

CITY OF SHEFFIELD LAKE, OHIO
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007



Mary Taylor, CPA
Auditor of State

City Council
City of Sheffield Lake
609 Harris Road
Sheffield Lake, Ohio 44054

We have reviewed the *Independent Auditor's Report* of the City of Sheffield Lake, Lorain County, prepared by Costin + Company, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

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Auditor of State

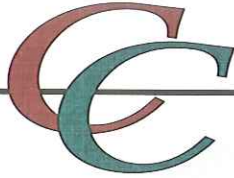
October 28, 2008

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Sheffield Lake, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Ohio (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Roads – Income Tax 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 September 16, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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

North Ridgeville, Ohio
September 16, 2008

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CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

The management's discussion and analysis of the City of Sheffield Lake's financial performance presents a narrative overview and analysis of the City's financial activities for the year ended December 31, 2007. The intent of the discussion and analysis is to present the City's financial performance as a whole. Readers are encouraged to consider this information in conjunction with the basic financial statements and notes to financial statements for an enhanced understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2007 were as follows.

- Total net assets decreased by 3% to \$ 18,294,220 at December 31, 2007.
- Total invested in capital assets, net of related debt, decreased by 6.0% to \$ 15,500,714.
- Total assets increased by 6.9% to \$ 27,644,238 at December 31, 2007.
- Total liabilities increased by 23% to \$ 9,350,018 at December 31, 2007.
- Equity in pooled cash increased by 91.0% to \$ 2,307,654.

Overview of Financial Statements

This annual report includes the City's basic financial statements, which consist of government-wide financial statements and fund financial statements, and notes to financial statements. The Government-wide financial statements provide information about the City as a whole, providing an aggregate view of the City's finances. The fund financial statements provide an additional level of detail.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to a private-sector business. The *Statement of Net Assets* presents information on all the City's assets and liabilities, with the difference between total assets and total liabilities reported as net assets. Increases or decreases in net assets over time serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating. The *Statement of Activities* presents information reflecting the City's financial activities and changes in net assets during the year. These two statements use the accrual basis of accounting, under which revenue is generally recognized when earned and expenses recognized when incurred, regardless of when cash is received or paid. These statements distinguish between governmental activities, which are those that are principally supported by taxes and intergovernmental revenues, and business-type activities, which are those that are intended to recover their costs through user fees and charges. The City's business-type activities consist of water system operations, sanitary sewer system operations and storm water system operations.

Fund Financial Statements

Governmental fund financial statements focus on the City's most significant, or major funds. The City's major governmental funds are the General Fund, Roads – Income Tax Fund, and the Capital Projects Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities for the year ended December 31, 2007 is presented. The City, similar to other local governments, uses fund accounting to ensure and demonstrate finance related legal requirements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Fund Categories

The City's funds can be divided into three categories consisting of *governmental* funds, *proprietary* funds and *fiduciary* funds.

Governmental funds

Most of the City's activities are reported in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds use the modified accrual method of accounting, which measures cash and other financial assets readily convertible to cash.

Proprietary funds

Proprietary funds are generally used to account for activities for which the City will charge customers and users. Proprietary funds of the City consist of enterprise funds which are used to account for those functions reported as business-type activities in the government-wide financial statements. The City's enterprise funds account for water system operations, sanitary sewer system operations and storm water system operations. Proprietary funds use the accrual basis of accounting.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City and are not included in the government-wide financial statements since the resources held are not available to support City programs. The City uses only agency funds included under the fiduciary funds category. Agency funds are reported on a full accrual basis, for which only a statement of assets and liabilities is presented.

Notes to the Basic Financial Statements

Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. These should be read in connection with those financial statements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

The City of Sheffield Lake as a Whole

Analysis of Net Assets

The *Statement of Net Assets* presents the City as a whole. Following is a summary of the City's net assets for 2007 compared to 2006.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 5,712,152	\$ 3,496,199	\$ 611,080	\$ 649,193	\$ 6,323,232	\$ 4,145,392
Capital assets, net	13,568,133	13,221,906	7,752,873	7,996,745	21,321,006	21,218,651
Total assets	19,280,285	16,718,105	8,363,953	8,645,938	27,644,238	25,364,043
Liabilities						
Current liabilities	2,917,202	2,296,632	614,584	648,214	3,531,786	2,944,846
Long-term liabilities	3,570,267	2,202,403	2,247,965	2,442,947	5,818,232	4,645,350
Total liabilities	6,487,469	4,499,035	2,862,549	3,091,161	9,350,018	7,590,196
Net assets						
Invested in capital assets, net of related debt	10,340,630	11,319,519	5,160,084	5,167,662	15,500,714	16,487,181
Restricted	1,918,468	941,013	-	-	1,918,468	941,013
Unrestricted	533,718	(41,462)	341,320	387,115	875,038	345,653
Total net assets	\$ 12,792,816	\$ 12,219,070	\$ 5,501,404	\$ 5,554,777	\$ 18,294,220	\$ 17,773,847

Investment in capital assets (land, construction in progress, buildings and improvements, equipment and vehicles and infrastructure) less any related debt to acquire those assets still outstanding represents the largest portion of net assets. Capital assets are used to provide services to the City's citizens, however, are not available for future spending. Total assets increased by \$ 2,280,195 to \$ 27,644,238. Current assets increased by \$ 2,177,840 to \$ 6,323,232, which included an increase in equity in pooled cash of \$ 1,099,644 due primarily to the increase in income tax percentage and active collections of delinquent income tax revenue. Current liabilities increased by \$ 1,145,300 to \$ 4,090,146 primarily due to an increase of notes payable due within one year. Long-term liabilities increased by \$ 614,522 to \$ 5,259,872. Total net assets increased by \$ 520,373 to \$ 18,294,220, with governmental net assets comprising \$ 12,792,816 and business-type net assets comprising \$ 5,501,404 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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Analysis of Changes in Net Assets

To understand what makes up changes in net assets, following are results of activities for the current year compared to the prior year.

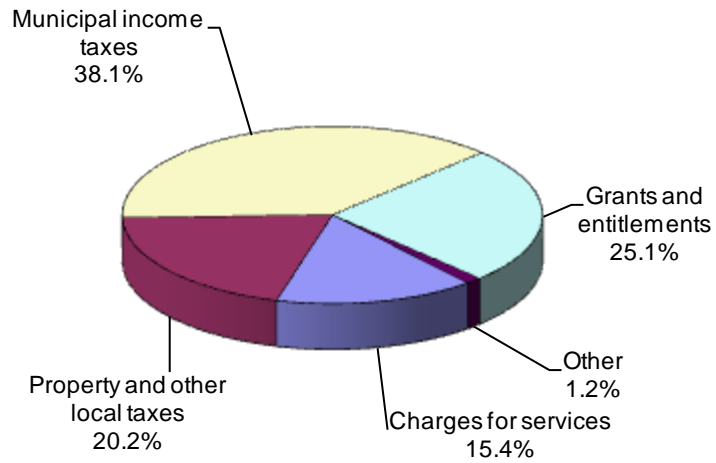
	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 1,108,759	\$ 1,092,829	\$ 1,813,211	\$ 1,691,985	\$ 2,921,970	\$ 2,784,814
Operating grants and contributions	80,235	9,703	-	-	80,235	9,703
Capital grants and contributions	536,393	907,751	21,141	-	557,534	907,751
Total program revenues	<u>1,725,387</u>	<u>2,010,283</u>	<u>1,834,352</u>	<u>1,691,985</u>	<u>3,559,739</u>	<u>3,702,268</u>
General revenues						
Property and other local taxes	1,453,681	1,489,330	-	-	1,453,681	1,489,330
Municipal income taxes	2,746,892	1,142,251	-	-	2,746,892	1,142,251
Grants and entitlements	1,195,874	1,127,774	-	-	1,195,874	1,127,774
Other	88,469	61,738	22,164	16,054	110,633	77,792
Total general revenues	<u>5,484,916</u>	<u>3,821,093</u>	<u>22,164</u>	<u>16,054</u>	<u>5,507,080</u>	<u>3,837,147</u>
Total revenues	<u>7,210,303</u>	<u>5,831,376</u>	<u>1,856,516</u>	<u>1,708,039</u>	<u>9,066,819</u>	<u>7,539,415</u>
Program expenses						
Security of persons and property	3,092,317	2,397,590	-	-	3,092,317	2,397,590
Public health and welfare	32,453	43,946	-	-	32,453	43,946
Leisure time activities	75,277	109,752	-	-	75,277	109,752
Community environment	640,536	353,457	-	-	640,536	353,457
Basic utility services	591,115	525,458	-	-	591,115	525,458
Transportation	1,352,578	2,702,725	-	-	1,352,578	2,702,725
General government	727,638	903,618	-	-	727,638	903,618
Interest	124,643	100,122	-	-	124,643	100,122
Water	-	-	608,684	560,317	608,684	560,317
Sewer	-	-	990,168	957,831	990,168	957,831
Storm water	-	-	311,037	371,248	311,037	371,248
Total program expenses	<u>6,636,557</u>	<u>7,136,668</u>	<u>1,909,889</u>	<u>1,889,396</u>	<u>8,546,446</u>	<u>9,026,064</u>
Decrease in net assets	573,746	(1,305,292)	(53,373)	(181,357)	520,373	(1,486,649)
Net assets, beginning of year	<u>12,219,070</u>	<u>13,524,362</u>	<u>5,554,777</u>	<u>5,736,134</u>	<u>17,773,847</u>	<u>19,260,496</u>
Net assets, end of year	<u>\$ 12,792,816</u>	<u>\$ 12,219,070</u>	<u>\$ 5,501,404</u>	<u>\$ 5,554,777</u>	<u>\$ 18,294,220</u>	<u>\$ 17,773,847</u>

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Governmental activities

Revenues by source of governmental activities for 2007 were comprised of:

Revenues by Source, Governmental Activities



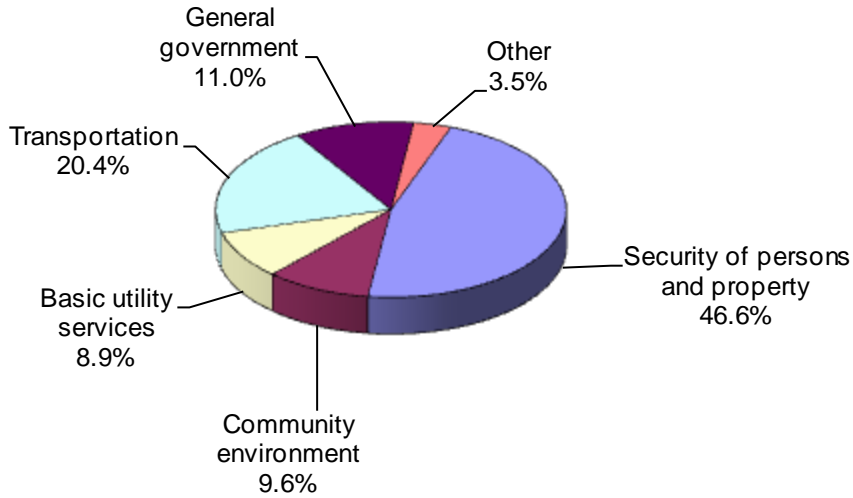
Revenues

For 2007, municipal income taxes, representing 38.1% of total revenue, was the largest portion of revenue. Grants and entitlements and property and other local taxes represented the next two largest sources of revenue at 25.1% and 20.2% respectively.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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Program expenses of governmental activities for 2007 were comprised of:

Program Expenses, Governmental Activities



Program expenses

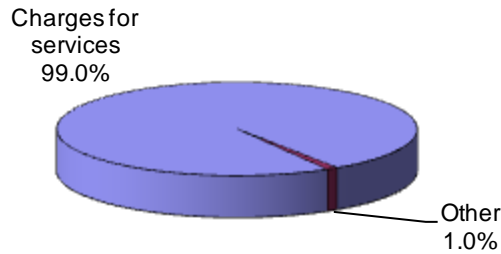
Program expenses amounted to \$ 6,636,557 in 2007, of which \$ 1,725,387 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 3,092,317 or 46.6% of total program expenses. Community environment represented \$ 640,536 or 9.6%. Basic utilities services of \$ 591,115 or 8.9% includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 1,352,578 or 20.4% of program expenses. General government represented \$ 727,638 or 11.0% of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, leisure time activities, including recreation activities and maintenance of the City's park system, and interest amounted to \$ 232,373 or 3.5%.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Business-type activities

Revenues by source for business-type activities for 2007 were comprised of:

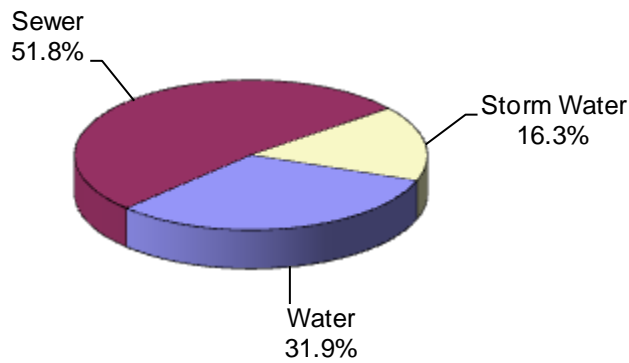
Revenue by Source, Business-type Activities



Revenues

Charges for services represented 99.0% of total revenues for business-type activities in 2007. Other general revenues represented the remaining 1.0% of total revenues, consisting primarily of interest income.

Expenses, Business-type Activities



Expenses

Water operations expenses amounted to \$ 608,684 or 31.9%. Sanitary sewer operations expenses amounted to \$ 990,168 or 51.8% of total program expenses and storm water operation expenses amounted to \$ 311,037 or 16.3% for business-type activities. Water operations, sanitary sewer operations and storm water operations have historically been self-supporting through user fees and charges.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Budgetary Highlights

The City prepares its budget in accordance with Ohio law on the basis of cash receipts, disbursements and encumbrances. The City's original budget and amendments are enacted by City Council upon recommendation of Council's Finance Committee. Budgetary expenditure modifications at the legal level of control may only be made by ordinance of City Council. The City's final budget differs from the original budget due to various amendments during the year to reflect changes in unanticipated revenue receipts.

The general fund is the City's most significant budgeted fund. Original budgeted receipts (excluding other sources) for the general fund were \$ 3,332,192 and final budgeted receipts were \$ 3,062,303. Original appropriations were \$ 3,244,826. The City actually expended \$ 3,285,294 which was \$ 40,468 more than originally appropriated.

The City historically spends less than appropriated. For 2007 actual expenditures were 98.0% of final appropriations.

Capital Assets

Capital assets, net of depreciation, at December 31, consisted of:

	Governmental Activities		Business type Activities		Total	
	2007	2006	2007	2006	2007	2005
Land	\$ 484,539	\$ 484,539	\$ 153,910	\$ 153,910	\$ 638,449	\$ 638,449
Construction in progress	1,177,566	448,851	94,688	186,644	1,272,254	635,495
Buildings and improvements	628,197	666,357	128,195	131,212	756,392	797,569
Equipment and vehicles	476,375	479,541	365,792	401,937	842,167	881,478
Infrastructure	10,804,456	11,142,618	7,010,288	7,123,042	17,814,744	18,265,660
	<u>\$ 13,571,133</u>	<u>\$ 13,221,906</u>	<u>\$ 7,752,873</u>	<u>\$ 7,996,745</u>	<u>\$ 21,324,006</u>	<u>\$ 21,218,651</u>

Capital assets are major assets that benefit more than one fiscal year. The City's capitalization threshold is \$ 5,000, that is, asset cost must equal \$ 5,000 or more to be capitalized. Infrastructure assets are long-lived capital assets that are normally stationary in nature with a useful life significantly greater than most capital assets. The City's governmental infrastructure includes streets, bridges, culverts, and sidewalks.

The City's total capital assets, net of depreciation, under governmental activities were \$ 13,571,133 at December 31, 2007, which was \$ 349,227 higher than the previous year. Business-type capital assets, net of depreciation, decreased by \$ 243,872 to \$ 7,752,873 due to depreciation expense.

For more information about the City's capital assets, see Notes to the Basic Financial Statements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Debt

Outstanding debt obligations of the City at December 31 consisted of:

	Governmental Activities		Business type Activities		Total	
	2007	2006	2007	2006	2007	2006
Long-term notes	\$ 1,469,905	\$ 296,600	\$ 210,000	\$ 240,000	\$ 1,679,905	\$ 536,600
Highway improvement loan	133,600	133,600	-	-	133,600	133,600
OPWC loans	163,530	45,005	338,471	363,708	502,001	408,713
General obligation bonds	1,395,000	1,511,000	1,875,000	2,000,000	3,270,000	3,511,000
Special assessment bonds	-	13,033	-	-	-	13,033
Capital leases	65,468	36,749	169,318	225,375	234,786	262,124
Accrued leave benefits	707,973	616,951	71,656	60,160	779,629	677,111
	<u>\$ 3,935,476</u>	<u>\$ 2,652,938</u>	<u>\$ 2,664,445</u>	<u>\$ 2,889,243</u>	<u>\$ 6,599,921</u>	<u>\$ 5,542,181</u>

As of December 31, 2007, the City had \$ 6,599,921 of total debt outstanding with \$ 781,689 due within one year.

The general obligation bonds include various purposes including road improvements, city hall improvement, storm water improvements and construction. Sources for debt service payments include property tax collections and transfers from various funds. The special assessment bonds were for infrastructure improvements, which debt service is repaid by collections from property owners. The City's general obligation bonds and special assessments bonds under governmental activities will be fully paid by 2021. The OPWC loans consist of several no interest loans with twenty-year terms, used primarily for street reconstruction, which are repaid from the City's capital projects, street funds and sanitary sewer capital improvement funds.

The State of Ohio statute limits the amount of general obligation debt, including both voted and unvoted debt, but excluding certain exempt debt, that may be issued to 10 ½ % of the total tax valuation of all property within the City.

For more information about the City's debt, see Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budget

Due to ever rising wage compensation costs and in reaction to uncontrollable fuel costs, the City reduced budget appropriations over controllable expenses for 2008. In preparation of its 2009 budget, the City will be utilizing a very conservative economic forecast for revenue growth and a zero-based approach to expenditure appropriations. Accordingly, the City will continue to monitor revenue receipts very closely for 2008 and will adjust the budget as deemed necessary. This action has allowed City services to not be adversely affected at this time.

The City continues to proceed with ongoing road projects funded by a prior tax increase, specific to road improvements. The City has obtained funding from several local and state grants for construction of a boat launch project which is scheduled to start in the summer of 2008. This project should generate future economic growth for the business area, as well as the entire City.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED

Requests for Information

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and show the City's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Finance Department, City of Sheffield Lake, 609 Harris Rd., Sheffield Lake, Ohio 44054; telephone (440) 949-7141.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 1,930,612	\$ 377,042	\$ 2,307,654
Accounts receivable	111,176	231,738	342,914
Due from other governments	973,884	-	973,884
Inventories and supplies	9,806	-	9,806
Prepaid and deferred expenses	27,200	2,300	29,500
Income taxes receivable	1,155,700	-	1,155,700
Taxes receivable - property and other	1,444,400	-	1,444,400
Special assessments receivable	59,374	-	59,374
Capital assets			
Nondepreciable capital assets	1,662,105	248,598	1,910,703
Depreciable capital assets, net	11,906,028	7,504,275	19,410,303
Total assets	19,280,285	8,363,953	27,644,238
Liabilities			
Accounts and contracts payable	522,596	34,763	557,359
Accrued salaries, wages and benefits	106,933	18,095	125,028
Accrued interest payable	11,459	13,725	25,184
Matured bonds and coupons payable	749	-	749
Due to other governments	219,776	131,521	351,297
Unearned revenue	1,690,480	-	1,690,480
Long term liabilities			
Due within one year	365,209	416,480	781,689
Due in more than one year	3,570,267	2,247,965	5,818,232
Total liabilities	6,487,469	2,862,549	9,350,018
Net assets			
Invested in capital assets, net of related debt	10,340,630	5,160,084	15,500,714
Restricted for:			
Debt service	218,910	-	218,910
Capital projects	236,582	-	236,582
Highways and streets	1,199,376	-	1,199,376
Public safety	131,399	-	131,399
Recreation	15,807	-	15,807
Community environment	116,394	-	116,394
Unrestricted	533,718	341,320	875,038
Total net assets	\$ 12,792,816	\$ 5,501,404	\$ 18,294,220

See accompanying notes and accountant's compilation report.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions
Governmental activities				
Security of persons and property	\$ 3,092,317	\$ 239,082	\$ 5,235	\$ -
Public health and welfare	32,453	-	-	-
Leisure time activities	75,277	7,202	-	-
Community environment	640,536	-	75,000	456,281
Basic utility services	591,115	611,723	-	-
Transportation	1,352,578	4,415	-	80,112
General government	727,638	246,337	-	-
Interest	124,643	-	-	-
Total governmental activities	<u>6,636,557</u>	<u>1,108,759</u>	<u>80,235</u>	<u>536,393</u>
Business-type activities:				
Water	608,684	588,313	-	-
Sewer	990,168	938,743	-	-
Storm Water	311,037	286,155	-	21,141
Total business-type activities	<u>1,909,889</u>	<u>1,813,211</u>	<u>-</u>	<u>21,141</u>
Total	<u>\$ 8,546,446</u>	<u>\$ 2,921,970</u>	<u>\$ 80,235</u>	<u>\$ 557,534</u>

General revenues
Property taxes levied for:
 General purpose
 Debt service
 Other
Municipal income taxes levied for:
 General purpose
 Roads
Grants and entitlements not restricted to specific purposes
Investment earnings
Miscellaneous
Total general revenues

Change in net assets
Net assets at beginning of year
Net assets at end of year

See accompanying notes and accountant's compilation report.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (2,848,000)	\$ -	\$ (2,848,000)
(32,453)	-	(32,453)
(68,075)	-	(68,075)
(109,255)	-	(109,255)
20,608	-	20,608
(1,268,051)	-	(1,268,051)
(481,301)	-	(481,301)
(124,643)	-	(124,643)
<u>(4,911,170)</u>	<u>-</u>	<u>(4,911,170)</u>
-	(20,371)	(20,371)
-	(51,425)	(51,425)
-	(3,741)	(3,741)
-	<u>(75,537)</u>	<u>(75,537)</u>
<u>(4,911,170)</u>	<u>(75,537)</u>	<u>(4,986,707)</u>
397,898	-	397,898
89,933	-	89,933
965,850	-	965,850
2,181,373	-	2,181,373
565,519	-	565,519
1,195,874	-	1,195,874
76,331	14,291	90,622
12,138	7,873	20,011
<u>5,484,916</u>	<u>22,164</u>	<u>5,507,080</u>
573,746	(53,373)	520,373
12,219,070	5,554,777	17,773,847
<u>\$ 12,792,816</u>	<u>\$ 5,501,404</u>	<u>\$ 18,294,220</u>

CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Roads - Income Tax	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 190,449	\$ 606,652	\$ 1,132,762	\$ 1,929,863
Cash and investments with fiscal agents	-	-	749	749
Income taxes receivables	924,560	231,140	-	1,155,700
Property taxes receivable	409,300	-	1,035,100	1,444,400
Special assessments receivable	-	-	59,374	59,374
Due from other governments	640,451	-	333,433	973,884
Accounts and other	32,308	-	78,868	111,176
Interfund receivable	-	-	2,117	2,117
Inventories and supplies	5,285	-	4,521	9,806
Prepaid expenses	24,800	-	2,400	27,200
Total assets	\$ 2,227,153	\$ 837,792	\$ 2,649,324	\$ 5,714,269
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 53,542	\$ -	\$ 469,054	\$ 522,596
Accrued wages and benefits	41,597	-	65,336	106,933
Accrued interest	-	611	-	611
Matured bonds and coupons payable	-	-	749	749
Due to other governments	107,290	-	112,486	219,776
Interfund payable	-	-	2,117	2,117
Unearned revenue	1,709,611	182,563	1,412,024	3,304,198
Notes payable	-	25,000	-	25,000
Accrued leave benefits	12,458	-	-	12,458
Total liabilities	1,924,498	208,174	2,061,766	4,194,438
Fund balances				
Reserved for inventory	5,285	-	4,521	9,806
Reserved for prepaids	24,800	-	2,400	27,200
Reserved for encumbrances	12,850	52,626	24,500	89,976
Unreserved, reported in				
General fund	259,720	-	-	259,720
Special revenue funds	-	576,992	173,833	750,825
Debt service funds	-	-	147,736	147,736
Capital projects funds	-	-	234,568	234,568
Total fund balances	302,655	629,618	587,558	1,519,831
Total liabilities and fund balances	\$ 2,227,153	\$ 837,792	\$ 2,649,324	\$ 5,714,269

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007

Total governmental funds balances		\$	1,519,831
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.			13,568,133
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Property and other local taxes	98,000		
Municipal income tax	912,815		
Intergovernmental	543,529		
Special assessments	59,374		
Total	1,613,718		1,613,718
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(10,848)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Notes payable	(1,578,505)		
OPWC loans payable	(163,530)		
General obligation bonds	(1,395,000)		
Capital leases	(65,468)		
Accrued leave benefits	(695,515)		
	(3,898,018)		(3,898,018)
Net assets of governmental activities		\$	12,792,816

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Roads - Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and other local taxes	\$ 392,998	\$ -	\$ 1,057,283	\$ 1,450,281
Municipal income taxes	1,620,540	425,311	-	2,045,851
Intergovernmental revenue	572,769	66,248	1,131,638	1,770,655
Special assessments	-	-	25,259	25,259
Charges for services	313,055	-	595,933	908,988
Fines, licenses, and permits	146,264	-	1,980	148,244
Interest	67,206	-	9,125	76,331
Miscellaneous	71,429	-	15,515	86,944
Total revenues	3,184,261	491,559	2,836,733	6,512,553
Expenditures				
Current				
Security of persons and property	1,905,579	-	1,146,376	3,051,955
Public health and welfare	32,453	-	-	32,453
Leisure time activities	61,072	-	-	61,072
Community environment	201,029	-	484,994	686,023
Basic utility services	-	-	591,115	591,115
Transportation	-	397,394	542,130	939,524
General government	751,778	-	2,518	754,296
Capital outlay	1,500	190,702	470,937	663,139
Debt service				
Note principal	-	108,095	93,000	201,095
Bond principal	-	-	129,033	129,033
OPWC loan principal	2,358	3,571	-	5,929
Capital lease principal	35,250	-	1,916	37,166
Interest and fiscal charges	13,974	25,232	85,014	124,220
Total expenditures	3,004,993	724,994	3,547,033	7,277,020
Excess (deficiency) of revenues over expenditures	179,268	(233,435)	(710,300)	(764,467)
Other financing sources (uses)				
Transfers-in	-	-	363,687	363,687
Loan proceeds	-	124,454	-	124,454
Note proceeds	-	920,000	563,000	1,483,000
Capital lease proceeds	65,885	-	-	65,885
Transfers-out	(92,264)	(111,423)	(160,000)	(363,687)
Total other financing sources (uses)	(26,379)	933,031	766,687	1,673,339
Excess (deficiency) of revenues over expenditures and other sources (uses)	152,889	699,596	56,387	908,872
Fund balances, beginning of year	149,766	(69,978)	531,171	610,959
Fund balances, end of year	\$ 302,655	\$ 629,618	\$ 587,558	\$ 1,519,831

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - total governmental funds		\$ 908,872
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 expense exceeded net capital outlay in the current period.		
	Capital outlay	1,474,788
	Depreciation expense	<u>(1,194,446)</u>
		280,342
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
	Municipal income tax	701,041
	Property and other local taxes	3,400
	Special assessments	(19,041)
	Charges for services	(23,279)
	Intergovernmental revenue	<u>35,629</u>
		697,750
Debt proceeds are an other financing source in the funds, but increase long-term liabilities in the Statement of Net Assets		
		(1,767,454)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
	Note principal paid	323,000
	OPWC loan principal paid	5,929
	Bond principal paid	167,128
	Capital lease principal paid	<u>37,166</u>
		533,223
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		
		(423)
Some expenses reported in the statement of activities, such as accrued leave benefits 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.		
	Accrued leave benefits	<u>(78,564)</u>
Change in net assets of governmental activities		<u><u>\$ 573,746</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Property and other local taxes	\$ 427,634	\$ 392,998	\$ 392,998	-
Municipal income taxes	1,701,941	1,564,093	1,564,093	-
Intergovernmental revenue	576,105	529,444	529,444	-
Charges for services	316,504	290,869	290,869	-
Fines, licenses, and permits	159,155	146,264	146,264	-
Interest	73,129	67,206	67,206	-
Miscellaneous	77,724	71,429	71,429	-
Total revenues	3,332,192	3,062,303	3,062,303	-
Expenditures				
Current				
Security of persons and property	1,820,282	1,877,888	1,874,350	3,538
Public health and welfare	40,872	42,165	30,563	11,602
Leisure time activities	65,114	67,175	65,939	1,236
Community environment	195,840	202,038	201,429	609
General government	816,700	842,546	797,311	45,235
Capital outlay	1,454	1,500	1,500	-
Debt service				
Principal	302,278	311,844	300,000	11,844
OPWC loan principal	2,286	2,358	2,358	-
Interest and fiscal charges	-	-	11,844	(11,844)
Total expenditures	3,244,826	3,347,514	3,285,294	62,220
Excess (deficiency) of revenues over expenditures	87,366	(285,211)	(222,991)	62,220
Other financing sources (uses)				
Note issuance	300,000	300,000	300,000	-
Transfers-out	(63,471)	(94,274)	(92,264)	2,010
Total other financing sources (uses)	236,529	205,726	207,736	2,010
Excess (deficiency) of revenues over expenditures and other sources (uses)	323,895	(79,485)	(15,255)	64,230
Prior year encumbrances	33,142	33,142	33,142	-
Fund balances, beginning of year	106,852	106,852	106,852	-
Fund balances, end of year	\$ 463,889	\$ 60,509	\$ 124,739	\$ 64,230

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	Roads - Income Tax Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Municipal income taxes	\$ 450,000	\$ 411,199	\$ 411,199	\$ -
Total revenues	<u>450,000</u>	<u>411,199</u>	<u>411,199</u>	<u>-</u>
Expenditures				
Current				
Transportation	382,910	1,079,733	573,472	506,261
Debt service				
Note principal	34,442	97,120	78,571	18,549
Bond principal	13,510	38,095	38,095	-
Interest and fiscal charges	9,618	27,120	24,621	2,499
Total expenditures	<u>440,480</u>	<u>1,242,068</u>	<u>714,759</u>	<u>527,309</u>
Excess (deficiency) of revenues over expenditures	<u>9,520</u>	<u>(830,869)</u>	<u>(303,560)</u>	<u>527,309</u>
Other financing sources (uses)				
Bond proceeds	-	800,000	800,000	-
Note proceeds	25,000	145,000	145,000	-
Transfers-out	(39,514)	(111,423)	(111,423)	-
Total other financing sources (uses)	<u>(14,514)</u>	<u>833,577</u>	<u>833,577</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(4,994)	2,708	530,017	527,309
Prior year encumbrances	18,497	18,497	18,497	-
Fund balances, beginning of year	<u>5,512</u>	<u>5,512</u>	<u>5,512</u>	<u>-</u>
Fund balances, end of year	<u>\$ 19,015</u>	<u>\$ 26,717</u>	<u>\$ 554,026</u>	<u>\$ 527,309</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FUND NET ASSETS -
PROPRIETARY FUNDS
DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Assets				
Equity in pooled cash	\$ 150,845	\$ 192,753	\$ 33,444	\$ 377,042
Accounts and other	65,187	117,677	48,874	231,738
Prepaid expenses	1,500	800	-	2,300
Nondepreciable capital assets	-	62,753	185,845	248,598
Depreciable capital assets, net	578,075	810,972	6,115,228	7,504,275
Total assets	795,607	1,184,955	6,383,391	8,363,953
Liabilities				
Current				
Accounts and contracts payable	23,793	9,895	1,075	34,763
Accrued wages and benefits	6,226	9,028	2,841	18,095
Accrued interest payable	5,135	-	8,590	13,725
Due to other governments	35,127	86,609	9,785	131,521
Notes payable	210,000	-	-	210,000
OPWC loans payable	-	3,000	22,238	25,238
General obligation bonds payable	-	-	125,000	125,000
Capital leases	-	56,242	-	56,242
Total current liabilities	280,281	164,774	169,529	614,584
Long-term liabilities				
OPWC loans payable	-	1,500	311,733	313,233
General obligation bonds payable	-	-	1,750,000	1,750,000
Capital leases	-	113,076	-	113,076
Accrued leave benefits	28,574	42,861	221	71,656
Total long-term liabilities	28,574	157,437	2,061,954	2,247,965
Total liabilities	308,855	322,211	2,231,483	2,862,549
Net assets				
Investment in capital assets, net of related debt	368,075	699,907	4,092,102	5,160,084
Unrestricted	118,677	162,837	59,806	341,320
Total net assets	\$ 486,752	\$ 862,744	\$ 4,151,908	\$ 5,501,404

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Operating revenues				
Charges for services	\$ 588,313	\$ 938,743	\$ 286,155	\$ 1,813,211
Miscellaneous	-	-	4,763	4,763
Total operating revenues	<u>588,313</u>	<u>938,743</u>	<u>290,918</u>	<u>1,817,974</u>
Operating expenses				
Personal services	194,137	283,398	29,207	506,742
Contractual services	309,627	576,856	-	886,483
Supplies and materials	5,650	15,971	6,865	28,486
Other operating	9,000	4,276	-	13,276
Depreciation	77,079	109,667	165,703	352,449
Total operating expenses	<u>595,493</u>	<u>990,168</u>	<u>201,775</u>	<u>1,787,436</u>
Operating income (loss)	<u>(7,180)</u>	<u>(51,425)</u>	<u>89,143</u>	<u>30,538</u>
Nonoperating revenues (expenses)				
Interest income	-	-	14,291	14,291
Intergovernmental revenue	-	-	21,141	21,141
Interest and fiscal charges	(13,191)	-	(109,262)	(122,453)
Net nonoperating revenues (expenses)	<u>(13,191)</u>	<u>-</u>	<u>(73,830)</u>	<u>(87,021)</u>
Income (loss) before contributions	(20,371)	(51,425)	15,313	(56,483)
Capital contributions	<u>-</u>	<u>-</u>	<u>3,110</u>	<u>3,110</u>
Change in net assets	(20,371)	(51,425)	18,423	(53,373)
Retained earnings, beginning of year	<u>507,123</u>	<u>914,169</u>	<u>4,133,485</u>	<u>5,554,777</u>
Retained earnings, end of year	<u>\$ 486,752</u>	<u>\$ 862,744</u>	<u>\$ 4,151,908</u>	<u>\$ 5,501,404</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 595,935	\$ 948,682	\$ 286,084	\$ 1,830,701
Cash paid to suppliers for materials and supplies	(44,250)	(51,646)	(6,112)	(102,008)
Cash paid for employee services and benefits	(177,750)	(257,445)	(38,027)	(473,222)
Cash paid for contractual services	(283,335)	(553,424)	-	(836,759)
Other operating revenues	-	-	4,763	4,763
Other operating expenses	(9,412)	(4,276)	-	(13,688)
Net cash provided by operating activities	<u>81,188</u>	<u>81,891</u>	<u>246,708</u>	<u>409,787</u>
Cash flows from noncapital financing activities:				
Intergovernmental revenue	-	-	21,141	21,141
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>21,141</u>	<u>21,141</u>
Cash flows from capital and related financing activities:				
Issuance of notes	210,000	-	-	210,000
Payment on capital lease	-	(56,057)	-	(56,057)
Note principal payment	(240,000)	-	-	(240,000)
OPWC loans payments	-	(3,000)	(19,127)	(22,127)
Bond principal payments	-	-	(125,000)	(125,000)
Interest payments	(14,256)	-	(109,825)	(124,081)
Acquisition of fixed assets	(23,851)	(14,037)	(70,689)	(108,577)
Net cash (used in) capital and related financing activities	<u>(68,107)</u>	<u>(73,094)</u>	<u>(324,641)</u>	<u>(465,842)</u>
Cash flows from investing activities:				
Interest income	-	-	14,291	14,291
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>14,291</u>	<u>14,291</u>
Net increase (decrease) in cash and equivalents	13,081	8,797	(42,501)	(20,623)
Equity in pooled cash and equivalents, beginning of year	<u>137,764</u>	<u>183,956</u>	<u>75,945</u>	<u>397,665</u>
Equity in pooled cash and equivalents, end of year	<u>\$ 150,845</u>	<u>\$ 192,753</u>	<u>\$ 33,444</u>	<u>\$ 377,042</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Concluded)

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (7,180)	\$ (51,425)	\$ 89,143	\$ 30,538
Adjustments:				
Depreciation	77,079	109,667	165,703	352,449
Changes in net assets (increase) decrease and liabilities increase (decrease)				
Accounts receivable and other	7,622	9,939	(71)	17,490
Accounts and contracts payable	(18,222)	(15,752)	(3,510)	(37,484)
Accrued salaries, wages and benefits	1,857	2,744	932	5,533
Due to other governments	15,166	19,419	(4,819)	29,766
Accrued leave benefits	4,866	7,299	(670)	11,495
Net cash provided by operating activities	<u>\$ 81,188</u>	<u>\$ 81,891</u>	<u>\$ 246,708</u>	<u>\$ 409,787</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2007

	<u>Agency Funds</u>
Assets	
Equity in pooled cash	\$ 55,064
Cash and investments with fiscal agents	3,597
Property taxes receivable	322,500
Due from other governments	19,200
Total assets	<u>\$ 400,361</u>
Liabilities	
Accounts payable	\$ 4,160
Due to others	54,501
Due to other governments	341,700
Total liabilities	<u>\$ 400,361</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Sheffield Lake, Ohio was founded in 1815. The voters originally adopted the Sheffield Lake Charter in November 1961, in order to secure the benefits of municipal home rule. Under the Ohio Constitution, the City may exercise all powers of local self-government to the extent not in conflict with applicable general laws. The City, under its charter, operates with an elected Council/Mayor form of government. The responsibilities for the major financial functions of the City are divided among the Mayor, Council, Finance Director, and Treasurer. The City's fiscal year corresponds with the calendar year.

A reporting entity is composed of the primary government, component units and other organizations that are included to insure that the financial statements of the City are not misleading. The primary government of the city consists of all funds, agencies, departments, boards and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, sanitation, building inspection, parks and recreation, water and sewer, and mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organizations' governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization, or 2) the City is legally entitled to or can otherwise access the organizations' resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City does not have any component units, therefore the financial statements are that of the primary government.

The City is associated with the Lorain County General Health District, a jointly governed organization, which provides health services to the members of the Health District. The City does not have any financial interest in or responsibility for the Health District. The County Auditor serves as fiscal agent. See Note 18.

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. See Note 18.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

The City'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.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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 of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The City only has agency funds under this category.

B. FUND ACCOUNTING

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

General Fund - The General fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

Roads - Income Tax Fund – This fund accounts for the portion of income tax receipts used for the construction, reconstruction, resurfacing, maintenance and repair of roads, streets and bridges in the City and paying debt charges for securities issued for the foregoing purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - The Water fund accounts for the operation of the City's drinking water distribution system.

Sewer Fund – The Sewer fund accounts for the operation of the City's sewer collection system.

Storm Water Fund – The Storm Water fund accounts for the operation of the City's storm water system.

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 City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency funds account for assets of the Domonkas Library, mayor's court collections, and deposits from citizens, contractors and developers.

C. MEASUREMENT FOCUS

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

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.

Amounts reported as program revenues include: charges to customers for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues, as are taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in accordance with the proprietary fund's principle on going operations. The principle operating revenue of the City's water fund, sewer fund and storm water fund are charges for services. These funds also recognize fees intended to recover the cost of connecting new customers to the City's water and sewer utility systems as operating revenue. Operating expenses for the enterprise funds include the cost of services, administrative expenses and overhead and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

As with the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds 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 total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 basis 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions (continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the 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 City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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 year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees and rentals.

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 December 31, 2007, but which were levied to finance year 2007 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.

Expenses/Expenditures

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, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

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

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

F. CASH AND CASH EQUIVALENTS

The City pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

G. INVESTMENTS

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

During the year, the City invested funds in the State Treasury Assets Reserve (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2007.

H. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market. The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds.

I. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These 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 in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of streets, bridges, culverts, curbs, sidewalks, storm sewers, and water and sanitary sewer systems. Improvements are capitalized; whereas 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.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	30 to 50 years
Infrastructure	10 to 50 years
Machinery and equipment	3 to 20 years

J. INTERFUND BALANCES

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans, which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. UNPAID COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer 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.

L. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

Generally, 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. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. FUND BALANCE RESERVES

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, inventories, prepaids and encumbrances are recorded as a reservation of fund balance.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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 borrowing 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 City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets for the governmental activities reports \$ 1,918,468 of restricted net assets, of which \$1,418,860 is restricted by enabling legislation.

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

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services primarily for water, sanitary sewer and storm water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

P. CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Q. INTERFUND ACTIVITY

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

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

S. USE OF ESTIMATES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 COMPLIANCE AND ACCOUNTABILITY

A. DEFICIT BALANCES

Not apparent in the basic financial statements are the following deficit fund balances:

Special Revenue Funds		
Police Levy Fund	\$	(3,355)
Fire Levy Fund	\$	(4,111)
Police Operating Fund	\$	(1,474)
Fire Operating Fund	\$	(22,835)
Police Pension Fund	\$	(21,022)
Fire Pension Fund	\$	(20,605)
Other Grants Fund	\$	(14,600)
Capital Projects Fund		
Bond Construction Fund	\$	(2,117)

These deficits result from reflecting expenditures in accordance with the modified accrual basis of accounting, which are larger than amounts recognized on the budget basis. The City in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

B. COMPLIANCE

2007-3 Noncompliance of Ohio Revised Code (ORC) Section 9.24 – Unresolved Findings for Recovery

Ohio Rev. Code (ORC) Section 9.24 states “No state agency and no political subdivision receiving more than \$50,000 in state funds in a fiscal year (per OAG 2004-014) shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person [this section defines “person” as an individual, corporation, business trust, partnership, and association; see Ohio Rev. Code Section 1.59] against whom a finding for recovery has been issued by the auditor of state, if the finding for recovery is unresolved.” The ORC further states that “Before awarding a contract for goods, services, or construction, paid for in whole or in part with state funds, a state agency or political subdivision shall verify that the person to whom the state agency or political subdivision plans to award the contract does not appear in this Auditor of State database.” We tested a City project that was funded with state money and noted that the City did not obtain the certificate to verify that they were in compliance with ORC Section 9.24 prior to awarding the contract.

2007-4 Noncompliance of Ohio Revised Code Section 5705.41

During our audit of accounts payable, it was noted that the City did not properly encumber for expenditures recorded as accounts payable at December 31, 2007. The City did not comply with ORC Sections 5705.41(C) which states “No subdivision is to expend money except by a proper warrant drawn against an appropriate fund.”

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 BUDGETARY BASIS OF ACCOUNTING

While the City 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 (Non-GAAP Basis) and Actual" 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 the GAAP basis are that:

Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid or encumbered (budget basis), rather than when the liability is incurred (GAAP basis).

Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than balance sheet transactions (GAAP basis).

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	Roads - Income Tax Fund
Budget basis	\$ (15,255)	\$ 530,017
Adjustments, increase (decrease)		
Revenue accruals	(112,157)	179,814
Expenditure accruals	280,301	(10,235)
GAAP basis, as reported	\$ 152,889	\$ 699,596

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the City 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 City 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 City 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.

Protection of the City'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.

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;
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);

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the City's deposits was \$ 585,723 and the bank balance was \$ 754,785. Of the bank balance, \$ 179,058 was covered by federal depository insurance and \$ 575,727 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City 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 December 31, 2007, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
STAROhio	<u>n/a</u>	<u>\$ 1,780,592</u>

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 City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2007, the City's investments in StarOhio were rated AAA by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

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

NOTE 6 RECEIVABLES

Receivables at December 31, 2007, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and accounts (billings for utility service).

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 6 RECEIVABLES (continued)

A. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2007 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2006 on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2007 was \$ 18.65 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Property valuation consisted of:	
Real property	
Residential/agricultural	\$ 152,825,310
Commercial/industrial	15,917,030
Tangible personal property	
General	1,116,699
Public utilities	1,322,830
Total valuation	<u><u>\$ 171,181,869</u></u>

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

Tangible personal property taxes 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 County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Sheffield Lake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6 RECEIVABLES (continued)

B. INCOME TAXES

The City levies an income tax of 1.25% on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside the City with a certain credit for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and file a final return annually.

Of the income taxes collected, 80% is credited to the General Fund and 20% is credited to the Roads – Income Tax Fund, a special revenue fund. This distribution was determined by a 2004 vote of the people.

C. INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Local government assistance	\$ 198,750
Gasoline tax	192,400
Permissive tax	45,350
Homestead and rollback	90,300
Commercial activities tax	34,000
NOACA grant	75,000
FEMA grant	344,080
Miscellaneous	13,204
	<u>\$ 993,084</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 CAPITAL ASSETS

A summary of changes in capital assets during 2007 follows:

	Balance January 1	Additions	Disposals	Balance December 31
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 484,539	\$ -	\$ -	\$ 484,539
Construction in progress	448,851	811,555	82,840	1,177,566
Total capital assets, not being depreciated	<u>933,390</u>	<u>811,555</u>	<u>82,840</u>	<u>1,662,105</u>
Capital assets, being depreciated				
Buildings and improvements	1,575,962	7,150	-	1,583,112
Equipment and vehicles	1,938,133	97,746	20,294	2,015,585
Infrastructure	34,143,405	727,556	-	34,870,961
Total capital assets being depreciated	<u>37,657,500</u>	<u>832,452</u>	<u>20,294</u>	<u>38,469,658</u>
Less accumulated depreciation				
Buildings and improvements	909,605	45,310	-	954,915
Equipment and vehicles	1,458,592	104,312	20,694	1,542,210
Infrastructure	23,000,787	1,065,518	-	24,066,305
Total accumulated depreciation	<u>25,368,984</u>	<u>1,215,140</u>	<u>20,694</u>	<u>26,563,430</u>
Total capital assets being depreciated, net	<u>12,288,516</u>	<u>(382,688)</u>	<u>(400)</u>	<u>11,906,228</u>
Total governmental capital assets, net	<u>\$ 13,221,906</u>	<u>\$ 428,867</u>	<u>\$ 82,440</u>	<u>\$ 13,568,333</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 153,910	\$ -	\$ -	\$ 153,910
Construction in progress	186,644	-	91,956	94,688
Total capital assets, not being depreciated	<u>340,554</u>	<u>-</u>	<u>91,956</u>	<u>248,598</u>
Capital assets, being depreciated				
Buildings and improvements	150,818	-	-	150,818
Equipment and vehicles	712,072	5,000	-	717,072
Infrastructure	11,759,822	195,533	-	11,955,355
Total capital assets being depreciated	<u>12,622,712</u>	<u>200,533</u>	<u>-</u>	<u>12,823,245</u>
Less accumulated depreciation				
Buildings and improvements	19,606	3,017	-	22,623
Equipment and vehicles	310,135	41,145	-	351,280
Infrastructure	4,636,780	308,287	-	4,945,067
Total accumulated depreciation	<u>4,966,521</u>	<u>352,449</u>	<u>-</u>	<u>5,318,970</u>
Total capital assets being depreciated, net	<u>7,656,191</u>	<u>(151,916)</u>	<u>-</u>	<u>7,504,275</u>
Total business-type capital assets, net	<u>\$ 7,996,745</u>	<u>\$ (151,916)</u>	<u>\$ 91,956</u>	<u>\$ 7,752,873</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$	53,475
General government		65,722
Leisure time activities		30,425
Transportation		1,065,518
		\$ 1,215,140

NOTE 8 NOTES PAYABLE

Notes payable during the year consisted of the following tax anticipation notes and general obligation bond anticipation notes:

	Balance, 12/31/06	Additions	Reductions	Balance, 12/31/07
Governmental activities				
Tax anticipation note				
General fund				
4.66% issued 1/25/07, due 11/30/07	\$ -	\$ 300,000	\$ 300,000	\$ -
Roads-Income tax fund				
4.78% issued 4/12/07, due 4/1/27	-	800,000	38,095	761,905
Bond anticipation notes				
Roads - income tax fund				
5.15% issued 6/22/06, due 6/22/07	70,000	-	70,000	-
4.89% issued 6/22/07, due 6/21/08	-	25,000	-	25,000
4.53% issued 10/18/07, due 6/21/08	-	120,000	-	120,000
Capital improvements fund				
5.15% issued 6/22/06, due 6/22/07	93,000	-	93,000	-
4.89% issued 6/22/07, due 7/23/07	-	160,000	160,000	-
4.89% issued 6/22/07, due 6/21/08	-	63,000	-	63,000
4.09% issued 12/20/07, due 6/21/08	-	500,000	-	500,000
Total governmental activities	163,000	1,968,000	661,095	1,469,905
Business-type activities				
Bond anticipation notes				
Water fund				
5.15% issued 6/22/06, due 6/22/07	240,000	-	240,000	-
4.89% issued 6/22/07, due 6/21/08	-	210,000	-	210,000
Total business-type activities	240,000	210,000	240,000	210,000
Total notes payable	\$ 403,000	\$ 2,178,000	\$ 901,095	\$ 1,679,905

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 LONG-TERM DEBT

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds, loans and notes follow:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Governmental activities</u>				
General obligation bonds				
Street improvements	1986	2007	7.250%	\$ 120,000
Street improvements	1992	2007	7.500%	160,000
Building improvements	1996	2016	6.200%	200,000
Street improvements	1998	2018	5.000%	1,200,000
Street improvements	2003	2018	3.600%	500,000
Special assessment bonds				
Street improvements	1983	2007	11.125%	317,530
Tax anticipation note	2007	2027	4.780%	800,000
Bond anticipation note	2006	2007	5.150%	70,000
Bond anticipation note	2007	2008	4.530%	120,000
Bond anticipation note	2006	2007	5.150%	93,000
Bond anticipation note	2007	2007	4.890%	160,000
Bond anticipation note	2007	2008	4.890%	63,000
Bond anticipation note	2007	2008	4.090%	500,000
Highway improvement loan	2006	2017	0.000%	133,600
Ohio Public Works loan	2001	2017	0.000%	35,371
Ohio Public Works loan	2004	2013	0.000%	28,566
Ohio Public Works loan	2007	2028	0.000%	99,190
Ohio Public Works loan	2007	2028	0.000%	25,264
<u>Business-type activities</u>				
General obligation bonds				
Storm water improvements	2002	2021	5.300 - 5.075%	2,500,000
Bond anticipation note	2006	2007	5.150%	240,000
Bond anticipation note	2007	2008	4.890%	210,000
Ohio Public Works loan	2000	2009	0.000%	30,000
Ohio Public Works loan	2000	2020	0.000%	124,842
Ohio Public Works loan	2003	2024	0.000%	140,949
Ohio Public Works loan	2003	2024	0.000%	81,187
Ohio Public Works loan	2003	2024	0.000%	97,793

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2007 were as follows:

	Outstanding 12/31/06	Additions	Reductions	Outstanding 12/31/07	Due in One Year
<u>Governmental activities</u>					
General obligation bonds					
Street improvements (1986)					
7.250% through 2007	\$ 6,000	\$ -	\$ 6,000	\$ -	\$ -
Street improvements (1992)					
7.500% through 2007	15,000	-	15,000	-	-
Building improvement (1996)					
6.200% through 2016	125,000	-	10,000	115,000	10,000
Street improvement (2003)					
3.600% through 2018	1,015,000	-	65,000	950,000	70,000
Street improvement (1998)					
5.000% through 2018	350,000	-	20,000	330,000	25,000
	<u>1,511,000</u>	<u>-</u>	<u>116,000</u>	<u>1,395,000</u>	<u>105,000</u>
Special assessment bonds					
Street improvements (1983)					
11.125% through 2007	13,033	-	13,033	-	-
Tax anticipation notes	-	1,100,000	338,095	761,905	40,000
Bond anticipation notes	163,000	868,000	323,000	708,000	163,000
Highway improvement loan	133,600	-	-	133,600	-
OPWC loans	45,005	124,454	5,929	163,530	12,152
Capital leases	36,749	65,885	37,166	65,468	32,599
Accrued leave benefits	616,951	91,022	-	707,973	12,458
	<u>\$ 2,519,338</u>	<u>\$ 2,249,361</u>	<u>\$ 833,223</u>	<u>\$ 3,935,476</u>	<u>\$ 365,209</u>
<u>Business-type activities</u>					
General obligation bonds					
Storm water improvement					
5.373% through 2021	\$ 2,000,000	\$ -	\$ 125,000	\$ 1,875,000	\$ 125,000
Bond anticipation notes	240,000	210,000	240,000	210,000	210,000
OPWC loans	363,708	-	25,237	338,471	25,238
Capital leases	225,375	-	56,057	169,318	56,242
Accrued leave benefits	60,160	11,496	-	71,656	-
	<u>\$ 2,889,243</u>	<u>\$ 221,496</u>	<u>\$ 446,294</u>	<u>\$ 2,664,445</u>	<u>\$ 416,480</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 LONG-TERM DEBT (continued)

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for payment. The general obligation bonds are paid from the general bond retirement debt service fund. The special assessment bonds are paid from proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The storm water bonds are paid from Storm Water enterprise fund revenues.

Long-term notes payable are paid from the Roads-Income Tax fund, the Capital Improvements fund and the Water fund.

OPWC loan payments are paid from the respective special revenue, capital project and enterprise funds.

Compensated absences will be paid from the funds from which employees' wages are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007, excluding accrued leave benefits, are as follows:

Year	Governmental Activities				
	General Obligation Bonds		Bond Anticipation Notes		Highway Improvement Loan
	Principal	Interest	Principal	Interest	Principal
2008	\$ 105,000	\$ 67,937	\$ 708,000	\$ 18,472	\$ 13,360
2009	105,000	63,547	-	-	13,360
2010	110,000	58,614	-	-	13,360
2011	115,000	53,463	-	-	13,360
2012	125,000	48,093	-	-	13,360
2013-2017	690,000	143,285	-	-	66,800
2018-2022	145,000	7,330	-	-	-
2023-2027	-	-	-	-	-
	\$ 1,395,000	\$ 442,269	\$ 708,000	\$ 18,472	\$ 133,600

Year	Governmental Activities				
	Tax Anticipation Note		OPWC Loans	Total	
	Principal	Interest	Principal	Principal	Interest
2008	\$ 40,000	\$ 36,419	\$ 12,152	\$ 878,512	\$ 122,828
2009	40,000	34,507	12,152	170,512	98,054
2010	40,000	32,595	12,152	175,512	91,209
2011	40,000	30,683	12,152	180,512	84,146
2012	40,000	28,771	12,152	190,512	76,864
2013-2017	200,000	115,175	40,546	997,346	258,460
2018-2022	200,000	67,375	31,112	376,112	74,705
2023-2027	161,905	19,514	31,112	193,017	19,514
	\$ 761,905	\$ 365,039	\$ 163,530	\$ 3,162,035	\$ 825,780

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 LONG-TERM DEBT (continued)

Year	Business-Type Activities			
	General Obligation Bonds		Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2008	\$ 125,000	\$ 103,077	\$ 210,000	\$ 10,461
2009	125,000	96,139	-	-
2010	130,000	89,232	-	-
2011	135,000	82,066	-	-
2012	140,000	74,836	-	-
2013-2017	730,000	257,305	-	-
2018-2022	490,000	73,093	-	-
2023-2027	-	-	-	-
	<u>\$ 1,875,000</u>	<u>\$ 775,748</u>	<u>\$ 210,000</u>	<u>\$ 10,461</u>

Year	Total		
	OPWC Loans	Business-Type Activities	
	Principal	Principal	Interest
2008	\$ 25,238	\$ 360,238	\$ 113,538
2009	23,738	148,738	96,139
2010	22,238	152,238	89,232
2011	22,238	157,238	82,066
2012	22,239	162,239	74,836
2013-2017	111,194	841,194	257,305
2018-2022	95,590	585,590	73,093
2023-2027	15,996	15,996	-
	<u>\$ 338,471</u>	<u>\$ 2,423,471</u>	<u>\$ 786,209</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2007, assets under capital leases totaled \$ 134,889 in governmental activities and \$ 281,812 in business-type activities. The leases are in effect until 2010. The following is the schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of December 31, 2007.

Year Ending December 31,	Governmental Activities	Business-type Activities
2008	\$ 36,910	\$ 56,852
2009	18,155	56,852
2010	18,155	56,852
Total minimum lease payments	73,220	170,556
Less amount representing interest	(7,752)	(1,238)
Net present value of minimum lease payments	<u>\$ 65,468</u>	<u>\$ 169,318</u>

NOTE 11 OPERATING LEASES

The City is obligated under a leases accounted for as an operating leases. Total lease expense for the year ended December 31, 2007 was \$ 13,337. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2007.

Year ending December 31	Amount
2008	\$ 14,832
2009	8,882
2010	5,115
2011	5,115
2012	1,024
Total minimum payments	<u>\$ 34,968</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan—a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377. The Ohio Revised Code provides statutory authority for member and employer contributions.

For 2007, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2007 member contribution rates were 9.5% for members in state and local classifications. Public safety members contributed 9.75%. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%.

The 2007 employer contribution rate for state employers was 13.77% of covered payroll. For local government employer units, the rate was 13.85% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2007 was 17.17%.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$ 107,000, \$ 111,100, and \$ 117,600, respectively. For 2007 \$ 52,300 (49%) has been contributed. The balance was subsequently contributed in 2008. The full amount has been contributed for 2006 and 2005.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 12 DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters pensions, respectively, were \$ 89,400 and \$ 160,000 for the year ended December 31, 2007, \$ 80,000 and \$ 133,400 for the year ended December 31, 2006 and \$ 77,700 and \$ 147,600 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. For 2007, \$ 43,900 (49%) and \$ 97,300 (61%) has been contributed for police and firefighters pensions, respectively. The balance was subsequently paid in 2008.

NOTE 13 POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800- 222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 13 POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2007, state employers contributed at a rate of 13.77% of covered payroll, local government employer units contributed at 13.85% of covered payroll, and public safety and law enforcement employer units contributed at 17.17%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units, and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City contributions to fund postemployment benefits for the years ended December 31, 2006, 2005, and 2004 were \$ 42,500, \$ 36,500, and \$ 49,200 respectively. For 2007 \$ 20,800 (49%) has been contributed. The balance was subsequently contributed in 2008. The full amount has been contributed for 2006 and 2005.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter contribution rate is 24% of covered payroll.

Healthcare funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree healthcare expenses. The Board defined allocation was 7.75% of covered payroll in 2006 and 6.75% of covered payroll in 2007. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their healthcare coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly healthcare contributions

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 13 POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

The City's actual contributions for 2007 that were used to fund postemployment health care benefits were \$ 31,000 for police and \$ 45,000 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006, the date of the last valuation available, was \$ 120,373,722, which was net of member contributions of \$ 58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters

NOTE 14 RISK MANAGEMENT

The City 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. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded coverage.

NOTE 15 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2007, the City recognized federal grants and entitlements. These programs generally require compliance with terms and conditions specified in the grant agreements and are 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 City at December 31, 2007.

NOTE 16 CONTINGENCIES

The City is defendant in certain lawsuits, the outcome of which cannot be determined. It is the opinion of the City's management that any judgment against the City would not have a material adverse effect on the City's financial position.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 17 INTERFUND BALANCES AND TRANSFERS

At December 31, 2007, the Bond Construction Capital Projects fund owed \$ 2,117 to the General Obligation Debt Service fund. This interfund balance occurred in prior years and is related to interest proceeds received with bond proceeds.

Interfund transfers for the year ended December 31, 2007 consisted of the following:

	Transferred from:			
	General Fund	Roads - Income Tax Fund	Non-major Governmental Funds	Total
<u>Transferred to:</u>				
Non-major governmental funds	\$ 92,264	\$ 111,423	\$ 160,000	\$ 363,687

Monies were transferred to the General Obligation Bond Retirement Fund from various funds for payment of debt principal and interest.

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

The Lorain County General Health District, a jointly governed organization, provides health care services to the citizens within the Health District. The Health District is governed by the Board of Health which represents the area served by the Health District and oversees the operation of the Health District. The Board of Health members are appointed to staggered four year terms. One member is appointed by the City of North Ridgeville, one member is jointly appointed by the Cities of Avon and Sheffield Lake and one member is appointed jointly by the Cities of Amherst and Oberlin. The remaining four members are appointed by the various mayors of villages, chairmen of the township trustees and the County Commissioners. Financial information can be obtained by contacting the Health Commissioner, 9880 S. Murray Ridge Road, Elyria, Ohio 44035.

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 90 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2006. Financial information can be obtained by contacting the Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2007

NOTE 19 CONTRACTUAL COMMITMENTS

At December 31, 2007, the City had a contractual commitment for the following construction project:

	Contracted Amount	Expended	Remaining Liability
Boat launch	\$ 1,417,972	\$ 582,000	\$ 835,972

NOTE 20 SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the City issued \$ 722,000 of bond anticipation notes (BAN's) with a maturity date in June 2009, proceeds of which were used to pay BAN's which matured in June 2008.

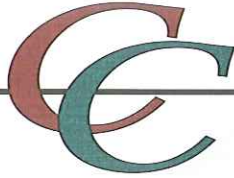
On September 16, 2008, the City Council approved a donation of twenty percent partnership, beneficiary interest in the Shoreway Shopping Center Trust. City Council also approved a letter of intent for the purchase of the remaining eighty percent. Final terms and details are being negotiated.

CITY OF SHEFFIELD LAKE
SUPPLEMENTAL AUDITOR'S REPORT
DECEMBER 31, 2007

CITY OF SHEFFIELD LAKE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

YEAR ENDED DECEMBER 31, 2007



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Sheffield Lake, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sheffield Lake, Ohio, (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 Account Payable

During our audit procedures for unrecorded liabilities, it was discovered that the City had excluded expenditures from accounts payable as of December 31, 2007. This resulted in an audit adjustment to properly record these expenditures as accounts payable.

The City does not appear to be utilizing its accounting software program to its fullest potential. It was noted that some of the invoices were from 2006 and/or were resubmitted by the vendor for payment. We recommend that the city establish procedures in which all invoices are logged into the accounting software

at the finance office and then distributed to the department heads for approval. The accounts payable clerk would then know the location of all invoices and be able to track down invoices that may come due but have not been properly approved.

2007-2 Capital Assets

It was noted during our audit of capital assets that the City did not properly record capital assets costs. The City has been completing certain projects in-house. The hours associated with these in-house projects have not been tracked and therefore are not being properly recorded in the total cost of the projects. The City's accounting software has the capability of tracking projects which the city does use. However, the City does not have a system in place that would add labor hours from its employees to this system. Even though, the City has the means to properly capture expenditures related to capital projects, the City did not follow through to ensure that all of those projects were properly recorded in its capital assets.

The City received assistance in the form of grants and loans from Ohio Public Works Commission (OPWC) for the completion of a major project. The OPWC disburses these funds directly to vendor/contractors and it is the City's responsibility to properly record these as intergovernmental revenue and expenditures for these disbursements. The City did not properly record all disbursements made by the OPWC to the vendor/contractor associated with the grant and loan received in 2007. As such, the cost of the corresponding capital asset was not properly recorded.

These deficiencies resulted in a material misstatement that was not detected by the City's internal control. It is our recommendation that the City establish procedures that will properly capture labor hours for each in-house project; the City needs to carefully review information provided by the staff to ensure that all capital asset are properly recorded; and when projects are being funded by a third party that the City uses all available means (third party website) to properly capture any and all disbursements to its vendor/contractors.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The following are instances of noncompliance:

2007-3 Noncompliance of Ohio Revised Code (ORC) Section 9.24 – Unresolved Findings for Recovery

Ohio Rev. Code (ORC) Section 9.24 states "No state agency and no political subdivision receiving more than \$50,000 in state funds in a fiscal year (per OAG 2004-014) shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person [this section defines "person" as an individual, corporation, business trust, partnership, and association; see Ohio Rev. Code Section 1.59] against whom a finding for recovery has been issued by the Auditor of State, if the finding for

recovery is unresolved." The ORC further states that "Before awarding a contract for goods, services, or construction, paid for in whole or in part with state funds, a state agency or political subdivision shall verify that the person to whom the state agency or political subdivision plans to award the contract does not appear in this Auditor of State database." We tested a City project that was funded with state money and noted that the City did not obtain the certificate to verify that they were in compliance with ORC Section 9.24 prior to awarding the contract.

The City responded with a subsequent certificate that indicated no unresolved findings for recovery with the contractor that was awarded the contract. The City also indicated that the City's engineer was notified and would be responsible for compliance with ORC Section 9.24.

2007-4 Noncompliance of Ohio Revised Code Section 5705.41

During our audit of accounts payable, it was noted that the City did not properly encumber for expenditures recorded as accounts payable at December 31, 2007. The City did not comply with ORC Sections 5705.41(C) which states "No subdivision is to expend money except by a proper warrant drawn against an appropriate fund."

The City did not provide comment to the findings identified in our audit as described above.

This report is intended solely for the information and use of the management, others within the organization and City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kootin+Company". The signature is written in a cursive, flowing style with a horizontal line underneath the text.

North Ridgeville, Ohio
September 16, 2008



Mary Taylor, CPA
Auditor of State

CITY OF SHEFFIELD LAKE

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
NOVEMBER 13, 2008**