

**VILLAGE OF GRAFTON  
LORAIN COUNTY  
Regular Audit  
For the Year Ended December 31, 2011**

***Perry & Associates***  
Certified Public Accountants, A.C.





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Village of Grafton, Lorain County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted this report in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

September 16, 2013

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**VILLAGE OF GRAFTON  
LORAIN COUNTY**

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***Perry & Associates***  
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**INDEPENDENT AUDITOR'S REPORT**

June 24, 2013

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

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Village of Grafton**, Lorain County, Ohio (the Village) as of and for the year ended December 31, 2011 which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grafton, Lorain County, Ohio, as of December 31, 2011, and the respective changes in cash financial position, thereof and the budgetary comparison for the General fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

As described in Note 2, during 2011 the Village of Grafton adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013, 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.

We conducted our audit to opine on the Government's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

**Perry and Associates**  
Certified Public Accountants, A.C.

**Village of Grafton**  
**Lorain County, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited

The discussion and analysis of the Village of Grafton's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis of accounting. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

*Overall:*

- For governmental activities, net assets decreased \$7,260 which represents a .3 percent decrease from 2010.
- General receipts accounted for \$1,798,453 in receipts or 74 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$643,005 or 26 percent of total governmental receipts of \$2,441,458.
- The Village had \$2,448,718 in disbursements related to governmental activities; only \$643,005 of these disbursements were offset by program specific charges for services, grants, contributions or interest. General receipts (primarily municipal taxes) of \$1,798,453 were not adequate to provide for these programs.
- Among major funds, the general fund had \$1,647,200 in receipts and \$1,470,585 in disbursements. The general fund's fund balance increased to \$1,426,395 from \$1,289,780.
- For Business-type activities, program receipts were \$5,027,761. These offset disbursements of \$4,401,741.

**Using these Cash Basis Financial Statements**

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

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

**Village of Grafton**  
**Lorain County, Ohio**  
Management's Discussion and Analysis  
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**Reporting the Village as a Whole**

*Statement of Net Assets and the Statement of Activities*

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

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

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

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the Village's major funds begins on page 11. Fund financial statements provide detailed information about the Village's major funds. The Village uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Village's most significant funds. The Village's major governmental funds are the General Fund and the Capital Improvement Fund.

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

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

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

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

**The Village as a Whole**

Table 1 provides a summary of the Village's net assets for 2011 compared to 2010 on the cash basis:

**Table 1**

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>						
Cash and investments	\$ 2,278,113	\$ 2,285,373	\$ 3,380,131	\$ 2,754,111	\$ 5,658,244	\$ 5,039,484
<i>Total Assets</i>	<u>2,278,113</u>	<u>2,285,373</u>	<u>3,380,131</u>	<u>2,754,111</u>	<u>5,658,244</u>	<u>5,039,484</u>
<b>Net Assets:</b>						
Restricted						
Capital projects	787,209	934,137	-	-	787,209	934,137
Other purposes	64,509	61,456	-	-	64,509	61,456
Unrestricted	<u>1,426,395</u>	<u>1,289,780</u>	<u>3,380,131</u>	<u>2,754,111</u>	<u>4,806,526</u>	<u>4,043,891</u>
<i>Total Net Assets</i>	<u>\$ 2,278,113</u>	<u>\$ 2,285,373</u>	<u>\$ 3,380,131</u>	<u>\$ 2,754,111</u>	<u>\$ 5,658,244</u>	<u>\$ 5,039,484</u>

**Village of Grafton**  
**Lorain County, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
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Table 2 shows the net changes in net assets for 2011 and 2010.

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Receipts:</b>						
Program Receipts:						
Charges for services and sales	\$ 331,317	\$ 289,535	\$ 5,027,761	\$ 4,804,169	\$ 5,359,078	\$ 5,093,704
Operating grants and contributions	146,000	150,944	-	-	146,000	150,944
Capital grants and contributions	165,688	-	-	-	165,688	-
General Receipts:						
Property taxes	243,736	307,552	-	-	243,736	307,552
Municipal income taxes	1,274,426	1,190,739	-	-	1,274,426	1,190,739
Grants and entitlements	166,440	181,457	-	-	166,440	181,457
Special assessments	-	2,585	-	-	-	2,585
Notes issues	37,189	133,119	-	-	37,189	133,119
Interest	35,047	35,866	-	-	35,047	35,866
Miscellaneous	41,615	58,162	-	179,210	41,615	237,372
<b>Total Receipts</b>	<u>2,441,458</u>	<u>2,349,959</u>	<u>5,027,761</u>	<u>4,983,379</u>	<u>7,469,219</u>	<u>7,333,338</u>
<b>Disbursements:</b>						
Current:						
General government	483,783	448,093	-	-	483,783	448,093
Security of persons and property	715,576	699,742	-	-	715,576	699,742
Public health services	63,773	63,216	-	-	63,773	63,216
Leisure time activities	27,199	62,057	-	-	27,199	62,057
Community environment	7,072	100,000	-	-	7,072	100,000
Basic utility services	522,367	210,967	-	-	522,367	210,967
Transportation	182,047	177,212	-	-	182,047	177,212
Miscellaneous	-	-	-	-	-	-
Capital outlay	273,993	487,425	-	-	273,993	487,425
Debt Service:						
Principal retirement	141,559	113,970	-	-	141,559	113,970
Interest and fiscal charges	31,349	31,230	-	-	31,349	31,230
Water	-	-	472,207	580,537	472,207	580,537
Sewer	-	-	1,197,847	1,312,896	1,197,847	1,312,896
Electric	-	-	2,718,157	3,363,115	2,718,157	3,363,115
Other	-	-	13,530	14,546	13,530	14,546
<b>Total Disbursements</b>	<u>2,448,718</u>	<u>2,393,912</u>	<u>4,401,741</u>	<u>5,271,094</u>	<u>6,850,459</u>	<u>7,665,006</u>
<b>Changes in Net Assets</b>	<u>\$ (7,260)</u>	<u>\$ (43,953)</u>	<u>\$ 626,020</u>	<u>\$ (287,715)</u>	<u>\$ 618,760</u>	<u>\$ (331,668)</u>

**Village of Grafton**  
**Lorain County, Ohio**  
Management's Discussion and Analysis  
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***Governmental Activities***

Net assets of the Village's governmental activities decreased by \$7,260. The governmental disbursements of \$2,448,718 were primarily offset by program receipts of \$643,005, general receipts of \$1,798,453 and the prior year cash balance.

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

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlement.

**Table 3**

	<u>2011</u>		<u>2010</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>						
General government	\$ 483,783	\$ (453,497)	\$ 448,093	\$ (159,335)	\$ 35,690	\$ (294,162)
Security of persons and property	715,576	(635,361)	699,742	(695,313)	15,834	59,952
Public health services	63,773	(63,773)	63,216	(63,216)	557	(557)
Leisure time activities	27,199	(25,949)	62,057	(62,057)	(34,858)	36,108
Community environment	7,072	(7,072)	100,000	(100,000)	(92,928)	92,928
Basic utility services	522,367	(137,798)	210,967	(210,967)	311,400	73,169
Transportation	182,047	(35,362)	177,212	(29,920)	4,835	(5,442)
Capital outlay	273,993	(273,993)	487,425	(487,425)	(213,432)	213,432
Debt service:						
Principal retirement	141,559	(141,559)	113,970	(113,970)	27,589	(27,589)
Interest and fiscal charges	31,349	(31,349)	31,230	(31,230)	119	(119)
<i>Business-Type Activities:</i>						
Water	472,207	295,994	580,537	96,390	(108,330)	199,604
Sewer	1,197,847	154,668	1,312,896	(96,862)	(115,049)	251,530
Electric	2,718,157	174,203	3,363,115	(468,653)	(644,958)	642,856
Other Enterprise Fund	13,530	1,155	14,546	2,200	(1,016)	(1,045)
Total expenses	<u>\$ 6,850,459</u>	<u>\$ (1,179,693)</u>	<u>\$ 7,665,006</u>	<u>\$ (2,420,358)</u>	<u>\$ (814,547)</u>	<u>\$ 1,240,665</u>

Only 26 percent of general government activities are supported through program receipts. For all governmental activities, general receipts and prior year cash balance support is all disbursements as shown in the above table. The community, as a whole, is by far the primary support for the Village of Grafton.

**Business-type Activities**

The dependence upon program receipts is apparent as 100 percent of Business-type activities are supported through these receipts for 2011. The infrastructure is beginning to age but the Village has ongoing maintenance projects to upgrade the infrastructure.

**Village of Grafton**  
**Lorain County, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited

***The Village's Funds***

Information about the Village's major funds starts on page 11. These funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$2,404,269 and expenditures of \$2,448,718. The net change in fund balance for the year was most significant in the Capital Improvement Fund, where the fund's balance decreased by \$97,562 for 2011.

***General Fund Budgeting Highlights***

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

During the course of 2011, the Village amended its General Fund receipt budget numerous times. The Village uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis receipts were \$1,640,020, the original estimate was \$1,557,756. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,494,577, \$152,623 under receipts.

**Capital Assets and Debt Administration**

***Capital Assets***

The Village capital assets and infrastructure are not reflected in the accompanying financial statements.

***Debt***

At December 31, 2011, the Village had \$4,483,714 in OPWC, OWDA and County Engineer loans. These issues were used for improvements to the Village's streets, water, sewer, and electric systems.

**Current Financial Related Activities**

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

**Contacting the District's Financial Management**

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

**Village of Grafton**  
**Lorain County, Ohio**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2011*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in pooled cash and cash equivalents	\$ 2,278,113	\$ 3,380,131	\$ 5,658,244
<b>Net Assets</b>			
Restricted for:			
Capital projects	787,209	-	787,209
Other purposes	64,509	-	64,509
Unrestricted	1,426,395	3,380,131	4,806,526
Total net assets	\$ 2,278,113	\$ 3,380,131	\$ 5,658,244

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2011*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 483,783	\$ 30,286	\$ -	\$ -	\$ (453,497)	\$ -	\$ (453,497)
Security of persons and property	715,576	76,905	3,310	-	(635,361)	-	(635,361)
Public health services	63,773	-	-	-	(63,773)	-	(63,773)
Leisure time activities	27,199	1,250	-	-	(25,949)	-	(25,949)
Community environment	7,072	-	-	-	(7,072)	-	(7,072)
Basic utility services	522,367	218,881	-	165,688	(137,798)	-	(137,798)
Transportation	182,047	3,995	142,690	-	(35,362)	-	(35,362)
Capital outlay	273,993	-	-	-	(273,993)	-	(273,993)
Debt service:							
Principal retirement	141,559	-	-	-	(141,559)	-	(141,559)
Interest and fiscal charges	31,349	-	-	-	(31,349)	-	(31,349)
<b>Total governmental activities</b>	<b>2,448,718</b>	<b>331,317</b>	<b>146,000</b>	<b>165,688</b>	<b>(1,805,713)</b>	<b>-</b>	<b>(1,805,713)</b>
<b>Business Type Activity</b>							
Water	472,207	768,201	-	-	-	295,994	295,994
Sewer	1,197,847	1,352,515	-	-	-	154,668	154,668
Electric	2,718,157	2,892,360	-	-	-	174,203	174,203
Other Enterprise	13,530	14,685	-	-	-	1,155	1,155
<b>Total business-type activities</b>	<b>4,401,741</b>	<b>5,027,761</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>626,020</b>	<b>626,020</b>
<b>Total government</b>	<b>\$ 6,850,459</b>	<b>\$ 5,359,078</b>	<b>\$ 146,000</b>	<b>\$ 165,688</b>	<b>(1,805,713)</b>	<b>626,020</b>	<b>(1,179,693)</b>
<b>General Receipts</b>							
Municipal income taxes levied for:							
General purposes					849,660	-	849,660
Capital outlay					424,766	-	424,766
Property taxes levied for:							
General purposes					228,356	-	228,356
Security of persons and property					15,380	-	15,380
Grants and entitlements not restricted to specific programs							
Notes issued					166,440	-	166,440
Interest					37,189	-	37,189
Miscellaneous					35,047	-	35,047
					41,615	-	41,615
<b>Total general receipts</b>					<b>1,798,453</b>	<b>-</b>	<b>1,798,453</b>
<b>Change in net assets</b>					<b>(7,260)</b>	<b>626,020</b>	<b>618,760</b>
<b>Net assets beginning of year</b>					<b>2,285,373</b>	<b>2,754,111</b>	<b>5,039,484</b>
<b>Net assets end of year</b>					<b>\$ 2,278,113</b>	<b>\$ 3,380,131</b>	<b>\$ 5,658,244</b>

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2011*

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	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash and cash equivalents	\$ 1,426,395	\$ 587,820	\$ 263,898	\$ 2,278,113
<b>Fund Balances</b>				
Restricted	-	587,820	263,898	851,718
Assigned	23,992	-	-	23,992
Unassigned	1,402,403	-	-	1,402,403
Total fund balances	\$ 1,426,395	\$ 587,820	\$ 263,898	\$ 2,278,113

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2011*

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Municipal income taxes	\$ 849,660	\$ 391,997	\$ 32,769	\$ 1,274,426
Property and other local taxes	228,356	-	15,380	243,736
Charges for services	282,157	-	-	282,157
Fines, licenses and permits	42,140	-	3,025	45,165
Intergovernmental	166,440	165,687	145,929	478,056
Special assessments	1,785	-	-	1,785
Interest	35,047	-	72	35,119
Miscellaneous	41,615	-	2,210	43,825
<b>Total receipts</b>	<b>1,647,200</b>	<b>557,684</b>	<b>199,385</b>	<b>2,404,269</b>
<b>Disbursements</b>				
Current:				
General government	481,600	-	2,183	483,783
Security of persons and property	696,242	-	19,334	715,576
Public health services	63,773	-	-	63,773
Leisure time activities	27,199	-	-	27,199
Community environment	7,072	-	-	7,072
Basic utility services	194,699	314,668	13,000	522,367
Transportation	-	-	182,047	182,047
Capital outlay	-	204,859	69,134	273,993
Debt service:				
Principal retirement	-	141,559	-	141,559
Interest and fiscal charges	-	31,349	-	31,349
<b>Total disbursements</b>	<b>1,470,585</b>	<b>692,435</b>	<b>285,698</b>	<b>2,448,718</b>
Excess of receipts over (under) disbursements	176,615	(134,751)	(86,313)	(44,449)
<b>Other financing sources (uses)</b>				
Notes issued	-	37,189	-	37,189
Transfers in	134,487	-	40,000	174,487
Transfers out	(174,487)	-	-	(174,487)
<b>Total other financing sources (uses)</b>	<b>(40,000)</b>	<b>37,189</b>	<b>40,000</b>	<b>37,189</b>
Net change in fund balance	136,615	(97,562)	(46,313)	(7,260)
Fund balances beginning of year	1,289,780	685,382	310,211	2,285,373
Fund balances end of year	<u>\$ 1,426,395</u>	<u>\$ 587,820</u>	<u>\$ 263,898</u>	<u>\$ 2,278,113</u>

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*General Fund*  
*For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Municipal income taxes	\$ 850,000	\$ 850,000	\$ 849,660	\$ (340)
Property and other local taxes	228,357	228,357	228,356	(1)
Charges for services	279,350	279,350	282,157	2,807
Fines, licenses and permits	42,700	42,700	42,140	(560)
Intergovernmental	84,564	166,828	166,440	(388)
Special assessments	1,785	1,785	1,785	-
Interest	35,500	35,500	35,047	(453)
Miscellaneous	35,500	35,500	41,615	6,115
<b>Total receipts</b>	<u>1,557,756</u>	<u>1,640,020</u>	<u>1,647,200</u>	<u>7,180</u>
<b>Disbursements</b>				
Current:				
General government	593,500	598,806	485,922	112,884
Security of persons and property	749,000	764,879	699,260	65,619
Public health services	83,000	83,000	64,523	18,477
Leisure time activities	22,500	30,500	27,199	3,301
Community environment	2,500	8,500	7,072	1,428
Basic utility services	220,000	230,000	210,601	19,399
<b>Total disbursements</b>	<u>1,670,500</u>	<u>1,715,685</u>	<u>1,494,577</u>	<u>221,108</u>
Excess of receipts over (under) disbursements	<u>(112,744)</u>	<u>(75,665)</u>	<u>152,623</u>	<u>228,288</u>
<b>Other financing sources (uses)</b>				
Transfers in	145,000	145,000	134,487	(10,513)
Transfers out	(590,000)	(590,000)	(174,487)	415,513
Other financing uses	(725,952)	(769,115)	-	769,115
<b>Total other financing sources (uses)</b>	<u>(1,170,952)</u>	<u>(1,214,115)</u>	<u>(40,000)</u>	<u>1,174,115</u>
<b>Net change in fund balance</b>	<u>(1,283,696)</u>	<u>(1,289,780)</u>	<u>112,623</u>	<u>1,402,403</u>
Fund balance at beginning of year	1,289,253	1,289,253	1,289,253	-
Prior year encumbrances appropriated	527	527	527	-
<b>Fund balance at end of year</b>	<u>\$ 6,084</u>	<u>\$ -</u>	<u>\$ 1,402,403</u>	<u>\$ 1,402,403</u>

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**  
*Statement of Fund Net Assets - Cash Basis*  
*Proprietary Funds*  
*December 31, 2011*

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>					
Equity in pooled cash and cash equivalents	\$ 588,815	\$ 1,006,097	\$ 1,741,274	\$ 43,945	\$ 3,380,131
<b>Net assets</b>					
Unrestricted	<u>588,815</u>	<u>1,006,097</u>	<u>1,741,274</u>	<u>43,945</u>	<u>3,380,131</u>
Total net assets	<u>\$ 588,815</u>	<u>\$ 1,006,097</u>	<u>\$ 1,741,274</u>	<u>\$ 43,945</u>	<u>\$ 3,380,131</u>

See accompanying notes to the financial statements.

**Village of Grafton  
Lorain County, Ohio**

*Statement of Cash Receipts, Disbursements and Changes in Net Assets - Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2011*

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
<b>Operating Receipts</b>					
Charges for services	\$ 766,671	\$ 1,349,493	\$ 2,855,569	\$ 14,685	\$ 4,986,418
Other operating receipts	1,530	3,022	36,791	-	41,343
Total operating receipts	<u>768,201</u>	<u>1,352,515</u>	<u>2,892,360</u>	<u>14,685</u>	<u>5,027,761</u>
<b>Operating Disbursements</b>					
Personal services	41,948	248,395	269,078	-	559,421
Travel and transportation	5,477	6,737	9,501	-	21,715
Contractual services	397,316	94,869	2,351,401	13,530	2,857,116
Supplies and materials	20,202	142,844	61,538	-	224,584
Total operating disbursements	<u>464,943</u>	<u>492,845</u>	<u>2,691,518</u>	<u>13,530</u>	<u>3,662,836</u>
Operating income	<u>303,258</u>	<u>859,670</u>	<u>200,842</u>	<u>1,155</u>	<u>1,364,925</u>
<b>Non-operating receipts (disbursements)</b>					
Capital outlay	(7,264)	(7,264)	(26,639)	-	(41,167)
Principal retirement	-	(448,263)	-	-	(448,263)
Interest and fiscal charges	-	(249,475)	-	-	(249,475)
Total non-operating receipts and disbursements	<u>(7,264)</u>	<u>(705,002)</u>	<u>(26,639)</u>	<u>-</u>	<u>(738,905)</u>
Income before transfers	<u>295,994</u>	<u>154,668</u>	<u>174,203</u>	<u>1,155</u>	<u>626,020</u>
<b>Transfers</b>					
Transfers in	-	-	134,487	-	134,487
Transfers out	-	-	(134,487)	-	(134,487)
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	295,994	154,668	174,203	1,155	626,020
Net assets beginning of year	<u>292,821</u>	<u>851,429</u>	<u>1,567,071</u>	<u>42,790</u>	<u>2,754,111</u>
Net assets end of year	<u>\$ 588,815</u>	<u>\$ 1,006,097</u>	<u>\$ 1,741,274</u>	<u>\$ 43,945</u>	<u>\$ 3,380,131</u>

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**

*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Fund*  
*December 31, 2011*

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	<u>Agency</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 9,943
<b>Net Assets</b>	
Restricted for:	
Deposits	<u>9,943</u>
Total net assets	<u>\$ 9,943</u>

See accompanying notes to the financial statements.

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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**Note 1 – Reporting Entity**

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

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

**A. Primary Government**

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

**B. Component Units**

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

**C. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Village does not report assets for equity interests in joint ventures. The Village is a Non-Financing Participant and an Owner Participant with an ownership percentage of .79% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). The Village is a Financing Participant with an ownership percentage of .64%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). The Village is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). For more information on joint ventures see Note 12.

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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**Note 2 – Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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

**B. Fund Accounting**

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

**Governmental Funds**

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

**General** - The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

**Proprietary Funds**

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

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

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

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

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Village under a trust agreement for individuals, private organizations, or other governments and are not available to support the Village's own programs. The Village does not have any trust funds. Agency funds are purely custodial in nature and are used to account for assets held by the Village for individuals, other governments, or other organizations. The Village's agency funds account for building and related permit fees and for compliance with building codes.

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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E. Cash and Investments

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

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

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

During 2011, the Village invested in nonnegotiable certificates of deposit and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2011.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2011 was \$35,047, which included \$26,101 assigned from other funds.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no such transactions in 2011.

M. Net Assets

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

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

N. Fund Balance

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

**Nonspendable** fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

**Restricted** fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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**Committed** fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Village Council. Those committed amounts cannot be used for any other purpose unless the Village Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Village Council.

**Unassigned** fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

O. Interfund Transactions

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

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

**Note 3 - Fund Balances**

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

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

Fund Balances	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Restricted for</u>				
Computer service	\$ -	\$ -	\$ 2,384	\$ 2,384
Law enforcement	-	-	20,601	20,601
Street and highway repair	-	-	41,524	41,524
Capital improvements	-	<u>587,820</u>	<u>199,389</u>	<u>787,209</u>
Total restricted	<u>-</u>	<u>587,820</u>	<u>263,898</u>	<u>851,718</u>
<u>Assigned</u>				
Encumbrances	<u>23,992</u>	<u>-</u>	<u>-</u>	<u>23,992</u>
Unassigned (deficit)	<u>1,402,403</u>	<u>-</u>	<u>-</u>	<u>1,402,403</u>
Total fund balances	<u>\$ 1,426,395</u>	<u>\$ 587,820</u>	<u>\$ 263,898</u>	<u>\$ 2,278,113</u>

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and Income Tax Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The outstanding encumbrances at year end (budgetary basis) amounted to \$23,992 for the General Fund.

**Note 5 – Deposits and Investments**

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

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

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

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

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

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

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

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

A. Cash on hand

At year end 2011, the Village had \$439 in undeposited cash on hand, which is included on the Statement of Cash Basis Asset and Fund Balances of the Village as part of "Equity in Pooled Cash and Cash Equivalents."

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B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. 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.

The carrying value of the Village's deposits totaled \$3,454,504, and the bank balances of the deposits totaled \$3,506,977; all of which was not exposed to custodial credit risk.

C. Investments

Investment type	Fair Value	Maturity	Rating <sup>(1)</sup>
STAR Ohio	\$ 2,213,244	Daily	AAAm

<sup>(1)</sup> Standard and Poor's rating

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

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. This risk is addressed by the Village's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the Village are registered and carry a rating AAA by Standard & Poor's.

**Note 6 – Income Taxes**

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside the Village. Employers within the Village withhold income tax on employee compensation and remit the tax to the Village's Income Tax Department. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. The Village contracts with the Regional Income Tax Agency (RITA) for the collection of taxes, including delinquencies and monitoring of compliance with filing requirements. In 2011, the receipts were allocated to the general, capital improvement and capital parks funds.

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**Note 7 – Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property tax receipts received in 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2010, were levied after October 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The full tax rate for all Village operations for the year ended December 31, 2011, was \$7.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2011 property tax receipts were based are as follows:

	2011 <u>Collection Year</u>
Real Property	
Residential and Agricultural	\$ 44,882,670
Commercial, industrial and minerals	13,104,540
Public Utility	39,240
Tangible Personal Property	
Public Utility	<u>456,580</u>
Total Assessed Value	<u>\$ 58,483,030</u>

**Note 8 – Risk Management**

The Village has obtained commercial insurance for the following risks:

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

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

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

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

**Note 9 – Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the MD.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2011, Village employees were required to contribute 10% of their annual covered salary. The Village's contribution rate for 2011 was 14%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010 and 2009 were \$78,409, \$70,887 and \$62,889, respectively. The full amount has been contributed for 2011, 2010 and 2009.

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2011, 2010 and 2009 were \$21,789, \$21,789 and \$22,967. The full amount has been contributed for 2011, 2010, and 2009.

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**Note 10 - Postemployment Benefits**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to as OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 9.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the Village contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2011, 2010 and 2009 were \$78,409, \$70,887 and \$62,889, respectively, 100 percent has been contributed for 2011, 2010 and 2009.

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The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

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

OP&F provides access postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% of covered payroll for police employers units. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's total contributions to OP&F for police healthcare for the years ending December 31, 2011, 2010, and 2009 were \$11,535, \$10,523 and \$12,159, respectively, 100 percent has been contributed, for 2011, 2010 and 2009.

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**Note 11 – Debt**

The Village’s long-term debt activity for the year ended December 31, 2011, was as follows:

	<u>Interest Rates</u>	<u>Balance at 1/1/2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2011</u>
Governmental Activities:					
O.P.W.C. Loans	0%	\$ 465,221	\$ -	\$ 38,036	\$ 427,185
O.W.D.A. Loans	6.75% to 7.84%	496,194	-	73,523	422,671
County Engineer Loan		202,811	37,189	30,000	210,000
Total Governmental Activities		<u>\$ 1,164,226</u>	<u>\$ 37,189</u>	<u>\$ 141,559</u>	<u>\$ 1,059,856</u>
Business-Type Activities:					
O.P.W.C. Loans	0%	\$ 70,117	\$ -	\$ 10,017	\$ 60,100
O.W.D.A. Loans	6.41% to 7.84%	3,802,004	-	438,246	3,363,758
Total Business-Type Activities		<u>\$ 3,872,121</u>	<u>\$ -</u>	<u>\$ 448,263</u>	<u>\$ 3,423,858</u>

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

The prior year amount of OWDA loans outstanding for governmental activities was incorrectly stated as \$452,466. The correct outstanding amount was \$496,194. The prior year amount of OWDA loans outstanding for business-type activities was incorrectly stated as \$3,797,047. The correct amount outstanding was \$3,802,004.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

	O.P.W.C Loans	O.W.D.A Loans		County Engineer Loan
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
Year Ending December 31:				
2012	\$ 48,053	\$ 548,793	\$ 252,406	\$ 30,000
2013	47,333	509,433	212,427	30,000
2014	46,613	315,459	175,260	30,000
2015	46,613	336,297	154,422	30,000
2016	46,613	260,951	132,423	30,000
2017-2021	123,370	855,598	458,349	60,000
2022-2026	86,339	959,898	160,285	-
2027-2031	42,351	-	-	-
Total	<u>\$ 487,285</u>	<u>\$ 3,786,429</u>	<u>\$ 1,545,572</u>	<u>\$ 210,000</u>

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**Note 12 – Joint Ventures**

**A. American Municipal Power Generating Station Project**

The Village is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

**History of the AMPGS Project**

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

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Based on an allocation to Grafton of 2,399 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village has a potential stranded cost obligation of \$392,369 for the AMPGS Project. The Village does not have any payments on deposit with AMP at December 31, 2011.

**AMP Fremont Energy Center (AFEC) Development Fee**

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$142,910 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 1,365 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

**Recording of Stranded Costs**

The Village has requested of AMP to incorporate the potential stranded cost liability into its monthly power cost invoices and will be recovering it directly from its customers through the Village's power costs adjustment over the next 15 years beginning in 2012.

Had the Village chosen to record the potential stranded costs as an expense, the Village believes it would have violated its covenant obligations for its debt covenant obligations with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5/2.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon its Village Law Director, information provided by AMP and its legal counsel with respect to the data, as well as the Village's audit team and Village management.

**B. OMEGA JV2**

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

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

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OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2011, the outstanding debt was \$23,633,931. The Village's net investment in OMEGA JV2 was \$229,965 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

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

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C. OMEGA JV5

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Management Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011 Grafton has met their debt coverage obligation.

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

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of the 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$67,975 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**Village of Grafton**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011

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**Note 13 - Contingent Liabilities**

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

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

**Note 14 - Interfund Transfers**

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfers from electric fund to:	
General fund	\$134,487
Transfers from general fund to:	
Electric fund	\$134,487

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

***Perry & Associates***  
Certified Public Accountants, A.C.

[www.perrycpas.com](http://www.perrycpas.com)

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ST. CLAIRSVILLE

121 E. Main Street  
St. Clairsville, OH 43950  
(740) 695-1569  
(740) 695-5775 Fax

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

June 24, 2013

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Village of Grafton**, Lorain County (the Village) as of and for the year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated June 24, 2013, wherein we noted the Village uses a special purpose framework other than generally accepted accounting principles and has adopted Governmental Accounting Standards Board Statement No. 54.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Internal Control Over Financial Reporting (Continued)***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

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

***Purpose of this Report***

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

Respectfully Submitted,



**Perry and Associates**  
Certified Public Accountants, A.C.

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# Dave Yost • Auditor of State

**VILLAGE OF GRAFTON**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 26, 2013**