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Wheeling, WV 26003
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Certified Public Accountants, A.C.

**VILLAGE OF GRAFTON
LORAIN COUNTY
Single Audit
For the Year Ended December 31, 2015**

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...“bringing more to the table”

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
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- Association of Certified Anti - Money Laundering Specialists •



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Grafton, Lorain County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

August 30, 2017

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**VILLAGE OF GRAFTON
LORAIN COUNTY**

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INDEPENDENT AUDITOR'S REPORT

June 23, 2017

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying cash-basis 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, 2015 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinion

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, 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during 2015, the Village adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules 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, the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Perry and Associates

Certified Public Accountants, A.C.
Marietta, Ohio

Village of Grafton
Lorain County, Ohio
Statement of Net Position - Cash Basis
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 2,948,015	\$ 5,088,214	\$ 8,036,229
Total assets	<u>2,948,015</u>	<u>5,088,214</u>	<u>8,036,229</u>
Net Position			
Restricted for:			
Capital projects	1,460,971	-	1,460,971
Other purposes	116,424	-	116,424
Unrestricted	<u>1,370,620</u>	<u>5,088,214</u>	<u>6,458,834</u>
Total net position	<u>\$ 2,948,015</u>	<u>\$ 5,088,214</u>	<u>\$ 8,036,229</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2015

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services and Sales	Operating		Governmental Activities	Business-Type Activities	Total
			Grants, Contributions and Interest	Capital Grants and Contributions			
Governmental Activities							
General government	\$ 523,025	\$ 24,658	\$ 5,532	\$ -	\$ (492,835)	\$ -	\$ (492,835)
Security of persons and property	509,166	77,722	3,122	-	(428,322)	-	(428,322)
Public health services	45,703	-	-	-	(45,703)	-	(45,703)
Leisure time activities	11,146	1,610	11,216	-	1,680	-	1,680
Community environment	55,558	-	-	-	(55,558)	-	(55,558)
Basic utility services	337,638	242,200	-	-	(95,438)	-	(95,438)
Transportation	163,763	17,372	179,949	-	33,558	-	33,558
Capital outlay	2,493,944	-	-	1,734,328	(759,616)	-	(759,616)
Debt service:							
Principal retirement	95,704	-	-	-	(95,704)	-	(95,704)
Interest and fiscal charges	7,850	-	-	-	(7,850)	-	(7,850)
Total governmental activities	4,243,497	363,562	199,819	1,734,328	(1,945,788)	-	(1,945,788)
Business Type Activities							
Water	941,932	925,789	-	-	-	(16,143)	(16,143)
Sewer	1,255,661	1,475,430	-	-	-	219,769	219,769
Electric	3,288,108	3,372,644	-	-	-	84,536	84,536
Other Enterprise	904,274	13,300	-	-	-	(890,974)	(890,974)
Total business-type activities	6,389,975	5,787,163	-	-	-	(602,812)	(602,812)
Total government	\$ 10,633,472	\$ 6,150,725	\$ 199,819	\$ 1,734,328	(1,945,788)	(602,812)	(2,548,600)
General Receipts							
Municipal income taxes levied for:							
					847,625	-	847,625
					423,767	-	423,767
Property taxes levied for:							
					219,659	-	219,659
					14,971	-	14,971
Grants and entitlements not restricted							
					104,228	-	104,228
					144,194	45,040	189,234
					-	869,653	869,653
					20,695	-	20,695
					33,132	-	33,132
Total general receipts					1,808,271	914,693	2,722,964
Change in net position					(137,517)	311,881	174,364
Net position beginning of year					3,085,532	4,776,333	7,861,865
Net position end of year					\$ 2,948,015	\$ 5,088,214	\$ 8,036,229

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, 2015

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in pooled cash and cash equivalents	\$ 1,370,620	\$ 1,236,293	\$ 341,102	\$ 2,948,015
Fund Balances				
Restricted	-	1,236,293	341,102	1,577,395
Assigned	90,136	-	-	90,136
Unassigned	1,280,484	-	-	1,280,484
Total fund balances	<u>\$ 1,370,620</u>	<u>\$ 1,236,293</u>	<u>\$ 341,102</u>	<u>\$ 2,948,015</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Municipal income taxes	\$ 847,625	\$ 395,145	\$ 28,622	\$ 1,271,392
Property and other local taxes	219,659	-	14,971	234,630
Charges for services	271,079	-	-	271,079
Fines, licenses and permits	62,723	-	3,712	66,435
Intergovernmental	104,228	1,457,702	429,511	1,991,441
Special assessments	17,372	-	-	17,372
Earnings on Investment	20,695	-	360	21,055
Miscellaneous	41,167	-	47,215	88,382
Total receipts	1,584,548	1,852,847	524,391	3,961,786
Disbursements				
Current:				
General government	506,366	-	16,659	523,025
Security of persons and property	491,184	-	17,982	509,166
Public health services	45,703	-	-	45,703
Leisure time activities	11,146	-	-	11,146
Community environment	55,558	-	-	55,558
Basic utility services	216,915	116,044	4,679	337,638
Transportation	-	-	163,763	163,763
Capital outlay	-	2,053,774	440,170	2,493,944
Debt service:				
Principal retirement	-	95,704	-	95,704
Interest and fiscal charges	-	7,850	-	7,850
Total disbursements	1,326,872	2,273,372	643,253	4,243,497
Excess of receipts over (under) disbursements	257,676	(420,525)	(118,862)	(281,711)
Other financing sources (uses)				
OPWC debt issued	-	-	144,194	144,194
Transfers in	-	200,000	-	200,000
Transfers out	(200,000)	-	-	(200,000)
Total other financing sources (uses)	(200,000)	200,000	144,194	144,194
Net change in fund balance	57,676	(220,525)	25,332	(137,517)
Fund balances beginning of year	1,312,944	1,456,818	315,770	3,085,532
Fund balances end of year	<u>\$ 1,370,620</u>	<u>\$ 1,236,293</u>	<u>\$ 341,102</u>	<u>\$ 2,948,015</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, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Municipal income taxes	\$ 864,508	\$ 810,000	\$ 847,625	\$ 37,625
Property and other local taxes	224,034	219,659	219,659	-
Charges for services	276,478	269,000	271,079	2,079
Fines, licenses and permits	63,972	61,000	62,723	1,723
Intergovernmental	106,304	102,737	104,228	1,491
Special assessments	17,718	20,500	17,372	(3,128)
Earnings on Investment	21,107	22,000	20,695	(1,305)
Miscellaneous	41,987	44,360	41,167	(3,193)
Total receipts	<u>1,616,109</u>	<u>1,549,256</u>	<u>1,584,548</u>	<u>35,292</u>
Disbursements				
Current:				
General government	660,500	671,000	540,764	130,236
Security of persons and property	609,000	609,000	524,551	84,449
Public health services	74,000	77,300	48,808	28,492
Leisure time activities	21,500	21,500	11,903	9,597
Community environment	66,000	76,000	59,332	16,668
Basic utility services	227,000	252,000	231,650	20,350
Total disbursements	<u>1,658,000</u>	<u>1,706,800</u>	<u>1,417,008</u>	<u>289,792</u>
Excess of receipts over (under) disbursements	<u>(41,891)</u>	<u>(157,544)</u>	<u>167,540</u>	<u>325,084</u>
Other financing sources (uses)				
Transfers in	-	128,000	-	(128,000)
Transfers out	<u>(375,000)</u>	<u>(385,000)</u>	<u>(200,000)</u>	<u>185,000</u>
Total other financing sources (uses)	<u>(375,000)</u>	<u>(257,000)</u>	<u>(200,000)</u>	<u>57,000</u>
Net change in fund balance	(416,891)	(414,544)	(32,460)	382,084
Fund balance at beginning of year	1,276,592	1,276,592	1,276,592	-
Prior year encumbrances appropriated	36,352	36,352	36,352	-
Fund balance at end of year	<u>\$ 896,053</u>	<u>\$ 898,400</u>	<u>\$ 1,280,484</u>	<u>\$ 382,084</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Funds
December 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
Assets					
Equity in pooled cash and cash equivalents	\$ 1,158,439	\$ 1,796,569	\$ 2,083,929	\$ 49,277	\$ 5,088,214
Net position					
Unrestricted	<u>1,158,439</u>	<u>1,796,569</u>	<u>2,083,929</u>	<u>49,277</u>	<u>5,088,214</u>
Total net position	<u>\$ 1,158,439</u>	<u>\$ 1,796,569</u>	<u>\$ 2,083,929</u>	<u>\$ 49,277</u>	<u>\$ 5,088,214</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio

Statement of Receipts, Disbursements and Changes in Net Position - Cash Basis
Proprietary Funds

For the Year Ended December 31, 2015

	Water	Sewer	Electric	Other Enterprise Fund	Total Enterprise Funds
Operating Receipts					
Charges for services	\$ 924,220	\$ 1,472,047	\$ 3,328,583	\$ 13,300	\$ 5,738,150
Other operating receipts	1,569	3,383	44,061	-	49,013
Total operating receipts	<u>925,789</u>	<u>1,475,430</u>	<u>3,372,644</u>	<u>13,300</u>	<u>5,787,163</u>
Operating Disbursements					
Personal services	47,781	147,530	155,192	-	350,503
Employee fringe benefits	29,891	70,741	73,521	-	174,153
Travel and transportation	2,992	6,279	6,994	-	16,265
Contractual services	718,486	166,508	2,390,552	11,560	3,287,106
Supplies and materials	51,724	197,615	205,846	-	455,185
Total operating disbursements	<u>850,874</u>	<u>588,673</u>	<u>2,832,105</u>	<u>11,560</u>	<u>4,283,212</u>
Operating income	<u>74,915</u>	<u>886,757</u>	<u>540,539</u>	<u>1,740</u>	<u>1,503,951</u>
Non-operating receipts (disbursements)					
Proceeds of OPWC loans	-	-	-	45,040	45,040
Proceeds of OWDA loans	-	21,979	-	847,674	869,653
Capital outlay	-	(78,140)	(456,003)	(892,714)	(1,426,857)
Principal retirement	(77,758)	(373,860)	-	-	(451,618)
Interest and fiscal charges	(13,300)	(214,988)	-	-	(228,288)
Total non-operating receipts and disbursements	<u>(91,058)</u>	<u>(645,009)</u>	<u>(456,003)</u>	<u>-</u>	<u>(1,192,070)</u>
Change in net position	(16,143)	241,748	84,536	1,740	311,881
Net position beginning of year	<u>1,174,582</u>	<u>1,554,821</u>	<u>1,999,393</u>	<u>47,537</u>	<u>4,776,333</u>
Net position end of year	<u>\$ 1,158,439</u>	<u>\$ 1,796,569</u>	<u>\$ 2,083,929</u>	<u>\$ 49,277</u>	<u>\$ 5,088,214</u>

See accompanying notes to the financial statements.

Village of Grafton
Lorain County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Fund
December 31, 2015

	<u>Agency</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 6,878
Net Position	
Restricted for:	
Deposits	\$ 6,878
Total net position	<u>\$ 6,878</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, 2015

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 are included to ensure that the financial statements of the Village are not misleading.

Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government of the Village of Grafton provides the following services to its citizens: police and fire protection, parks and recreation, building inspection, street maintenance and repairs, water, sewer, electric and refuse collection. Council has direct responsibility for these services.

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 13.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in the "Basis of Accounting" section of this note, 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. Following are the more significant of the Village's accounting policies.

Basis of Presentation

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

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Presentation (Continued)

Government-Wide Financial Statements

The statement of net position 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 position 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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants required to be used to support 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 general receipts of the Village.

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.

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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

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. The funds of the Village are presented in 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 funds.

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, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

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, for compliance with building codes and for the operations of the Village's mayor's court.

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.

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 appropriations 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 appropriations 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 appropriations 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 appropriations 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, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

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 2015, the Village invested in nonnegotiable certificates of deposit and STAR Ohio. Investments are reported at cost, except for STAR Ohio. 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, 2015.

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 2015 were \$20,695 which included \$17,292 assigned from other Village funds.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. 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.

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.

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.

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, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Employer Contributions to Cost-Sharing Pension Plans

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

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.

Net Position

Net position is reported as restricted when there are limitations imposed on its use 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 expense is incurred for purposes for which both restricted and unrestricted resources are available.

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 The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are 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.

Restricted 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, 2015

Note 2 – Summary of Significant Accounting Policies (continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or 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 (ordinance or 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 Amounts in the 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 the Village Council or a Village official delegated that authority by ordinance, or by State statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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.

Internal Activity

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as assigned fund balance (cash basis). For 2015, the outstanding encumbrances at year end (budgetary basis) amounted to \$90,136 for the general fund.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 4 – Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 4 – Deposits and Investments (Continued)

8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Village had \$400 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” for 2015.

Deposits

Custodial credit risk is the risk that, in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end 2015, none of the Village’s bank balance of \$5,909,763 was exposed to custodial credit risk because those deposits were uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Village’s name.

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

Investments

As of December 31, the Village had the following investments:

Investment type	Maturity	2015 Fair Value
STAR Ohio	Daily	\$ 2,192,365

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

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 5 – Taxes

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received during 2015 for real and public utility property taxes represent collections of 2014 taxes.

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected and intended to finance 2016.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility personal property currently is assessed at varying percentage of true value; public utility real property is assessed at 35 percent of true value. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 real property taxes.

The full tax rates for all Village operations for the years ended December 31, 2015, were \$4.76 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2015 property tax receipts were based are as follows:

	<u>2015 Collection Year</u>
Real Property	
Residential and Agricultural	\$ 45,009,320
Commercial, industrial and minerals	12,894,890
Public Utility	39,140
Tangible Personal Property	
Public Utility Personal	<u>633,790</u>
Total Assessed Value	<u>\$ 58,577,140</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

Income Taxes

The Village levies a 1.5 percent income tax on substantially all income earned in the Village as well as certain income of residents earned outside the Village. Employers within the Village withhold income tax on employee compensation. Corporations and other individual taxpayers remit 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 2015, the receipts were allocated to the general, capital improvement and capital improvement parks funds.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 6 - Interfund Transfers

Transfers

During 2015, the following transfers were made:

<u>Transfers To</u>	<u>Transfers From</u>			<u>Total</u>
	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	
Other Governmental Funds				
Capital Improvement	200,000			200,000
Total	200,000	-	-	200,000

The general fund transfers to the capital improvement fund were made to provide additional resources for current operations and capital improvements.

Note 7 – Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees. The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2015, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP’s primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 7 – Risk Management (continued)

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015:

	<u>2015</u>
Assets	\$38,307,677
Liabilities	(12,759,127)
Net Position	<u>\$25,548,550</u>

At December 31, 2015, the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$11.0 million of unpaid claims to be billed. The Pool’s membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village’s share of these unpaid claims collectible in future years is approximately \$41,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>
<u>2015</u>
\$64,741

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – Village employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Village employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 8 – Defined Benefit Pension Plans (continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 8 – Defined Benefit Pension Plans (continued)

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Village’s contractually required contribution was \$82,145 for year 2015.

Ohio Police and Fire Pension Fund

Plan Description - Village full-time police participate in the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement; normal, service comuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 8 – Defined Benefit Pension Plans (continued)

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost of living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent of the percent increase, if any, in the Consumer Price Index (CPI) over the 12 month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police
2015 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee:	
January 1, 2015 through July 1, 2015	11.50 %
July 2, 2015 through December 31, 2015	12.25 %
 2015 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50
 Total Employer	 19.50 %
 Employee:	
January 1, 2015 through July 1, 2015	11.50 %
July 2, 2015 through December 31, 2015	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The Village’s contractually required contribution to OPF was \$32,020 for 2015.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 9 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member Directed Plan is a defined contribution plan. The Combined Plan is a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients 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-employment health care coverage, aged-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 benefit recipients and qualified survivor benefits is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public 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 earnable salary of active members. In 2015, the Village contributed at a rate of 14.00% of earnable salary for state and local employees. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund 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 Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. For 2015, the portion of employer contributions allocated to health care for members in the Traditional Pension and Combined plans was 2%. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remains at 2% for both plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. 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, 2015, 2014, and 2013 were \$13,691, \$14,601, and \$8,192 respectively, 100% has been contributed for 2015,

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

2014, and 2013.

Note 9 - Postemployment Benefits (continued)

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension obligation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care 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 post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or statutory survivor benefit 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 is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – 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, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer unit. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One fund is for health care benefits under an IRS Code Section 115 trust and one fund is 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. The portion of employer contributions allocated to health care was .5% of covered payroll for 2015. 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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 9 - Postemployment Benefits (continued)

Ohio Police and Fire Pension Fund (Continued)

The Village's contributions to OP&F allocated to the health care plan for the years ending December 31, 2015, 2014, and 2013 were \$843, \$888, and \$6,593 respectively. 100% has been contributed for 2015, 2014, and 2013.

Note 10 – Debt

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Ohio Public Works Commission (OPWC) Loans:			
Hickory Street Reconstruction - CI23C	0.00%	\$ 208,881	July 1, 2016
Grafton Road/Hyanis Road Sanitary Sewer - CI029	0.00%	200,336	July 1, 2017
Willow Street Reconstruction - CT22D	0.00%	114,953	July 1, 2022
Center Street Revitalization - CT79H	0.00%	21,014	January 1, 2026
Cleveland Street Drainage System Improvement - CI31J	0.00%	100,787	January 1, 2029
SR 57/Commerce Drive Storm Drainage - CI44M	0.00%	170,000	January 1, 1930
Parsons Road Improvements - CI31L	0.00%	35,000	January 1, 2025
Mechanic Street Improvements - CI21R	0.00%	249,000	July 1, 2045
Mechanic Street improvements Phase II - CI38S	0.00%	249,000	N/A
WWTP Improvements - CI41Q	0.00%	175,000	N/A
Elevated Water Storage Tank Replacement - CI55R	0.00%	545,834	N/A
Ohio Water Development Authority (OWDA) Loans:			
Grafton - 1595	7.24%	790,380	July 1, 2017
Wastewater Treatment Plant Improvements - 2014	6.87%	1,608,458	January 1, 2016
WWTP Improvements - 3265	6.41%	3,081,451	January 1, 2026
Pump Station Replacement - 6525	3.92%	340,418	July 1, 2019
Mechanic St Line Replacement - 6864	2.78%	342,788	July 1, 2025
Grafton - 6609	n/a	3,102,369	N/A
Grafton - 6863	n/a	231,922	N/A
County Engineer Loan:			
State Route 57	0.00%	300,000	July 6, 2018

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 10 – Debt (continued)

The Village’s long-term debt activity for the year ended December 31, 2015 was as follows:

2015	<u>Interest Rates</u>	<u>Balance at 1/1/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 12/31/2015</u>
Governmental Activities:					
O.P.W.C. Loans	0%	\$ 420,042	\$ 144,194	\$ (36,597)	\$ 527,639
County Engineer Loan	0%	120,000	-	(30,000)	90,000
Capital Lease	3%	226,231	-	(29,107)	197,124
Total Governmental Activities		<u>\$ 766,273</u>	<u>\$ 144,194</u>	<u>\$ (95,704)</u>	<u>\$ 814,763</u>
Business-Type Activities:					
O.P.W.C. Loans	0%	\$ 134,857	\$ 45,040	\$ (10,016)	\$ 169,881
O.W.D.A. Loans	3.86% to 8.26%	5,596,368	869,653	(441,602)	6,024,419
Total Business-Type Activities		<u>\$ 5,731,225</u>	<u>\$ 914,693</u>	<u>\$ (451,618)</u>	<u>\$ 6,194,300</u>

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

The debt balance as of December 31, 2014 was understated by \$104,807. Additionally, it was determined during the audit that various loan balances were misclassified as to governmental or business-type activities. The total OWDA balance of \$3,104,035 and an OPWC loan totaling \$34,590 previously classified as governmental were moved to business-type activities.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015 are as follows:

	<u>O.P.W.C Loans</u>	<u>O.W.D.A Loans</u>		<u>County Engineer Loan</u>
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
Year Ending December 31:				
2016	\$ 54,913	\$ 443,775	\$ 271,368	\$ 30,000
2017	46,982	406,775	245,372	30,000
2018	36,965	358,396	224,455	30,000
2019	36,965	375,477	207,374	-
2020	36,965	317,076	190,139	-
2021 - 2025	166,415	1,842,259	693,810	-
2026 - 2030	127,883	752,099	343,907	-
2031 - 2035	71,470	739,528	218,415	-
2036 - 2040	71,470	789,034	73,112	-
2041 - 2045	47,492	-	-	-
Total	<u>\$ 697,520</u>	<u>\$ 6,024,419</u>	<u>\$ 2,467,952</u>	<u>\$ 90,000</u>

The Village received new OWDA loans for a total amount of \$869,653 and new OPWC loans with total received proceeds of \$189,234 for 2015.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 11 – Leases

In 2012, the Village entered into a capital lease for the purchase of capital equipment. The Village disbursed \$36,957 to pay lease costs for the year ended December 31, 2015. Capital lease payments are reflected as functional disbursements in the financial statements for the governmental funds.

The following is a schedule of future minimum lease payments under this capital lease and present value of the net lease payments at December 31, 2015.

	Equipment Purchase
Year Ending December 31:	
2016	\$ 36,957
2017	36,957
2018	36,957
2019	36,957
2020	36,957
2021 - 2025	36,957
Total Minimum Lease Payment	221,742
Less: Amount Representing Interest	(24,618)
Present Value of Minimum Lease Payments	\$ 197,124

Note 12 - Contingent Liabilities

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

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

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 13 – Joint Ventures

AMP Generating Station (AMPGS) Project

The Village is a member of the American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 2,399 kilowatts of a total 771,281 kilowatts, giving the Village a .31 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share of the impaired costs at March 31, 2014 was \$414,845. The Village received a credit of \$146,685 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$108,494 related to the AMPGS costs deemed to have future benefit for the project participants, and payments made of \$44,597 leaving a net impaired cost estimate of \$115,070. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's payments. Since March 31, 2014 the Village has made payments of \$40,028 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$3,188 and interest expense incurred on AMP's line-of-credit is \$1,408, resulting in a net impaired cost estimate at December 31, 2015 of \$79,638.

The Village intends to recover these costs and repay AMP over the next 5 years through a power cost adjustment.

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 and to pay or incur the costs of the same in accordance with the JV2 Agreement.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 13 – Joint Ventures (continued)

OMEGA JV2 (Continued)

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 position 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, 2015, the outstanding debt was \$8,052,470. The Village's net investment in OMEGA JV2 was \$130,643 at December 31, 2015. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2015 are:

<u>Municipality</u>	<u>Percent</u> <u>Ownership</u>	<u>Kw</u> <u>Entitlement</u>	<u>Municipality</u>	<u>Percent</u> <u>Ownership</u>	<u>Kw</u> <u>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	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<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.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 13 – Joint Ventures (continued)

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 partition 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 of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP.

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 position 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, 2015 the Village of 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, 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. Due to scheduled principal repayments, the resulting note receivable has been reduced at December 31, 2015 to \$49,803,187. AMP will continue to collect debt service from the OMEGA JV5 participants until the note is paid in full.

Village of Grafton
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 13 – Joint Ventures (continued)

OMEGA JV5 (Continued)

The Village’s net investment to date in OMEGA JV5 was \$19,122 at December 31, 2015. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor’s website at www.auditor.state.oh.us.

Note 14 - 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:

2015			Other	Total
Fund Balances	General	Capital Improvement	Governmental Funds	Governmental Funds
<u>Restricted for</u>				
Computer service	\$ -	\$ -	\$ 3,003	\$ 3,003
Law enforcement	-	-	23,537	23,537
Street and highway repair	-	-	89,804	89,804
Village event	-	-	80	80
Capital improvements	-	1,236,293	224,678	1,460,971
Total restricted	<u>-</u>	<u>1,236,293</u>	<u>341,102</u>	<u>1,577,395</u>
<u>Assigned</u>				
Encumbrances	<u>90,136</u>	<u>-</u>	<u>-</u>	<u>90,136</u>
Unassigned	<u>1,280,484</u>	<u>-</u>	<u>-</u>	<u>1,280,484</u>
Total fund balances	<u>\$ 1,370,620</u>	<u>\$ 1,236,293</u>	<u>\$ 341,102</u>	<u>\$ 2,948,015</u>

Note 15 – Change in Accounting Principle

For 2015, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had no effect on the net position of the Village.

SUPPLEMENTAL INFORMATION

**VILLAGE OF GRAFTON
LORAIN COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Federal Grantor</u> <i>Pass-Through Grantor</i> Program or Cluster Title	Federal CFDA Number	Expenditures
 <u>U.S. Department of Transportation</u>		
<i>Passed through Lorain County:</i>		
Highway Planning & Construction Cluster:		
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	\$ 1,457,702
Total Highway Planning & Construction Cluster		1,457,702
Total U.S. Department of Transportation		1,457,702
Total Federal Expenditures		\$ 1,457,702

See Accompanying Notes to this Schedule.

**Village of Grafton
Lorain County, Ohio**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Note A – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Village of Grafton (the Village's) under programs of the federal government for the year ended December 31, 2015. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The schedule has been prepared on the cash basis of accounting.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Village has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note C – Matching Requirements

Certain Federal programs require the Government to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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

June 23, 2017

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 cash basis 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, 2015, 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 23, 2017, wherein we noted the Village uses a special purpose framework other than generally accepted accounting principles and implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

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 opinions 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.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness

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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*.

Village's Response to Findings

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

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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

June 23, 2017

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

To the Village Council:

Report on Compliance for the Major Federal Program

We have audited the **Village of Grafton's** (the Village) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Village of Grafton's major federal program for the year ended December 31, 2015. The *Summary of Auditor's Results* in the accompanying schedule of audit findings identifies the Village's major federal program.

Management's Responsibility

The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for the Village's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

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Opinion on the Major Federal Program

In our opinion, the Village complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**Village of Grafton
Lorain County, Ohio**

**Schedule of Audit Findings
2 CFR § 200.515
For the Year Ended December 31, 2015**

1. SUMMARY OF AUDIT RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning & Construction Cluster - CFDA #20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING NUMBER 2015-001

Material Weakness

Posting Receipts and Disbursements

The Village should have procedures and controls in place to help prevent and detect errors in financial reporting.

**Village of Grafton
Lorain County, Ohio**

**Schedule of Audit Findings (Continued)
2 CFR § 200.515
For the Year Ended December 31, 2015**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2015-001 (Continued)

Material Weakness (Continued)

Posting Receipts and Disbursements (Continued)

During 2015, receipts and disbursements were not always posted or classified correctly. The following errors were noted:

- OWDA loan interest credits were not recorded on the Village's books in 2015.
- Debt Proceeds were recorded as Intergovernmental in 2015.
- Debt Proceeds were recorded as Other Operating Receipts in 2015.
- Intrafund transfers should have been eliminated for financial statement presentation purposes.
- Water and Sewer Improvement funds were included in Other Governmental Funds instead of Other Enterprise Funds.

Not posting receipts and disbursements or classifying funds accurately resulted in the financial statements requiring reclassifications. The financial statements reflect all reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Officials' Response – See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None

**Village of Grafton
Lorain County, Ohio**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
For the Year Ended December 31, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Village will perform a review of the debt classifications.	December 31, 2017	Amy Barnhart, Clerk

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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 12, 2017