>	<u>OPWC Obligation</u>
2006	\$6,983	\$1,695	\$786
2007	6,983		786
2008	6,983		786
2009	4,655		786
2010			786
2011-2015			3,932
2016-2019			<u>2,755</u>
Total	<u><u>\$25,604</u></u>	<u><u>\$1,695</u></u>	<u><u>\$10,617</u></u>

NOTE 7. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System of Ohio (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2005, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2005. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF GRAND RIVER
LAKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

NOTE 8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles, Emergency Medical Services, Law Enforcement Liability; and
- Commercial Catastrophe Liability, and errors and omissions.

The Village provides health, dental and vision insurance to full-time employees through a private carrier.



Auditor of State Betty Montgomery

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

Village of Grand River
Lake County
P.O. Box 216
205 Singer Avenue
Grand River, Ohio 44045-0216

To the Village Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Grand River, Lake County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated March 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated March 24, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated March 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

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We intend this report solely for the information and use of the audit committee, management, Village Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 24, 2006



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

VILLAGE OF GRAND RIVER

LAKE 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
MAY 4, 2006**