

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 28, 2006

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

The discussion and analysis of Sheffield-Sheffield Lake City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

- In total, net assets increased by \$842,291.
- Revenues for governmental activities totaled \$18,723,848 in 2005. Of this total, 88.0 percent consisted of General revenues while Program revenues accounted for the balance of 12.0 percent.
- Program expenses totaled \$17,881,557. Instructional expenses made up 59.6 percent of this total while support services accounted for 34.1 percent. Other expenses rounded out the remaining 6.3 percent.
- Outstanding general obligation debt increased to \$1,488,443 from \$1,310,000 in 2004.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 15. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General fund.

Governmental Funds

All of the School District's activities are reported as governmental funds, which focus on how money flows into and out from those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine the amount of financial resources available to be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

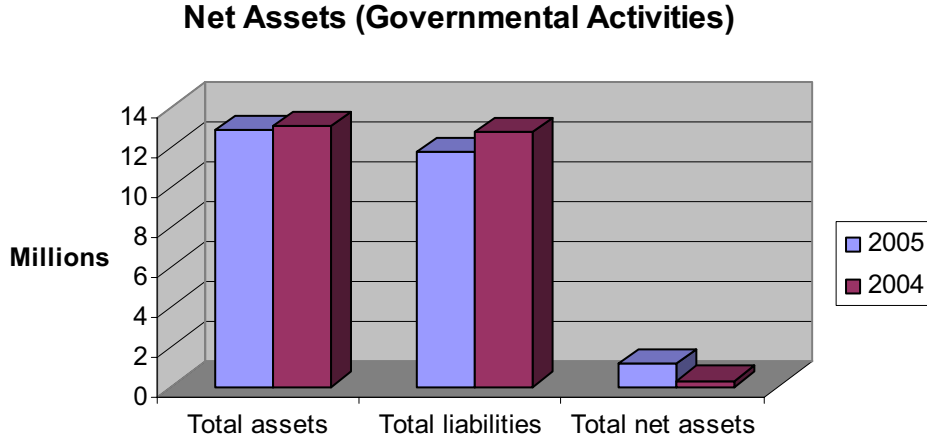
Table 1
Net Assets
Governmental Activities

	2005	2004	Change	% Change
Assets				
Equity in pooled cash	\$ 1,460,260	\$ 811,411	\$ 648,849	79.97%
Cash with fiscal agent	538,798	366,130	172,668	47.16%
Due from other governments	11,233	32,519	(21,286)	-65.46%
Inventories and supplies	5,773	3,995	1,778	44.51%
Prepaid expenses	25,487	25,324	163	0.64%
Taxes receivable	8,443,226	9,250,756	(807,530)	-8.73%
Capital assets				
Nondepreciable capital assets	461,310	461,310	-	0.00%
Depreciable capital assets, net	1,918,040	2,102,675	(184,635)	-8.78%
Total assets	<u>12,864,127</u>	<u>13,054,120</u>	<u>(189,993)</u>	<u>-1.46%</u>
Liabilities				
Accounts and contracts payable	72,794	20,455	52,339	255.87%
Accrued salaries, wages and benefits	1,370,688	1,427,109	(56,421)	-3.95%
Claims payable	474,576	450,648	23,928	5.31%
Due to other governments	611,185	568,741	42,444	7.46%
Accrued interest payable	3,513	6,264	(2,751)	-43.92%
Deferred revenue	6,071,742	7,897,217	(1,825,475)	-23.12%
Note payable	460,000	920,000	(460,000)	-50.00%
Long term liabilities				
Due within one year	588,485	262,046	326,439	124.57%
Due in more than one year	2,078,117	1,210,904	867,213	71.62%
Total liabilities	<u>11,731,100</u>	<u>12,763,384</u>	<u>(1,032,284)</u>	<u>-8.09%</u>
Net assets				
Invested in capital assets, net of related debt	2,066,380	2,131,915	(65,535)	-3.07%
Restricted for:				
Debt service	-	460,000	(460,000)	-100.00%
Capital projects	233,314	58,889	174,425	296.19%
School support	103,194	91,271	11,923	13.06%
Extracurricular activities	26,428	9,867	16,561	167.84%
State grants	8,005	45,687	(37,682)	-82.48%
Federal grants	7,092	1,641	5,451	332.18%
Other purposes	77,386	12,111	65,275	538.97%
Unrestricted (deficit)	(1,388,772)	(2,520,645)	1,131,873	-44.90%
Total net assets	<u>\$ 1,133,027</u>	<u>\$ 290,736</u>	<u>\$ 842,291</u>	<u>289.71%</u>

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the net assets were \$ 1,133,027.

At year-end capital assets represented 18.5% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$ 2,066,380. These capital assets are used to provide services to the students and are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$ 455,419, represents resources that are subject to external restriction on how they are spent. The remaining balance of unrestricted net assets of \$ (1,388,772) may be used to meet the District's ongoing obligations to the students and creditors.

By comparing assets and liabilities, one can see the overall position of the School District has increased over the past year as evidenced by the increase in total net assets.

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$ 16,473,139 or 88.0 percent of the total revenue. The most significant portion of the General revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$ 2,250,709 or only 12.0 percent of total revenue.

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2 shows the changes in net assets for fiscal year 2005. This is the third year the School District has prepared financial statements following GASB Statement 34, allowing revenue and expense comparisons to fiscal year 2004 to be available.

Table 2
Governmental Activities

	2005	%	2004	%
		of Total		of Total
General revenues				
Property taxes levied for:				
General purpose	9,683,576	51.72%	\$8,373,517	49.95%
Capital improvements	320,964	1.71%	253,795	1.51%
Grants and entitlements not restricted to specific purpose	6,339,275	33.86%	6,351,118	37.89%
Investment earnings	49,464	0.26%	28,111	0.17%
Miscellaneous	79,860	0.43%	48,218	0.29%
Total general revenues	<u>16,473,139</u>	<u>87.98%</u>	<u>15,054,759</u>	<u>89.81%</u>
Program revenues	<u>2,250,709</u>	<u>12.02%</u>	<u>1,708,538</u>	<u>10.19%</u>
Total revenue	<u>18,723,848</u>	<u>100.00%</u>	<u>16,763,297</u>	<u>100.00%</u>
Governmental activities				
Instruction				
Regular	8,055,929	45.05%	7,804,355	44.88%
Special	2,277,829	12.74%	2,156,891	12.40%
Vocational	293,260	1.64%	277,476	1.60%
Other instruction	31,307	0.18%	104,790	0.60%
Supporting services				
Pupil	1,117,054	6.25%	1,226,915	7.05%
Instructional staff	607,105	3.40%	671,400	3.86%
Board of education	30,860	0.16%	38,626	0.22%
Administration	1,341,861	7.50%	1,353,602	7.78%
Fiscal services	391,501	2.19%	403,842	2.32%
Business	157,886	0.88%	129,550	0.74%
Operation and maintenance	1,517,016	8.48%	1,332,423	7.66%
Pupil transportation	762,037	4.26%	710,666	4.09%
Central services	175,513	0.98%	111,039	0.64%
Operation of non-instructional				
Food service operation	584,134	3.27%	515,793	2.97%
Community services	47,631	0.27%	54,427	0.32%
Extracurricular activities	433,896	2.43%	445,931	2.56%
Interest	56,738	0.32%	53,283	0.31%
Totals	<u>17,881,557</u>	<u>100.00%</u>	<u>17,391,009</u>	<u>100.00%</u>
Change in net assets	<u>\$ 842,291</u>		<u>\$ (627,712)</u>	

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

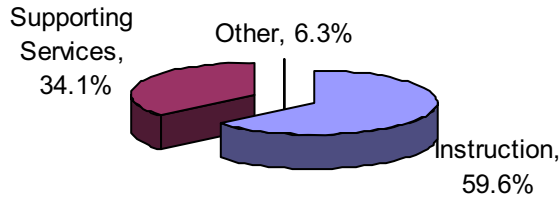
Governmental Activities

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted tax levy does not increase as a result of inflation. As an example, a homeowner with a home value at \$100,000 (assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If, three years later, the home value were to be reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

The primary source of revenue for governmental activities is derived from property taxes. Property taxes made up 53.4 percent of revenues for governmental activities for the Sheffield-Sheffield Lake City School District in fiscal year 2005.

The largest Governmental Activities program expense remains instruction, comprising 59.6 percent of total expenses. When combined with pupil, staff and business operations, these categories encompass 93.7 percent. The remaining program expenses of 6.3 percent are budgeted to facilitate other obligations of the School District, such as food service programs, community services activities, numerous extracurricular activities and interest payments.

Program Expenses



Effective July 1, 2005 the District implemented \$1,284,000 in cost reductions. The reductions included reductions in force totaling nearly thirty (30) positions district wide, limiting purchases of instructional materials, computers and text books.

On November 8, 2005 the taxpayers of the District passed a five-year 5.99 mill Emergency Operating Levy that will provide \$1,894,000 per year for the life of the levy. The District's taxpayers, as a whole, are by far the primary support for the District's students.

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost Of Services	Net Cost Of Services
Governmental activities		
Instruction		
Regular	\$ 8,055,929	\$ (7,063,765)
Special	2,277,829	(1,978,365)
Vocational	293,260	(293,260)
Other instruction	31,307	(31,307)
Supporting services		
Pupil	1,117,054	(876,233)
Instructional staff	607,105	(559,933)
Board of education	30,860	(30,860)
Administration	1,341,861	(1,341,861)
Fiscal services	391,501	(391,501)
Business	157,886	(157,886)
Operation and maintenance	1,517,016	(1,483,735)
Pupil transportation	762,037	(762,037)
Central services	175,513	(151,015)
Operation of non-instructional		
Food service operation	584,134	(123,604)
Community services	47,631	(6,996)
Extracurricular activities	433,896	(321,752)
Interest	56,738	(56,738)
Totals	\$ 17,881,557	\$(15,630,848)

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 55.9 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 35.5 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 12.6 percent of all governmental expenses.

Clearly, the Sheffield-Sheffield Lake community is by far the greatest source of financial support for the students of the Sheffield-Sheffield Lake City School District.

School District Funds

Information regarding the School District's major fund can be found on page 15. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 18,755,341 and expenditures of \$ 17,415,341. The net change in fund balance for the year was most significant in the General Fund, an increase of \$ 2,370,110 with a decrease offset by other funds totaling \$ 307,667.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005 the School District amended its General Fund budget several times to allow for additional advances to its Food Service Fund and other less significant amendments. Fluctuations among the budget base expenditures categories are due to the School District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

For the General Fund, final budget estimated revenue was \$15.4 million. The actual revenue received was \$16.0 million.

Total budget estimated expenditures were \$ 16.8 million. The actual expenditures on the budget basis (cash outlays plus encumbrances) were \$ 16.2 million.

Capital Assets and Debt Administration

At the end of fiscal 2005 the School District had \$2.4 million invested in land, building, equipment and vehicles. Table 4 shows fiscal 2005 values compared to 2004.

Table 4
Capital Assets at June 30
Governmental Activities

	2005	2004
Land	\$ 461,310	\$ 461,310
Building and improvements	1,035,075	1,109,540
Furniture and equipment	716,167	775,520
Vehicles	166,798	217,616
	<u>\$ 2,379,350</u>	<u>\$ 2,563,986</u>

**Sheffield-Sheffield Lake City School District
Lorain County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

All capital assets, except land, are reported net of depreciation. For 2005, the decrease in capital assets was the result of depreciation expense. For additional capital asset information, see Note 9 of the notes to the basic financial statements.

Debt

At June 30, 2005, the School District had no outstanding bonds. The School District's debt consists of two energy conservation notes totaling \$306,000, a short term \$460,000 tax anticipation note and a Solvency Assistance Fund Advance of \$722,443.

The School District has not had outstanding bonds for over ten years; therefore, the School District has no official bond rating.

For additional debt information, see Notes 13 and 14 of the notes to the basic financial statements.

School District Outlook

The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the School District's Continuous Improvement Plan.

The District relies heavily upon real estate taxes, personal property taxes and state funding as sources of revenue. The School District's financial future took a turn for the better with the passage of a 5.99 mill five-year Emergency Operating Levy on November 8, 2005.

State funding continues to be a challenge not only in the Sheffield-Sheffield Lake City School District but statewide. Significant changes are not expected any time soon. Until the state provides an adequate/equitable system of funding education, the District will continue to depend on the residents of the District to bear the cost of educating our children.

The financial statements represent our continued effort to keep the District informed of the use of their tax dollars and the cost to the District to maintain the excellence in education provided our students and expected of our community.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Donald J. Breon, Treasurer, Sheffield-Sheffield Lake City School District, 1824 Harris Road, Sheffield Lake, Ohio 44054, or e-mail dbreon@sheffield.k12.oh.us.

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities
Assets	
Equity in pooled cash	\$ 1,460,260
Cash with fiscal agent	538,798
Due from other governments	11,233
Inventories and supplies	5,773
Prepaid expenses	25,487
Taxes receivable	8,443,226
Capital assets	
Nondepreciable capital assets	461,310
Depreciable capital assets, net	1,918,040
Total assets	12,864,127
 Liabilities	
Accounts and contracts payable	72,794
Accrued salaries, wages and benefits	1,370,688
Claims payable	474,576
Due to other governments	611,185
Accrued interest payable	3,513
Unearned revenue	6,071,742
Note payable	460,000
Long-term liabilities	
Due within one year	588,485
Due in more than one year	2,078,117
Total liabilities	11,731,100
 Net assets	
Invested in capital assets, net of related debt	2,066,380
Restricted for:	
Capital projects	233,314
School support	103,194
Extracurricular activities	26,428
State grants	8,005
Federal grants	7,092
Other purposes	77,386
Unrestricted (deficit)	(1,388,772)
Total net assets	\$ 1,133,027

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants Interest and Contributions	Revenue and Changes in Net Assets
Governmental activities				
Instruction				
Regular	\$ 8,055,929	\$ 801,904	\$ 190,260	\$ (7,063,765)
Special	2,277,829	-	299,464	(1,978,365)
Vocational	293,260	-	-	(293,260)
Other instruction	31,307	-	-	(31,307)
Supporting services				
Pupil	1,117,054	-	240,821	(876,233)
Instructional staff	607,105	-	47,172	(559,933)
Board of education	30,860	-	-	(30,860)
Administration	1,341,861	-	-	(1,341,861)
Fiscal services	391,501	-	-	(391,501)
Business	157,886	-	-	(157,886)
Operation and maintenance	1,517,016	-	33,281	(1,483,735)
Pupil transportation	762,037	-	-	(762,037)
Central services	175,513	-	24,498	(151,015)
Operation of non-instructional				
Food service operation	584,134	265,078	195,452	(123,604)
Community services	47,631	-	40,635	(6,996)
Extracurricular activities	433,896	112,144	-	(321,752)
Interest	56,738	-	-	(56,738)
Totals	<u>\$ 17,881,557</u>	<u>\$ 1,179,126</u>	<u>\$ 1,071,583</u>	<u>(15,630,848)</u>

General revenues

Property taxes levied for:

General purpose	9,683,576
Capital improvements	320,964
Grants and entitlements not restricted to specific purposes	6,339,275
Investment earnings	49,464
Miscellaneous	79,860
Total general revenues	<u>16,473,139</u>

Change in net assets

Net assets at beginning of year	290,736
Net assets at end of year	<u>\$ 1,133,027</u>

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash	\$ 1,133,061	\$ 327,199	\$ 1,460,260
Receivables, net of allowance			
Taxes, current	7,789,133	293,823	8,082,956
Taxes, delinquent	348,951	11,319	360,270
Due from other governments	8,911	2,322	11,233
Interfund receivable	38,817	-	38,817
Inventories and supplies	-	5,773	5,773
Prepaid expenses	25,487	-	25,487
Total assets	\$ 9,344,360	\$ 640,436	\$ 9,984,796
Liabilities and fund balances			
Liabilities			
Accounts and contracts payable	52,852	19,942	\$ 72,794
Accrued salaries, wages and benefits	1,308,638	62,050	1,370,688
Accrued interest payable	2,223	-	2,223
Due to other governments	348,305	10,430	358,735
Interfund payable	-	38,817	38,817
Deferred revenue	6,197,697	234,315	6,432,012
Note payable	460,000	-	460,000
Compensated absences payable	111,865	6,959	118,824
Total liabilities	8,481,580	372,513	8,854,093
Fund balances			
Reserved for prepaid expenses	25,487	-	25,487
Reserved for property taxes	1,940,387	70,827	2,011,214
Reserved for encumbrances	469,109	42,897	512,006
Unreserved, reported in			
General Fund	(1,572,203)	-	(1,572,203)
Special Revenue Funds	-	3,031	3,031
Capital Projects Funds	-	151,168	151,168
Total fund balances	862,780	267,923	1,130,703
Total liabilities and fund balances	\$ 9,344,360	\$ 640,436	\$ 9,984,796

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental funds balances	\$	1,130,703
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		2,379,350
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		360,270
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		64,222
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(252,450)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(1,513,824)
Notes payable		(306,000)
Loans payable		(722,443)
Capital lease payable		(5,511)
Interest payable		(1,290)
		(1,549,068)
Net assets of governmental activities	\$	1,133,027

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 9,722,066	\$ 321,531	\$ 10,043,597
Tuition and fees	719,919	76,342	796,261
Interest	41,587	313	41,900
Intergovernmental	6,428,136	982,722	7,410,858
Charges for services	-	252,189	252,189
Extracurricular	3,885	112,207	116,092
Other	31,102	63,342	94,444
Total revenues	<u>16,946,695</u>	<u>1,808,646</u>	<u>18,755,341</u>
Expenditures			
Current			
Instruction			
Regular	7,784,129	272,560	8,056,689
Special	1,835,242	240,715	2,075,957
Vocational	337,142	-	337,142
Other instruction	31,943	-	31,943
Supporting services			
Pupil	831,924	250,472	1,082,396
Instructional staff	515,283	72,000	587,283
Board of education	24,269	58	24,327
Administration	1,309,092	40,911	1,350,003
Fiscal services	380,122	6,147	386,269
Business	154,987	-	154,987
Operation and maintenance	1,306,884	103,070	1,409,954
Pupil transportation	612,734	825	613,559
Central services	124,153	44,367	168,520
Operation of non-instructional			
Food service operation	-	504,741	504,741
Community services	-	47,651	47,651
Extracurricular activities	329,540	76,556	406,096
Debt service			
Principal	36,559	84,000	120,559
Interest	27,911	29,354	57,265
Total expenditures	<u>15,641,914</u>	<u>1,773,427</u>	<u>17,415,341</u>
Excess (deficiency) of revenues over expenditures	<u>1,304,781</u>	<u>35,219</u>	<u>1,340,000</u>
Other financing sources (uses)			
Transfers-in	474,939	225,926	700,865
Advance from state solvency assistance	722,443	-	722,443
Transfers-out	(132,053)	(568,812)	(700,865)
Total other financing sources (uses)	<u>1,065,329</u>	<u>(342,886)</u>	<u>722,443</u>
Net change in fund balances	2,370,110	(307,667)	2,062,443
Fund balances, beginning of year	<u>(1,507,330)</u>	<u>575,590</u>	<u>(931,740)</u>
Fund balances, end of year	<u>\$ 862,780</u>	<u>\$ 267,923</u>	<u>\$ 1,130,703</u>

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 2,062,443

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their useful lives and reported as
depreciation expense. This is the amount by which depreciation
exceeded capital outlays in the current period.

	Capital outlay, net	57,316	
	Depreciation expense	<u>(241,952)</u>	
	Total		(184,636)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the funds.

	Property taxes		(39,057)
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Debt proceeds are an other financing source in the funds but
increase long-term liabilities in the Statement of Net Assets

(722,443)

Repayment of note and capital lease principal and interest is an
expenditure in the governmental funds, but the repayment reduces
long-term liabilities and accrued interest in the statement of net assets

121,086

Some expenses reported in the statement of activities,
such as compensated absences and intergovernmental
payable which represents contractually required pension
contributions, do not require the use of current financial
resources and therefore are not reported as expenditures
in governmental funds.

	Compensated absences	(552,127)	
	Pension obligations	<u>8,285</u>	
			(543,842)

The internal service fund used by management to charge the
costs of insurance to individual funds is not reported in
the district-wide statement of activities. Governmental
fund expenditures and the related internal service fund
revenues are eliminated. The net revenue (expense) of
the internal service fund is allocated among the
governmental activities.

148,740

Change in net assets of governmental activities

\$ 842,291

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 9,446,391	\$ 9,446,391	\$ 8,703,141	\$ (743,250)
Tuition and fees	545,448	511,087	719,919	208,832
Interest	31,725	18,000	41,587	23,587
Charges for services	76,251	-	100,961	100,961
Intergovernmental	4,887,329	6,649,247	6,451,744	(197,503)
Extracurricular	2,783	4,750	3,885	(865)
Other	22,263	16,377	29,422	13,045
Total revenues	<u>15,012,190</u>	<u>16,645,852</u>	<u>16,050,659</u>	<u>(595,193)</u>
Expenditures				
Current				
Instruction				
Regular	8,022,773	8,331,019	7,792,400	538,619
Special	1,884,532	2,007,741	1,839,652	168,089
Vocational	325,910	339,437	336,692	2,745
Other instruction	33,773	36,753	32,037	4,716
Supporting services				
Pupil	903,427	972,536	884,169	88,367
Instructional staff	545,433	559,939	530,429	29,510
Board of education	25,329	33,427	31,259	2,168
Administration	1,388,069	1,423,041	1,347,092	75,949
Fiscal services	388,390	417,969	377,324	40,645
Business	184,063	178,350	177,882	468
Operation and maintenance	1,344,165	1,393,622	1,306,244	87,378
Pupil transportation	616,357	624,205	598,422	25,783
Central services	113,139	159,865	112,004	47,861
Extracurricular activities	339,418	303,319	328,877	(25,558)
Debt service				
Principal	-	-	460,000	(460,000)
Interest	-	-	13,340	(13,340)
Total expenditures	<u>16,114,778</u>	<u>16,781,223</u>	<u>16,167,823</u>	<u>613,400</u>
Excess (deficiency) of revenues over expenditures	<u>(1,102,588)</u>	<u>(135,371)</u>	<u>(117,164)</u>	<u>18,207</u>
Other financing sources (uses)				
Advances-in	-	32,639	32,639	-
Advance from state solvency assistance	-	-	722,443	722,443
Proceeds from the sale of assets	-	1,500	-	(1,500)
Advances-out	(40,527)	-	(38,817)	(38,817)
Transfers-out	(736,251)	(40,991)	(132,053)	(91,062)
Total other financing sources (uses)	<u>(776,778)</u>	<u>(6,852)</u>	<u>584,212</u>	<u>591,064</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(1,879,366)</u>	<u>(142,223)</u>	<u>467,048</u>	<u>609,271</u>
Fund balances, beginning of year	98,583	98,583	98,583	-
Prior year encumbrances	56,577	56,577	56,577	-
Fund balances, end of year	<u>\$ (1,724,206)</u>	<u>\$ 12,937</u>	<u>\$ 622,208</u>	<u>\$ 609,271</u>

See the accompanying notes to the basic financial statements..

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUND

JUNE 30, 2005

	<u>Internal Service Fund - Self Insurance</u>
Assets	
Equity in pooled cash	<u>\$ 538,798</u>
Liabilities	
Claims payable	<u>474,576</u>
Total liabilities	<u>474,576</u>
Net assets	
Unrestricted	<u>\$ 64,222</u>

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR JUNE 30, 2005

	<u>Internal Service Fund - Self Insurance</u>
Operating revenues	
Charges for services	<u>\$ 2,095,473</u>
Operating expenses	
Purchased services	117,830
Claims	1,836,467
Total operating expenses	<u>1,954,297</u>
Operating income	141,176
Non-operating revenue	
Interest	<u>7,564</u>
Change in net assets	148,740
Net assets, beginning of year	<u>(84,518)</u>
Net assets, end of year	<u><u>\$ 64,222</u></u>

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR JUNE 30, 2005

	Internal Service Fund - Self Insurance
Cash flows from operating activities	
Cash received from interfund services	\$ 2,095,473
Cash payments for goods and services	(117,830)
Cash payments for claims	(1,812,539)
Net cash provided by operating activities	165,104
 Cash flows from investing activities	
Interest	7,564
 Net increase in cash and cash equivalents	172,668
 Cash and cash equivalents, beginning of year	366,130
 Cash and cash equivalents, end of year	\$ 538,798
 Reconciliation of operating loss to net cash used for operating activities	
Operating income	\$ 141,176
Adjustments	
Increase in claims payable	23,928
Net cash provided by operating activities	\$ 165,104

See the accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF FIDUCIARY FUNDS -
ASSETS AND LIABILITIES

JUNE 30, 2005

	<u>Agency Funds</u>
Assets	
Equity in pooled cash	\$ 77,797
Total assets	<u>77,797</u>
Liabilities	
Accounts and contracts payable	317
Due to students	57,580
Due to others	19,900
Total liabilities	<u>\$ 77,797</u>

See the accompanying notes to the basic financial statements.

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Sheffield-Sheffield Lake City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2004 was 1,945. The District employs 159 certificated and 91 non-certificated employees.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and, 1) the District is able to significantly influence the programs or services performed or provided by the organization; or 2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council of Governments (LERC) and the Lorain County Joint Vocational School District. These organizations and their relationships with the District are described in more detail in Notes 10 and 18 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The following are the more significant of the District's accounting policies.

A. BASIS OF PRESENTATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds (continued)

General Fund - the General Fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

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

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District's self insurance fund is classified as an internal service fund. The District has no enterprise funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2005, totaled \$ 49,464.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2005.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when used.

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of another government or imposed by enabling legislation.

I. CAPITAL ASSETS

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/ payable". These amounts are eliminated in the governmental column of the statement of net assets.

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, loans, and capital leases are recognized as a liability on the governmental fund financial statements when due.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, prepaids, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

P. INTERFUND TRANSACTIONS

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

At June 30, 2005, the following funds had deficit fund balances. The General Fund is liable for deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

Nonmajor Funds:	
Food Service	\$ (41,686)
Ohio Reads	(3,952)
Summer School	(5,156)
High School that Works	(202)
IDEA Part B	(50,451)
Drug Free Schools	(3,602)
Preschool Disability	(208)
Title VI R	(10,620)
Total	<u>\$ (115,877)</u>

Section 5705.39 of the Ohio Revised Code prohibits appropriations from exceeding estimated resources. The original appropriations for the General Fund exceeded the estimated resources by \$ 1,724,206. The following funds had appropriations in excess of estimated resources at June 30, 2005:

Fund	Estimated Resources	Final Appropriations	Variance
Nonmajor Funds:			
Auxiliary Services Fund	\$ 3,031	\$ 35,081	\$ (32,050)
Ohio Reads Grant Fund	4,188	35,076	(30,888)
High Schools That Work Fund	698	18,198	(17,500)
IDEA Grant Fund	4,228	426,550	(422,322)
Title II Fund	-	86,577	(86,577)
Title V Fund	7,186	19,365	(12,179)
Early Childhood Special Education Fund	-	6,683	(6,683)
Preschool Disabilities Fund	7,918	17,139	(9,221)
Title II-A Fund	20,586	82,413	(61,827)
Title I-D Fund	6,993	19,284	(12,291)
Employee Benefits Workers			
Compensation Fund	-	90,554	(90,554)
Schoolnet Fund	-	20,000	(20,000)

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY (continued)

Section 5705.41(B) of the Ohio Revised cod prohibits expenditures from exceeding appropriations at the legal level established by the Board of Education. The following funds had expenditures plus encumbrances in excess of appropriations at the fund level, the legal level established by the Board of Education:

Fund	Expenditures Plus Encumbrances	Appropriations Plus Prior Year Encumbrances	Variance
Nonmajor Funds:			
Endowment Fund	\$ 7,595	\$ 4,600	\$ (2,995)
DPIA Fund	21,794	18,979	(2,815)
Ohio Reads Grant Fund	42,944	36,307	(6,637)
Auxiliary Services Fund	43,694	35,081	(8,613)
Principal's Fund	60,289	53,916	(6,373)
Early Childhood Special Education	7,564	6,863	(701)
Management Information Fund	10,292	6,062	(4,230)
Entry Year Teacher Training Fund	9,843	3,243	(6,600)
ONenet Public Communciations Fund	36,000	18,000	(18,000)
SchoolNet Professional Fund	5,515	1,495	(4,020)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General Fund
Budget basis	\$ 467,048
Adjustments, increase (decrease)	
Revenue accruals	896,036
Expenditure accruals	525,909
Other sources (uses)	481,117
GAAP basis, as reported	\$ 2,370,110

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District 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 the Board of Education 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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

A. LEGAL REQUIREMENTS(continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 District, and must be purchased with the expectation that it will be held to maturity.

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

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

At fiscal year end, the District had \$ 700 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the District's deposits was \$ 789,063 and the bank balance was \$ 1,025,006. Of the bank balance, \$100,005 was covered by federal depository insurance and \$925,001 was uninsured. Of the remaining balance, \$ 925,001 was collateralized with securities held by the pledging institution's trust department not in the District's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, the District had the following investments:

	Maturity	Fair Value
Investment in State Treasurer's Investment Pool	n/a	\$ 1,287,092

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

D. INTEREST RATE RISK

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

E. CREDIT RISK

The District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2005, the District's investments in StarOhio were rated AAA by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

The District places no limit on the amount that may be invested in any one issuer.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected from tangible personal property, other than public utility, in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business, except for public utilities, is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005/2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2005, was \$ 1,940,387 in the General Fund and \$ 70,827 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second - Half Collections			2005 First - Half Collections	
	Amount	%		Amount	%
Agricultural/Residential	\$ 198,088,780	64.13	%	\$ 203,687,680	63.01 %
Commercial/Industrial	74,946,250	24.26		82,294,190	25.46
Public Utilities	1,314,330	0.43		1,307,210	0.40
Tangible Personal Property	34,529,170	11.18		35,980,806	11.13
Total Assessed Value	<u>\$ 308,878,530</u>	<u>100.00</u>	%	<u>\$ 323,269,886</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	<u>51.87</u>			<u>51.33</u>	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes and amounts due from other governments. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items due from other governments follows:

	Amount
Governmental Activities	
General Fund	\$ 8,911
Title II D Fund	2,322
Total due from other governments	<u>\$ 11,233</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8 – INTERFUND ADVANCES

Interfund receivables and payables at June 30, 2005 are as follows:

Major Fund:	Receivable	Payable
General Fund	<u>\$ 38,817</u>	<u>\$ -</u>
Non-major funds:		
Ohio Reads	-	3,067
Reading Intervention	-	5,156
Title VI B	-	22,830
Drug Free Schools	-	3,180
Title II A	-	2,494
Miscellaneous Federal Grants	-	2,090
Total non-major funds	<u>-</u>	<u>38,817</u>
Total	<u><u>\$ 38,817</u></u>	<u><u>\$ 38,817</u></u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Disposals	Balance June 30, 2005
Governmental Activities				
Nondepreciable capital assets				
Land	<u>\$ 461,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,310</u>
Depreciable capital assets				
Buildings and improvements	4,429,317	-	-	4,429,317
Furniture and equipment	1,972,172	57,553	19,256	2,010,469
Vehicles	1,312,175	-	-	1,312,175
Total capital assets being depreciated	<u>7,713,664</u>	<u>57,553</u>	<u>19,256</u>	<u>7,751,961</u>
Less accumulated depreciation				
Buildings and improvements	3,319,777	74,465	-	3,394,242
Furniture and equipment	1,196,652	116,669	19,019	1,294,302
Vehicles	1,094,559	50,818	-	1,145,377
Total accumulated depreciation	<u>5,610,988</u>	<u>241,952</u>	<u>19,019</u>	<u>5,833,921</u>
Depreciable capital assets, net of accumulated depreciation	<u>2,102,676</u>	<u>(184,399)</u>	<u>237</u>	<u>1,918,040</u>
Governmental activities capital assets, net	<u><u>\$ 2,563,986</u></u>	<u><u>\$ (184,399)</u></u>	<u><u>\$ 237</u></u>	<u><u>\$ 2,379,350</u></u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	80,558
Special		7,719
Vocational education		6,777
Supporting services		
Pupil		4,314
Instruction		15,049
Board of education		6,533
Administration		8,210
Fiscal		1,159
Business		5,909
Operation and maintenance		10,276
Pupil transportation		56,395
Central services		109
Operation of noninstructional services		
Food service operation		20,213
Extracurricular activities		18,733
Total depreciation expense	\$	241,954

NOTE 10 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District contracted with the Indiana Insurance Company for property and casualty insurance. Professional liability is covered by the OSBA/BASA Ohio School Pool Insurance with a \$ 1,000,000 per occurrence and a \$ 3,000,000 aggregate limit. Settled claims have not exceeded this commercial coverage in any of the past several years.

Travelers Casualty & Surety Company of America maintains performance bonds of \$ 20,000 for the superintendent and the board president. A surety bond in the amount of \$ 100,000 also covers the Treasurer. The remaining employees who handle money are covered with a public employees blanket bond in the amount of \$ 10,000. The Indiana Insurance Company also provides this coverage.

B. WORKERS' COMPENSATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 10 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December, 1988. The LERC is a claims-servicing pool comprised of nine Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating School District would be liable for all outstanding claims beyond their individual balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$ 75 for single and \$ 125 for family coverage.

The LERC's pool premiums are billed to each participating school district based on actuarially determined rates. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims.

The claim liability of \$ 474,576 reported at June 30, 2005, was estimated by LERC and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2005 and 2004 are summarized below. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	June 30, 2005	June 30, 2004
Unpaid claims, beginning of year	\$ 450,648	\$ 436,280
Incurred claims	1,836,467	2,178,047
Claims payment	(1,812,539)	(2,163,679)
Unpaid claims, end of year	\$ 474,576	\$ 450,648

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2005, 2004, and 2003 were \$ 302,900, \$ 310,500, and \$ 320,200, respectively. The full amount has been contributed for 2004 and 2003. For 2005, \$ 150,178 (50%) has been contributed with the remainder being reflected as an intergovernmental payable.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan options – Effective July 1, 2001, new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

DC Plan Benefits – Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among nine investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's year's of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Prior to February 1, 2002, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. Effective February 1, 2002, benefits are increased annually by 3% of the original base amount, regardless of the change in the CPI.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

A defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$ 1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$ 2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to member's beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005 were 10% of covered payroll for members and 14% for employers; 13% was the portion used to fund pension obligations. The District's contribution to STRS for the years ended June 30, 2005, 2004, and 2003 were \$ 1,134,900, \$1,120,600, and \$ 1,101,505, respectively. The full amount has been contributed for 2004 and 2003. For 2005, \$ 962,290 (85%) has been contributed with the remainder being reported as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing STRS Ohio , 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, the healthcare allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay was established as \$ 27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the District paid \$ 1,033,700 to fund health care benefits, including surcharge. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2005 were \$ 178,221,113 and the target level was \$ 335.2 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits was \$ 267.5 million.

The number of benefit recipients receiving health care benefits is approximately 58,123.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District this amount equaled \$ 330,323, for fiscal year 2005. The balance in the Health Care Stabilization Fund was \$ 3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$ 254,780,000. There were 115,395 eligible benefit recipients.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 13 – TAX ANTICIPATION NOTE

The following is a description of the tax anticipation note outstanding as of June 30, 2005:

	Outstanding July 1, 2004	Additions	Retired	Outstanding June 30, 2005
Tax anticipation note (2000) 5.8% through 2005	\$ 920,000	\$ -	\$ 460,000	\$ 460,000

Principal amounts of this note may be drawn down by the District from time to time in increments of \$ 10,000, and integral multiples of \$ 1,000 in excess thereof. No principal drawing shall be permitted if the amount of the drawing would cause the aggregate outstanding principal amount to exceed the maximum permitted principal amount, as set forth in the following table.

	Maximum Permitted Principal Amount
December 1, 2004 through November, 2005	\$ 460,000

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2005 were as follows:

	Balance June 30, 2004	Additions	Retired	Balance June 30, 2005	Amounts Due In One Year
Energy conservation notes:					
1998, 5.15%	\$ 277,000	\$ -	\$ 64,000	\$ 213,000	\$ 67,000
1999, 4.85%	113,000	-	20,000	93,000	21,000
Total notes	390,000	-	84,000	306,000	88,000
Loan payable	-	722,443	-	722,443	361,221
Capital leases	42,070	-	36,559	5,511	5,511
Compensated absences	1,040,880	725,592	133,824	1,632,648	133,753
	\$ 1,472,950	\$ 1,448,035	\$ 254,383	\$ 2,666,602	\$ 588,485

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 15 – DEBT SERVICE REQUIREMENTS TO MATURITY

The following is a description of the District's future annual debt service requirements to maturity for general obligation debt:

Year ending June 30,	Principal	Interest	Total
2006	\$ 88,000	\$ 13,245	\$ 101,245
2007	94,000	8,625	102,625
2008	99,000	3,726	102,726
2009	25,000	606	25,606
	<u>\$ 306,000</u>	<u>\$ 26,202</u>	<u>\$ 332,202</u>

NOTE 16 – CAPITAL LEASES

The District is obligated under certain leases accounted for as capital leases. The assets under capital leases totaled \$ 6,845 at June 30, 2005. The leases are in effect through fiscal year 2006.

The following is a schedule of future minimum lease payments under the capital leases together with the net present value of the minimum lease payments as of June 30, 2005.

	Year ending June 30,	Amount
Total minimum lease payments	2006	\$ 5,587
Less amount representing interest		(76)
Net present value of minimum lease payments		<u>\$ 5,511</u>

NOTE 17 – SET-ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbook	Capital Maintenance
Balance, July 1, 2004	\$ (239,860)	\$ -
Required set aside	296,503	296,503
Offset credits	-	(148,000)
Qualifying expenditures	(188,600)	(169,867)
Totals	<u>\$ (131,957)</u>	<u>\$ (21,364)</u>
Carry forward at June 30, 2005	<u>\$ (131,957)</u>	

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 200,701 and \$ 317,867, respectively. Textbook expenditures have exceeded statutory requirements by \$144,058 which may be used to offset future years' set aside requirements. Although the District had qualifying expenditures during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2005, the District paid \$ 150,853 to LEECA.

B. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

The Lake Erie Regional Council of Governments (LERC) is a jointly governed organization among fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member provided operating resources to LERC on a per-pupil or actual usage charge, except for insurance.

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. A board of directors chosen from the general membership governs LERC. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a jointly governed organization. The jointly governed organization was formed for the purpose of providing vocational and special education needs of the students. The Lorain County Joint Vocational School Board is comprised of representatives from each participating school district and is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities.

The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

NOTE 19 - SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 20 - INTERFUND TRANSFERS

During the year ended June 30, 2005, interfund transfers were made to fund operating activities in various funds and for debt service payments.

	Transfer from:		
Transfer to:	General Fund	Nonmajor Governmental Funds	Total
General Fund	-	474,939	474,939
Nonmajor Governmental Funds	132,053	93,873	225,926
	132,053	568,812	700,865

NOTE 21 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

NOTE 22 - FISCAL EMERGENCY

The Sheffield-Sheffield Lake City School District was declared to be in fiscal emergency on January 11, 2005. A financial Planning and Supervision Commission has been created to assure the fiscal integrity of the District. The Commission has responsibility to approve the District's actions regarding fiscal management matters for the District. On April 13, 2005 the Commission passed the Recovery Plan for the District and on May 3, 2005 the community passed a renewal levy which provides revenue in the amount of \$ 2,300,000 per year.

NOTE 23 - NEWLY ENACTED LEGISLATION

In June, 2005 the State of Ohio enacted legislation, portions of which take effect at various times, that phases out the taxation of tangible personal property used in business (other than certain public utility tangible personal property) over four years from tax year 2006 to tax year 2009. New manufacturing machinery and equipment first reportable after 2005 is not subject to tangible personal property taxation. To compensate local government units for the foregone revenue, the recently enacted legislation provides for State distributions from revenue generated by a newly enacted commercial activities tax. The reimbursements are to be based on the aggregate value of tangible personal property reported for the local government for tax year 2004 (based on voted levies approved by the electors by September 1, 2005). Generally these distributions will fully reimburse the local government units at that base level through 2010 and then in declining amounts from 2011 through 2017.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 24 – SUBSEQUENT EVENTS

On November 8, 2005, the voters of the District approved a 5.99 mill levy. This levy will generate new revenue of \$ 1,894,000 per year for the next five years.

NOTE 25 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not materially affect the presentation of the financial statements of the District.

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SHEFFIELD - SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Distribution	N/A	10.550	\$0	\$42,289	\$0	\$42,289
National School Lunch Program	044768-LLP405	10.555	149,135	-	149,135	-
Total U.S. Department of Agriculture			<u>149,135</u>	<u>42,289</u>	<u>149,135</u>	<u>42,289</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Special Education Cluster:</i>						
Special Education Grants to States, IDEA Part B	044768-6BSD-05P	84.027	41,909	-	45,710	-
	044768-6BSF-04P	84.027	0	-	4,052	-
	044768-6BSF-05P	84.027	352,035	-	348,410	-
Total Special Education Grants to States, IDEA Part B			<u>393,944</u>	<u>-</u>	<u>398,172</u>	<u>-</u>
Special Education Preschool Grants	044768-PGS1-04P	84.173	6,387	-	7,918	-
	044768-PGS1-05P	84.173	3,279	-	3,078	-
Total Special Education Preschool Grants			<u>9,666</u>	<u>-</u>	<u>10,996</u>	<u>-</u>
Total Special Education Cluster			<u>403,610</u>	<u>-</u>	<u>409,168</u>	<u>-</u>
Title I, Part A, ESEA	044768-C1S1-05	84.010	84,735	-	78,974	-
Safe and Drug-Free Schools and Communities State Grants	044768-DRS1-05	84.186	6,926	-	6,926	-
Innovative Educational Program Strategies, Title V	044768-C2-S1-04	84.298	174	-	3,948	-
	044768-C2-S1-05	84.298	10,021	-	8,921	-
Total Innovative Educational Program Strategies, Title V			<u>10,195</u>	<u>-</u>	<u>12,869</u>	<u>-</u>
Education Technology State Grants, Title II-D	044768-TJ51-04	84.318	70	-	331	-
	044768-TJ51-05	84.318	984	-	751	-
Total Education Technology State Grants, Title II-D			<u>1,054</u>	<u>-</u>	<u>1,082</u>	<u>-</u>
Improving Teacher Quality, Title II-A	044768-TRS1-04	84.367	10,085	-	18,601	-
	044768-TRS1-05	84.367	50,633	-	50,633	-
Total Improving Teacher Quality, Title II-A			<u>60,718</u>	<u>-</u>	<u>69,234</u>	<u>-</u>
Total U.S. Department of Education			<u>567,238</u>	<u>-</u>	<u>578,253</u>	<u>-</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>						
<i>Passed Through Ohio Department of Education:</i>						
Learn and Serve America - School and Community Based Programs	044768-SVS1-04	94.004	6,661	-	6,661	-
	044768-SVS1-05	94.004	8,433	-	8,666	-
Total Corporation For National and Community Services			<u>15,094</u>	<u>-</u>	<u>15,327</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program	N/A	93.767	13,398	-	13,398	-
Medical Assistance - Medicaid Title XIX	N/A	93.778	84,068	-	84,068	-
Total U.S. Department of Health and Human Services			<u>97,466</u>	<u>-</u>	<u>97,466</u>	<u>-</u>
Total All Federal Awards			<u>\$828,933</u>	<u>\$42,289</u>	<u>\$840,181</u>	<u>\$42,289</u>

The accompanying notes to this schedule are an integral part of this schedule.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

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

Board of Education
Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-005 through 2005-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated April 28, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the District's management dated April 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 28, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

Compliance

We have audited the compliance of Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Sheffield-Sheffield Lake City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 28, 2006

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education Grants to States, IDEA Part B/CFDA #84.027 Special Education Preschool Grants to States/CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

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

FINDING NUMBER 2005-001

Deficit Fund Balances

Ohio Rev. Code Section 5705.10 states, money paid into any fund shall be used only for the purposes for which such fund is established. During our testing we noted that various funds had negative fund balances throughout the year. The following are the negative balances for the months of December, January, February and May:

For the month of January:

<u>Fund</u>	<u>Negative Fund Balances</u>
General Fund	\$ 50,072
Permanent Improvement Fund	57,951
Cafeteria Fund	26,883
Title VI-B IDEA Part B Fund	4,197

For the month of February:

<u>Fund</u>	<u>Negative Fund Balances</u>
Permanent Improvement Fund	\$ 58,621
Cafeteria Fund	29,717

For the month of May:

<u>Fund</u>	<u>Negative Fund Balances</u>
Cafeteria Fund	\$17,297
Title II Fund	8,250

These negative fund balances were corrected as of June 30, 2005.

We recommend the District utilize cash advances or other appropriate measures to ensure negative cash fund balances do not exist throughout the year.

CLIENT RESPONSE:

The negative cash balances were a result of our being in fiscal emergency. With passage of an operating levy in November of 2005 new financial resources will allow us to make advances to funds to eliminate negative balances.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

FINDING NUMBER 2005-002

Expenditures Plus Encumbrances In Excess of Appropriations

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure or encumbrance unless it has been properly appropriated. Budgetary expenditures as enacted by the District may not exceed appropriations at the legal level of control for all funds. The District's legal level of control is fund level for all funds.

The District had the following violations at June 30, 2005:

<u>Fund</u>	<u>Expenditures plus Encumbrances</u>	<u>Prior Year Encumbrances Plus 2005 Appropriations</u>	<u>Variance</u>
Endowment Fund	\$7,595	\$4,600	\$(2,995)
DPIA Fund	21,794	18,979	(2,815)
Ohio Reads Grant Fund	42,944	35,076	(7,868)
Auxiliary Services-Non Public Fund	43,694	35,081	(8,613)
Principal's Fund	60,289	53,916	(6,373)
Management Information Fund	10,292	6,062	(4,230)
Entry Year Teacher Training Fund	9,843	3,243	(6,600)
ONEnet Public Communication Fund	36,000	18,000	(18,000)
Schoolnet Profession Fund	5,515	1,495	(4,020)
Early Childhood Special Education Fund	7,564	6,863	(701)

We also noted material noncompliance where expenditures plus encumbrances exceeded appropriations during the year.

This weakness could allow expenditures plus encumbrances in the above funds to exceed the total of the available fund balance. The District should monitor their budget on a monthly basis to ensure that expenditures plus encumbrances are within established appropriations and to make appropriation modifications, is necessary.

CLIENT RESPONSE:

We will conduct closer monitoring of budgetary activity to ensure expenditures plus encumbrances do not exceed appropriations.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

FINDING NUMBER 2005-003

Contract/Bidding Requirements

Ohio Rev. Code Section 3313.46(A) (2) states procedures for bidding and letting of contracts, when a Board of Education determines to build, repair, enlarge, improve, or demolish any school building with a cost in excess of \$25,000, the Board is required to advertise for bids once a week for at least two consecutive weeks in a newspaper of general circulation in the District prior to the date specified by the Board for receiving bids. The Board had entered into a contract with M. J. Griffith Paving Inc. for paving of school parking areas. The Board passed resolutions approving the contract on August 9th, Resolution #04-257 for \$24,679, September 13th, Resolution #04-284 for \$20,740 and September 13th, Resolution 04-285 for \$18,481. In discussing this with the Treasurer we were told that the contract with M. J. Griffith Paving Inc. was never advertised for bid since the Treasurer felt that these were all separate contracts under the \$25,000 threshold for bidding.

Bidding requirements are based on vendor and project. The paving of different sites does not constitute separate transactions and preclude the Board from following the bidding requirements under Ohio Rev. Code Sections 3313.46 and 3313.533. Failing to properly bid for projects can result in not receiving the lowest and best bid.

We recommend the both the Treasurer and Board reconsider their position on when bidding requirements are to be followed and observe the bidding requirements in approving of contracts that exceed \$25,000.

CLIENT RESPONSE:

We will review our bidding procedures and implement a process to ensure proper advertising for bids is conducted when a contract for \$25,000 or more is entered into.

FINDING NUMBER 2005-004

Appropriations Exceeding Estimated Resources

Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources. In addition, Ohio Rev. Code Section 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

For the general fund, original appropriations exceeded estimated resources by \$1,724,206.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

**FINDING NUMBER 2005-004
(Continued)**

The following funds had appropriations in excess of the amount certified as available by the Budget Commission as of June 30, 2005:

<u>Fund</u>	<u>Estimated Resources</u>	<u>2005 Appropriations</u>	<u>Variance</u>
Auxiliary Services – Non Public Fund	3,031	35,081	(32,050)
Ohio Reads Grant Fund	4,188	35,076	(30,888)
High Schools That Work Fund	698	18,198	(17,500)
IDEA Grant Fund	4,228	426,550	(422,322)
Title II Fund	0	86,577	(86,577)
Title V Fund	7,186	19,365	(12,179)
Early Childhood Special Education Fund	0	6,863	(6,863)
Preschool Disabilities Fund	7,918	17,139	(9,221)
Title II-A Fund	20,586	82,413	(61,827)
Title I-D Fund	6,993	19,284	(12,291)
Employee Benefits Workers Comp Fund	0	90,554	(90,554)
SchoolNet Fund	0	20,000	(20,000)

The District should monitor their budget on a monthly basis to ensure that appropriations are within established anticipated estimated resources.

CLIENT RESPONSE:

We will conduct closer monitoring of budgetary activity to ensure appropriations from each fund do not exceed the total estimated revenue.

FINDING NUMBER 2005-005

Requirements of SAS 70

The District has delegated employees' health care claims processing, which is a significant accounting function, to a third-party administrator. The District has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that the health insurance claims have not been completely and accurately processed in accordance with the health insurance contract. Failure to obtain assurance over claims processing may lead to qualification of opinion.

Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70 should provide the District with reasonable assurance that health insurance claim transactions conform to the contract.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

**FINDING NUMBER 2005-005
(Continued)**

Requirements of SAS 70

We recommend the District require a Type II SAS 70 report in its contract with the third-party administrator. The District should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standings with the Accountancy Board of the respective state.

If the third-party administrator refuses to furnish the District with a Type II SAS 70 report, we recommend the District considering contracting with a third-party administrator that will provide such a report.

CLIENT RESPONSE:

As of January 1, 2006 Medical Mutual became our third party administrator. We will contact them to determine if they prepare an independent Type II SAS 70 report.

FINDING NUMBER 2005-006

Recording Budgetary Amendments to Account Ledgers

The estimated receipts posted to the District's revenue report did not reconcile to the Amended Official Certificate of Estimated Resources approved by the Budget Commission by an approximate amount of \$853,000. In addition, appropriations posted to the District's budget report did not reconcile to the final annual appropriations by an approximated amount \$1,246,000. Consequently, the Board and the Treasurer were unable to accurately monitor the District's budget status. This condition prevented the District from properly evaluating, on an on-going basis, the status of anticipated resources versus actual receipts and appropriations versus actual expenditures.

We recommend the Treasurer post to the budgetary account ledgers the original and all amendments to estimated resources and appropriations as they appear on the Amended Official Certificate of Estimated Resources and the annual appropriation resolutions. Posting of budgetary activity should be accurate and done in a timely manner. This will help ensure the Board and the Treasurer can effectively monitor and assess, on an on-going basis, variances in estimated resources and appropriations with actual receipt and expenditure activity.

CLIENT RESPONSE:

We will establish a procedure so when ever an amendment is made to estimated resources or appropriations and approved by the board that a timely and accurate posting is made to the account ledgers.

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

FINDING NUMBER 2005-007

Timely Approving Board Minutes

The District's Board minutes are a record of proceedings authenticating decisions and actions of the Board. The authenticity of the Board minutes comes in the approval of the minutes by the Board and in the signing of the Board minutes by the Board President and the Treasurer. In our review of the Board minutes we had noted they were not timely signed by the Board President and Treasurer. The delay in signing of the minutes would extend beyond three or four subsequent Board meetings. The lack of authentication of the Board minutes at the subsequent meeting could imply the minute records are being edited by management without the knowledge of the Board to include authorizations not previously granted.

We recommend Board minutes are approved at the subsequent Board meeting and signed by the Board President and Treasurer upon approval.

CLIENT RESPONSE:

We will establish procedures to ensure board minutes are approved and authenticated by the board president and treasurer in a timely manner.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16. Board did not approve transfers and advances.	Yes	
2004-002	Ohio Rev Code Sections 5705.41(D)(1) Expenditures were not certified by the Treasurer prior to incurring commitment.	Yes	



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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT

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
JULY 13, 2006**