

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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures and Charges in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (non-GAAP) and Actual – General Fund	19
Statement of Net Assets –Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	21
Statement of Cash Flows – Proprietary Fund	22
Statement of Fiduciary Funds – Assets and Liabilities	23
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Receipts and Expenditures	51
Notes to the Schedule of Federal Awards Receipts and Expenditures	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	55
Schedule of Findings	57

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

May 24, 2005

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

The discussion and analysis of Sheffield-Sheffield Lake City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- In total, net assets decreased by \$627,712.
- Revenues for governmental activities totaled \$16,763,297 in 2004. Of this total, 89.8 percent consisted of General revenues while Program revenues accounted for the balance of 10.2 percent.
- Program expenses totaled \$17,391,009. Instructional expenses made up 59.5 percent of this total while support services accounted for 34.5 percent. Other expenses rounded out the remaining 6.1 percent.
- Outstanding general obligation debt increased to \$1,310,000 from \$1,170,000 in 2003.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

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

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

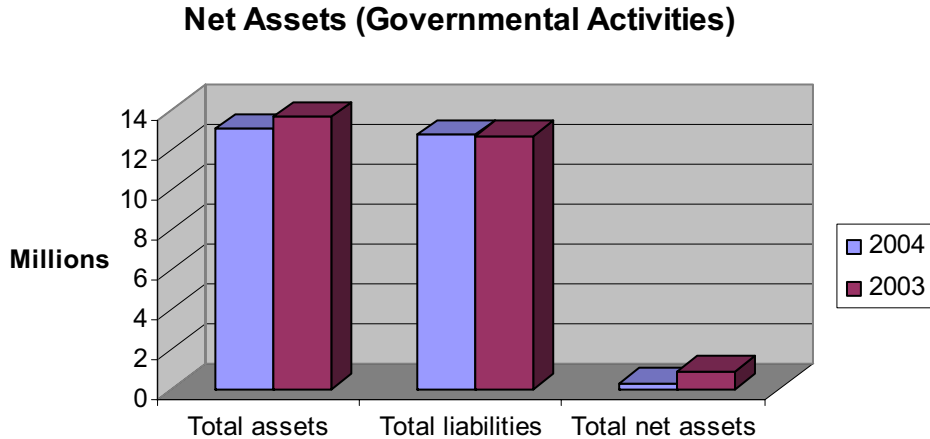
Table 1
Net Assets
Governmental Activities

	2004	2003	Change	% Change
Assets				
Equity in pooled cash	\$ 811,411	\$ 975,127	\$ (163,716)	-16.79%
Cash with fiscal agent	366,130	912,616	(546,486)	-59.88%
Due from other governments	32,519	43,961	(11,442)	-26.03%
Inventories and supplies	3,995	5,501	(1,506)	-27.38%
Prepaid expenses	25,324	21,742	3,582	16.48%
Taxes receivable	9,250,756	9,030,762	219,994	2.44%
Capital assets				
Nondepreciable capital assets	461,310	461,310	-	0.00%
Depreciable capital assets, net	2,102,675	2,180,601	(77,926)	-3.57%
Total assets	13,054,120	13,631,620	(577,500)	-4.24%
Liabilities				
Accounts and contracts payable	20,455	155,349	(134,894)	-86.83%
Accrued salaries, wages and benefits	1,427,109	1,496,931	(69,822)	-4.66%
Claims payable	450,648	436,280	14,368	3.29%
Due to other governments	568,741	488,629	80,112	16.40%
Accrued interest payable	6,264	2,316	3,948	170.47%
Deferred revenue	7,897,217	7,697,029	200,188	2.60%
Note payable	920,000	700,000	220,000	31.43%
Long term liabilities				
Due within one year	262,046	344,225	(82,179)	-23.87%
Due in more than one year	1,210,904	1,392,413	(181,509)	-13.04%
Total liabilities	12,763,384	12,713,172	50,212	0.39%
Net assets				
Invested in capital assets, net of related debt	2,131,915	2,090,731	41,184	1.97%
Restricted for:				
Capital projects	58,889	57,618	1,271	2.21%
Debt service	460,000	-	460,000	0.00%
Other purposes	40,816	434,146	(393,330)	-90.60%
Unrestricted (deficit)	(2,400,884)	(1,664,047)	(736,837)	44.28%
Total net assets	\$ 290,736	\$ 918,448	\$ (627,712)	-68.34%

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited



Total assets decreased by \$577,500. The increase in taxes receivable is due in part to being at the minimum allotment in tax rate for residential property tax payers known as the 20-mill floor. However, losses in equity in pooled cash of \$163,716 and cash with fiscal agent of \$546,486 offset most gains. Reductions in equity in pooled cash are due to normal year to year fluctuations caused by timing of payments. The reduction of cash with fiscal agent is mainly due to a payment of an outstanding tax anticipation note.

Total liabilities increased by \$50,212. The majority of this increase has come from deferred revenue of \$200,188 and note payable of \$220,000. Decreases in accounts and contracts payable of \$ 134,894 and long term liabilities due in more than one year of \$181,509 offset most liability increases. Increases in deferred revenue are due to the School District being at the 20-mill floor for property tax purposes. The note payable increase occurred when the District obtained a larger tax anticipation note in January 2004. The decrease in accounts and contracts payable was due to closing outstanding purchase orders prior to the end of the fiscal year and the decrease in long term liabilities due in more than one year was due to payments on energy conservation notes in June and December 2004.

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

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$15,054,759 or 89.8 percent of the total revenue. The most significant portion of the General revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$1,708,538 or only 10.2 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2004. This is the second year the School District has prepared financial statements following GASB Statement 34, allowing revenue and expense comparisons to fiscal year 2003 to be available.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

**Table 2
Governmental Activities**

	<u>2004</u>	<u>% of Total</u>	<u>2003</u>	<u>% of Total</u>
General revenues				
Property taxes levied for:				
General purpose	8,373,517	49.95%	\$8,253,852	51.15%
Capital improvements	253,795	1.51%	183,677	1.14%
Grants and entitlements not restricted to specific purpose	6,351,118	37.89%	6,066,201	37.59%
Investment earnings	28,111	0.17%	63,148	0.39%
Miscellaneous	48,218	0.29%	146,992	0.91%
Total general revenues	<u>15,054,759</u>	<u>89.81%</u>	<u>14,713,870</u>	<u>91.18%</u>
Program revenues	<u>1,708,538</u>	<u>10.19%</u>	<u>1,423,996</u>	<u>8.82%</u>
Total revenue	<u>16,763,297</u>	<u>100.00%</u>	<u>16,137,866</u>	<u>100.00%</u>
Governmental activities				
Instruction				
Regular	7,804,355	44.88%	6,958,638	41.65%
Special	2,156,891	12.40%	1,991,237	11.92%
Vocational	277,476	1.60%	309,762	1.85%
Other instruction	104,790	0.60%	36,328	0.22%
Supporting services				
Pupil	1,226,915	7.05%	1,165,742	6.98%
Instructional staff	671,400	3.86%	759,348	4.55%
Board of education	38,626	0.22%	20,827	0.12%
Administration	1,353,602	7.78%	1,323,263	7.92%
Fiscal services	403,842	2.32%	440,988	2.64%
Business	129,550	0.74%	157,607	0.94%
Operation and maintenance	1,332,423	7.66%	1,692,421	10.13%
Pupil transportation	710,666	4.09%	752,247	4.50%
Central services	111,039	0.64%	107,368	0.64%
Operation of non-instructional				
Food service operation	515,793	2.97%	449,883	2.69%
Community services	54,427	0.32%	36,677	0.22%
Extracurricular activities	445,931	2.56%	469,075	2.81%
Debt service				
Interest	53,283	0.31%	36,011	0.22%
Totals	<u>17,391,009</u>	<u>100.00%</u>	<u>16,707,422</u>	<u>100.00%</u>
Change in net assets	<u>\$ (627,712)</u>		<u>\$ (569,556)</u>	

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Governmental Activities

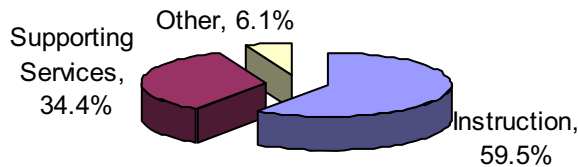
The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted tax levy does not increase as a result of inflation. As an example, a homeowner with a home value at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

Our School District, which is dependent upon property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 51.5 percent of revenues for governmental activities for the Sheffield-Sheffield Lake City School District in fiscal year 2004.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

The largest Governmental Activities program expense remains instruction, comprising 59.5 percent of total expenses. When combined with pupil, staff and business operations, these categories encompass 93.9 percent. The remaining program expenses of 6.1 percent are budgeted to facilitate other obligations of the School District, such as food service programs, community services activities, numerous extracurricular activities and interest payments.

Program Expenses



During the past few years, the School District Administration has made numerous cuts in programs of the District. These cost cutting measures include reducing transportation of students to State of Ohio minimum levels, eliminating field trips, reduction in force due to not filling positions and limiting purchases of instructional materials, computers and books. These cost containments have helped ease the burden of expense the School District continues to encounter.

Over these same years, the School District has placed property tax levies on the ballot to increase the revenue for the General Fund. The taxpayers have voted down each levy. Since 1976, the district has passed only 13 percent of the levies the School District has placed before the voters asking for new money. This is the worst passage rate in Lorain County, Ohio.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

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

Table 3
Governmental Activities

	<u>Total Cost Of Services</u>	<u>Net Cost Of Services</u>
Governmental activities		
Instruction		
Regular	\$ 7,804,355	\$ (7,098,588)
Special	2,156,891	(1,967,432)
Vocational	277,476	(277,476)
Other instruction	104,790	(104,790)
Supporting services		
Pupil	1,226,915	(1,035,995)
Instructional staff	671,400	(631,394)
Board of education	38,626	(38,626)
Administration	1,353,602	(1,347,593)
Fiscal services	403,842	(403,842)
Business	129,550	(129,550)
Operation and maintenance	1,332,423	(1,332,423)
Pupil transportation	710,666	(710,666)
Central services	111,039	(85,462)
Operation of non-instructional		
Food service operation	515,793	(97,739)
Community services	54,427	(10,121)
Extracurricular activities	445,931	(357,491)
Debt service		
Interest	53,283	(53,283)
Totals	<u>\$ 17,391,009</u>	<u>\$(15,682,471)</u>

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 49.6 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 36.5 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 9.8 percent of all governmental expenses.

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

School District Funds

Information regarding the School District's major fund can be found on page 15. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 16,803,956 and expenditures of \$ 16,868,373. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$ 647,255 with an offset by other funds totaling \$ 584,588.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004 the School District amended its general fund budget several times to allow for additional advances to its Food Service Fund and other less significant amendments. Fluctuations among the budget base expenditures categories are due to the School District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

For the general fund, final budget estimated revenue was \$15.63 million. The actual revenue received was \$15.63 million.

Total budget estimated expenditures were \$ 16.39 million. The actual expenditures on the budget basis (cash outlays plus encumbrances) were \$ 16.39 million.

Capital Assets and Debt Administration

At the end of fiscal 2004 the School District had \$2.6 million invested in land, building, equipment and vehicles. Table 4 shows fiscal 2004 values compared to 2003.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Table 4
Capital Assets (Net) at June 30
Governmental Activities

	2004	2003
Land	\$ 461,310	\$ 461,310
Building and improvements	1,109,540	1,184,005
Furniture and equipment	775,520	842,294
Vehicles	217,615	154,302
	<u>\$ 2,563,985</u>	<u>\$ 2,641,911</u>

All capital assets, except land, are reported net of depreciation. During 2004, the District had a revaluation of all the district's capital assets. The revaluation processes also changed the useful lives of the buildings and improvements from 30 to 50 years and vehicles from 10 years to eight. This revaluation of assets resulted in an overall decrease of 2.95% in the District's assets.

Debt

At June 30, 2004, the School District had no outstanding bonds. The School District's debt consists of two energy conservation notes totaling \$390,000 and a short term \$920,000 tax anticipation note.

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

School District Outlook

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

The School District's financial future will be a challenge. As of June 24, 2004, the School District was placed into fiscal watch by the Auditor of State's Office. This placement is one step removed from the State of Ohio taking over the district. This creates challenges, both internal and external in nature. The internal challenge will continue to exist as the School District must rely heavily on local property taxes to fund operations. As long as the voters of the School District reject property tax levies, funding for students decrease as operating costs rise. The School District had a Performance Audit started in fiscal year 2004. This audit is completed by the Auditor of State's Office. It is an evaluation tool used to determine how the School District compares to peer districts and to state minimums. The School District will use this performance audit to make necessary adjustments to transportation, staff, administration and facilities.

Ironically, even though the financial position is in peril, the education of the students is not lacking. Brookside High School received an excellent rating from the Ohio Department of Education for the second year in a row and the District continued to receive a continuous improvement rating.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Externally, the School District faces the challenge of losing traditional sources of tax revenue through the Ohio General Assembly actions. In June 1999, the Ohio General Assembly passed House Bill 284 that was to phase-out, over a period of 25 years, the taxation on business inventories. This has been updated by House Bill 95, passed in 2003. House Bill 95 decreases the phase-out period by half. All business will no longer pay taxes on their inventories in 10 years. As a result, our revenues will be reduced by an estimated \$1.1 million dollars a year. Also, House Bill 95 has a phase-out to the first \$10,000 on personal property tax. This is being reduced at 10 percent per year over the next 9 years. This will result in an additional loss of revenues of \$6,300 per year.

Financial aid from the State of Ohio through the State Foundation Program has been declining as a major source of operating revenue for the School District. Because Sheffield-Sheffield Lake City School District is considered a wealthy district in terms of property values, it receives a small amount of revenue from the State to fund operational expenses.

As a result of the challenges mentioned above, the School District's administration continues to carefully and prudently plan its expenditures to provide adequate resources to meet student needs. The administration is currently reviewing all options with the goal of reducing operating costs without a reduction in services.

Contacting the School District's Financial Management

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities
Assets	
Equity in pooled cash	\$ 811,411
Cash with fiscal agent	366,130
Due from other governments	32,519
Inventories and supplies	3,995
Prepaid expenses	25,324
Taxes receivable	9,250,756
Capital assets	
Nondepreciable capital assets	461,310
Depreciable capital assets, net	2,102,675
Total assets	13,054,120
 Liabilities	
Accounts and contracts payable	20,455
Accrued salaries, wages and benefits	1,427,109
Claims payable	450,648
Due to other governments	568,741
Accrued interest payable	6,264
Unearned revenue	7,897,217
Note payable	920,000
Long term liabilities	
Due within one year	262,046
Due in more than one year	1,210,904
Total liabilities	12,763,384
 Net assets	
Invested in capital assets, net of related debt	2,131,915
Restricted for:	
Capital projects	58,889
Debt service	460,000
Other purposes	40,816
Unrestricted (deficit)	(2,400,884)
Total net assets	\$ 290,736

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

		Program Revenues		Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants Interest and Contributions	Revenue and Changes in Net Assets
Governmental activities				
Instruction				
Regular	\$ 7,804,355	\$ 578,242	\$ 127,525	\$ (7,098,588)
Special	2,156,891	-	189,459	(1,967,432)
Vocational	277,476	-	-	(277,476)
Other instruction	104,790	-	-	(104,790)
Supporting services				
Pupil	1,226,915	-	190,920	(1,035,995)
Instructional staff	671,400	-	40,006	(631,394)
Board of education	38,626	-	-	(38,626)
Administration	1,353,602	-	6,009	(1,347,593)
Fiscal services	403,842	-	-	(403,842)
Business	129,550	-	-	(129,550)
Operation and maintenance	1,332,423	-	-	(1,332,423)
Pupil transportation	710,666	-	-	(710,666)
Central services	111,039	-	25,577	(85,462)
Operation of non-instructional				
Food service operation	515,793	243,896	174,158	(97,739)
Community services	54,427	-	44,306	(10,121)
Extracurricular activities	445,931	88,440	-	(357,491)
Debt service				
Interest	53,283	-	-	(53,283)
Totals	\$ 17,391,009	\$ 910,578	\$ 797,960	(15,682,471)
General revenues				
Property taxes levied for:				
				8,373,517
				253,795
				6,351,118
				28,111
				48,218
				15,054,759
Change in net assets				
				(627,712)
				918,448
				\$ 290,736

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash	\$ 155,161	\$ 656,250	\$ 811,411
Receivables, net of allowance			
Taxes, current	8,573,266	278,163	8,851,429
Taxes, delinquent	387,441	11,886	399,327
Due from other governments	32,519	-	32,519
Interfund receivable	32,639	-	32,639
Inventories and supplies	-	3,995	3,995
Prepaid expenses	25,324	-	25,324
Total assets	\$ 9,206,350	\$ 950,294	\$ 10,156,644
 Liabilities and fund balances			
Liabilities			
Accounts and contracts payable	11,061	9,394	\$ 20,455
Accrued salaries, wages and benefits	1,358,696	68,413	1,427,109
Accrued interest payable	4,447	-	4,447
Due to other governments	301,047	6,959	308,006
Interfund payable	-	32,639	32,639
Deferred revenue	8,039,245	257,299	8,296,544
Note payable	920,000	-	920,000
Compensated absences payable	79,184	-	79,184
Total liabilities	10,713,680	374,704	11,088,384
 Fund balances			
Reserved for prepaid expenses	25,324	-	25,324
Reserved for property taxes	921,462	32,750	954,212
Reserved for encumbrances	49,653	30,746	80,399
Unreserved, reported in			
General Fund	(2,503,769)	-	(2,503,769)
Special Revenue Funds	-	40,703	40,703
Debt Service Fund	-	460,000	460,000
Capital Projects Funds	-	11,391	11,391
Total fund balances	(1,507,330)	575,590	(931,740)
 Total liabilities and fund balances	 \$ 9,206,350	 \$ 950,294	 \$ 10,156,644

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental funds balances	\$	(931,740)
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		2,563,985
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		399,327
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(84,518)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(260,735)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(961,696)
Notes payable		(390,000)
Capital lease payable		(42,070)
Interest payable		(1,817)
		(1,817)
Net assets of governmental activities	\$	290,736

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 8,372,117	\$ 267,239	\$ 8,639,356
Tuition and fees	497,484	74,964	572,448
Interest	14,486	29	14,515
Intergovernmental	6,330,934	862,105	7,193,039
Charges for services	-	243,896	243,896
Extracurricular	4,900	89,334	94,234
Other	16,793	29,675	46,468
Total revenues	<u>15,236,714</u>	<u>1,567,242</u>	<u>16,803,956</u>
Expenditures			
Current			
Instruction			
Regular	7,157,921	187,475	7,345,396
Special	1,844,626	169,876	2,014,502
Vocational	275,788	-	275,788
Other instruction	102,435	-	102,435
Supporting services			
Pupil	927,828	218,539	1,146,367
Instructional staff	559,172	74,726	633,898
Board of education	34,130	-	34,130
Administration	1,312,831	19,832	1,332,663
Fiscal services	417,340	5,661	423,001
Business	129,079	-	129,079
Operation and maintenance	1,354,138	8,004	1,362,142
Pupil transportation	681,780	923	682,703
Central services	102,642	6,047	108,689
Operation of non-instructional			
Food service operation	-	466,818	466,818
Community services	-	52,656	52,656
Extracurricular activities	366,429	58,285	424,714
Capital outlay	-	160,500	160,500
Debt service			
Principal	39,110	80,000	119,110
Interest	32,005	21,777	53,782
Total expenditures	<u>15,337,254</u>	<u>1,531,119</u>	<u>16,868,373</u>
Excess (deficiency) of revenues over expenditures	<u>(100,540)</u>	<u>36,123</u>	<u>(64,417)</u>
Other financing sources (uses)			
Transfers-in	723,036	1,373,699	2,096,735
Proceeds from the sale of assets	1,750	-	1,750
Transfers-out	(1,271,501)	(825,234)	(2,096,735)
Total other financing sources (uses)	<u>(546,715)</u>	<u>548,465</u>	<u>1,750</u>
Net change in fund balances	(647,255)	584,588	(62,667)
Fund balances, beginning of year	<u>(860,075)</u>	<u>(8,998)</u>	<u>(869,073)</u>
Fund balances, end of year	<u>\$ (1,507,330)</u>	<u>\$ 575,590</u>	<u>\$ (931,740)</u>

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ (62,667)

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

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

Capital outlay	167,760		
Depreciation expense	(245,686)		
Total			(77,926)

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

Property taxes	(12,044)		
Intergovernmental revenue	(43,961)		(56,005)

Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 119,110

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

Compensated absences	100,781		
Pension obligations	(90,151)		10,630

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (560,854)

Change in net assets of governmental activities \$ (627,712)

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 8,141,772	\$ 7,882,770	\$ 7,882,770	\$ -
Tuition and fees	513,609	497,484	497,484	-
Interest	15,196	14,486	14,486	-
Intergovernmental	6,503,692	6,298,415	6,298,415	-
Extracurricular	4,558	4,900	4,900	-
Other	16,715	16,793	16,793	-
Total revenues	<u>15,195,542</u>	<u>14,714,848</u>	<u>14,714,848</u>	<u>-</u>
Expenditures				
Current				
Instruction				
Regular	6,804,566	7,205,743	7,205,743	-
Special	1,706,459	1,806,186	1,806,186	-
Vocational	273,519	289,800	289,800	-
Other instruction	103,330	108,808	108,808	-
Supporting services				
Pupil	933,006	988,150	988,150	-
Instructional staff	542,481	574,739	574,739	-
Board of education	39,508	41,959	41,959	-
Administration	1,233,878	1,306,128	1,306,128	-
Fiscal services	437,631	462,619	462,619	-
Business	177,788	188,806	188,806	-
Operation and maintenance	1,300,738	1,376,795	1,376,795	-
Pupil transportation	680,760	720,192	720,192	-
Central services	100,291	106,796	106,796	-
Extracurricular activities	344,939	365,910	365,910	-
Total expenditures	<u>14,678,894</u>	<u>15,542,631</u>	<u>15,542,631</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>516,648</u>	<u>(827,783)</u>	<u>(827,783)</u>	<u>-</u>
Other financing sources (uses)				
Note proceeds	-	920,000	920,000	-
Proceeds from the sale of assets	-	1,750	1,750	-
Other uses	(3,039)	(3,017)	-	3,017
Advances-out	(30,391)	(32,639)	(32,639)	-
Transfers-out	(483,218)	(811,501)	(811,501)	-
Total other financing sources (uses)	<u>(516,648)</u>	<u>74,593</u>	<u>77,610</u>	<u>3,017</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>-</u>	<u>(753,190)</u>	<u>(750,173)</u>	<u>3,017</u>
Fund balances, beginning of year	605,544	605,544	605,544	-
Prior year encumbrances	<u>243,212</u>	<u>243,212</u>	<u>243,212</u>	<u>-</u>
Fund balances, end of year	<u>\$ 848,756</u>	<u>\$ 95,566</u>	<u>\$ 98,583</u>	<u>\$ 3,017</u>

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUND

JUNE 30, 2004

	<u>Internal Service Fund - Self Insurance</u>
Assets	
Equity in pooled cash	<u>\$ 366,130</u>
Liabilities	
Claims payable	<u>450,648</u>
Total liabilities	<u>450,648</u>
Net assets	
Unrestricted	<u><u>\$ (84,518)</u></u>

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR JUNE 30, 2004

	Internal Service Fund - Self Insurance
Operating revenues	
Charges for services	\$ 1,717,945
Operating expenses	
Purchased services	114,348
Claims	2,178,047
Total operating expenses	2,292,395
Operating (loss)	(574,450)
Non-operating revenue	
Interest	13,596
Change in net assets	(560,854)
Net assets, beginning of year	476,336
Net assets, end of year	\$ (84,518)

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR JUNE 30, 2004

	<u>Internal Service Fund - Self Insurance</u>
Cash flows from operating activities	
Cash received from interfund services	\$ 1,717,945
Cash payments for goods and services	(114,348)
Cash payments for claims	(2,163,679)
Net cash used in operating activities	<u>(560,082)</u>
 Cash flows from investing activities	
Interest	<u>13,596</u>
Net decrease in cash and cash equivalents	(546,486)
 Cash and cash equivalents, beginning of year	<u>912,616</u>
Cash and cash equivalents, end of year	<u>\$ 366,130</u>
 Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (574,450)
Adjustments	
Increase in claims payable	<u>14,368</u>
Net cash used for operating activities	<u>\$ (560,082)</u>

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF FIDUCIARY FUNDS -
ASSETS AND LIABILITIES

JUNE 30, 2004

	<u>Agency Funds</u>
Assets	
Equity in pooled cash	\$ 69,304
Total assets	<u>69,304</u>
Liabilities	
Accounts and contracts payable	106
Due to students	50,385
Due to others	18,813
Total liabilities	<u>\$ 69,304</u>

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

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Sheffield-Sheffield Lake City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2003 was 2,084. The District employs 168 certificated and 118 non-certificated employees.

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

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

The District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council of Governments (LERC) and the Lorain County Joint Vocational School District. These organizations and their relationships with the District are described in more detail in Notes 11 and 19 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds (continued)

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

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

Proprietary Fund

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

Fiduciary Funds

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

C. MEASUREMENT FOCUS

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

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

The District's financial statements have been prepared in conformity with principles of accounting applicable to a going concern, which principles contemplate the realization of assets and liquidation of liabilities in the normal course of business. The District has deficit fund balances. The District is attempting to obtain additional lender financing.

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund, object level for the General Fund and Debt Service Fund and at the fund level for all other funds.

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

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

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2004, totaled \$ 28,111.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

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

G. INVENTORY

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

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

H. RESTRICTED ASSETS

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

I. CAPITAL ASSETS

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

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

Description	Estimated Lives
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

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

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

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

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

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

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

N. FUND BALANCE RESERVES AND DESIGNATIONS

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. INTERFUND TRANSACTIONS

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. ESTIMATES

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING ESTIMATE AND RESTATEMENT OF NET ASSETS

For fiscal year 2004, the District changed the estimated useful lives of its capital assets. The useful lives for buildings increased to 50 years, vehicles decreased to 8 years and the furniture and equipment range changed to 5 to 20 years. These changes resulted in a prior period adjustment as follows:

	Previously Reported	Adjustment	Restated
Net assets	\$ 862,558	\$ 55,890	\$ 918,448

NOTE 4 – DEFICIT FUND BALANCE

At June 30, 2004, the following funds had deficit fund balances. The General Fund is liable for deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

Major Fund:	
General Fund	\$ (1,507,330)
Nonmajor Funds:	
Food Service	(33,197)
Preschool Disabilities	(6,106)
Misc. Federal Grants	(6,474)
Title VI	(124)
Title I	(30,550)
Title VI R	(11,144)
	\$ (87,595)
Internal Service Fund:	
Insurance Fund	\$ (84,518)

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (750,173)
Adjustments, increase (decrease)	
Revenue accruals	61,866
Expenditure accruals	205,377
Other sources (uses)	(164,325)
GAAP basis, as reported	\$ (647,255)

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may be invested in the following securities:

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the District's deposits was \$ 398,724 and the bank balance was \$ 552,282, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the District.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Carrying Value	
Investment in State Treasurer's Investment Pool	\$ 847,421	
	Cash and Cash	Investments
	Equivalents	Investments
GASB Statement No. 9	\$ 1,246,845	\$ -
Investment in State Treasurer's Investment Pool	(847,421)	847,421
GASB Statement No. 3	\$ 399,424	\$ 847,421

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

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

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

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004/2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$ 921,462 in the General Fund and \$ 32,750 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second - Half Collections			2004 First - Half Collections	
	Amount	%		Amount	%
Agricultural/Residential	\$ 176,517,380	62.26	%	\$ 198,088,780	64.13
Commercial/Industrial	64,220,440	22.65		74,946,250	24.26
Public Utilities	1,180,620	0.42		1,314,330	0.43
Tangible Personal Property	41,593,190	14.67		34,529,170	11.18
Total Assessed Value	\$ 283,511,630	100.00	%	\$ 308,878,530	100.00
Tax rate per \$1,000 of assessed valuation	55.51			51.87	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes and amounts due from other governments. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

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

	Amount
Governmental Activities	
General fund - excess costs	\$ 32,519
Total due from other governments	\$ 32,519

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 9 – INTERFUND ADVANCES

Interfund receivables and payables at June 30, 2004 are as follows:

Major Fund:	Receivable	Payable
General Fund	\$ 32,639	\$ -
Non-major funds:		
Reading Intervention	-	4,039
Title V A	-	3,412
Preschool Disabilities	-	6,387
Title II A	-	12,070
Miscellaneous Federal Grants	-	6,731
Total non-major funds	-	32,639
Total	\$ 32,639	\$ 32,639

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003 (As Restated)	Additions	Disposals	Balance June 30, 2004
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 461,310	\$ -	\$ -	\$ 461,310
Depreciable capital assets				
Buildings and improvements	4,429,317	-	-	4,429,317
Furniture and equipment	1,920,739	51,433	-	1,972,172
Vehicles	1,355,130	116,327	159,282	1,312,175
Total capital assets being depreciated	7,705,186	167,760	159,282	7,713,664
Less accumulated depreciation				
Buildings and improvements	3,245,312	74,465	-	3,319,777
Furniture and equipment	1,078,445	118,207	-	1,196,652
Vehicles	1,200,828	53,014	159,282	1,094,560
Total accumulated depreciation	5,524,585	245,686	159,282	5,610,989
Depreciable capital assets, net of accumulated depreciation	2,180,601	(77,926)	-	2,102,675
Governmental activities capital assets, net	\$ 2,641,911	\$ (77,926)	\$ -	\$ 2,563,985

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 10 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	82,182
Special		11,154
Vocational education		4,619
Supporting services		
Pupil		3,612
Instruction		10,368
Board of education		4,496
Administration		6,732
Fiscal		1,769
Business		1,794
Operation and maintenance of plant		25,109
Pupil transportation		47,712
Operation of noninstructional services		
Food service operation		24,421
Community services		49
Extracurricular activities		21,669
Total depreciation expense	\$	245,686

NOTE 11 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District contracted with the Travelers Aetna Insurance Company for property and casualty insurance. Professional liability is covered by the OSBA/BASA Nationwide Insurance with a \$ 2,000,000 per occurrence and a \$ 3,000,000 aggregate limit. Settled claims have not exceeded this commercial coverage in any of the past several years.

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

B. WORKERS' COMPENSATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December, 1988. The LERC is a claims-servicing pool comprised of fourteen Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating School District would be liable for all outstanding claims beyond their individual balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$ 150 for single and \$ 300 for family coverage.

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

The claim liability of \$ 450,648 reported at June 30, 2004, was estimated by LERC and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2004 and 2003 are summarized below. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	June 30, 2004	June 30, 2003
Unpaid claims, beginning of year	\$ 436,280	\$ 279,987
Incurred claims	2,178,047	1,589,988
Claims payment	(2,163,679)	(1,433,695)
Unpaid claims, end of year	\$ 450,648	\$ 436,280

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were \$ 310,500, \$ 320,200 and \$ 733,333, respectively. The full amount has been contributed for 2003 and 2002. For 2004, \$ 118,485 (38%) has been contributed with the remainder being reflected as an intergovernmental payable.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2004 were 10% of covered payroll for members and 14% for employers. The District's contribution to STRS for the years ended June 30, 2004, 2003 and 2002 were \$1,120,600, \$ 1,101,505, and \$ 725,984, respectively. The full amount has been contributed for 2003 and 2002. For 2004, \$ 934,742 (83%) has been contributed with the remainder being reported as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2004 were \$ 8,507 made by the District and \$ 15,687 made by plan members.

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place ofr retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$ 25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Gross expenses for health care at June 30, 2004 were \$ 223,443,805 and the target level was \$ 335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$ 300.8 million. The number of benefit recipients receiving health care benefits is approximately 62,000. The portion of the District's contributions were \$ 241,613.

B. STATE TEACHERS RETIREMENT SYSTEM

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

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004 and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$ 3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$ 268,739,000. There were 111,853 eligible benefit recipients.

NOTE 14 – TAX ANTICIPATION NOTE

The following is a description of the tax anticipation note outstanding as of June 30, 2004:

	Outstanding July 1, 2003	Additions	Retired	Outstanding June 30, 2004
Tax anticipation note (2000)				
5.8% through 2005	\$ 700,000	\$ 920,000	\$ 700,000	\$ 920,000

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

	Maximum Permitted Principal Amount
December 1, 2003 through November, 2004	\$ 920,000
December 1, 2004 through November, 2005	460,000

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Balance June 30, 2003	Additions	Retired	Balance June 30, 2004	Amounts Due In One Year
Energy conservation notes:					
1998, 5.15%	\$ 338,000	\$ -	\$ 61,000	\$ 277,000	\$ 64,000
1999, 4.85%	132,000	-	19,000	113,000	20,000
Total notes	470,000	-	80,000	390,000	84,000
Capital leases	81,180	-	39,110	42,070	36,560
Compensated absences	1,185,458	43,464	188,042	1,040,880	141,486
	<u>\$ 1,736,638</u>	<u>\$ 43,464</u>	<u>\$ 307,152</u>	<u>\$ 1,472,950</u>	<u>\$ 262,046</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 16 – DEBT SERVICE REQUIREMENTS TO MATURITY

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

Year ending June 30,	Principal	Interest	Total
2005	\$ 84,000	\$ 17,614	\$ 101,614
2006	88,000	13,245	101,245
2007	94,000	8,625	102,625
2008	99,000	3,726	102,726
2009	25,000	606	25,606
	<u>\$ 390,000</u>	<u>\$ 43,816</u>	<u>\$ 433,816</u>

NOTE 17 – CAPITAL LEASES

The District is obligated under certain leases accounted for as capital leases. The assets under capital leases totaled \$ 235,332 at June 30, 2004. The leases are in effect through fiscal year 2006.

The following is a schedule of future minimum lease payments under the capital leases together with the net present value of the minimum lease payments as of June 30, 2004.

	Year ending June 30,	Amount
	2005	\$ 38,416
	2006	5,587
Total minimum lease payments		44,003
Less amount representing interest		(1,933)
Net present value of minimum lease payments		<u>\$ 42,070</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 18 – SET-ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbook	Capital Maintenance
Balance, July 1, 2003	\$ (349,857)	\$ -
Required set aside	283,849	283,849
Offset credits	-	-
Qualifying expenditures	(173,852)	(379,626)
Totals	\$ (239,860)	\$ (95,777)
Carry forward at June 30, 2004	\$ (239,860)	

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 173,852 and \$ 379,626, respectively. Textbook expenditures have exceeded statutory requirements by \$ 239,860 which may be used to offset future years' set aside requirements.

Although the District had qualifying expenditures during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

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

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004, the District paid \$ 160,584 to LEECA.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

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

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. A board of directors chosen from the general membership governs LERC. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004, the District paid approximately \$ 1,821,060 to LERC, primarily for insurance.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

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

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

NOTE 20 - SCHOOL FOUNDATION PROGRAM

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

NOTE 21 - INTERFUND TRANSFERS

During the year ended June 30, 2004, the General Fund transferred a total of \$ 1,271,501 to the various funds as follows: \$ 88,210 to the Food Service Fund, \$ 1,183,035 to the Debt Service Fund, and \$ 256 to the Athletic Fund. The Debt Service Fund transferred \$ 723,036 to the Emergency Levy Fund. The Permanent Improvement Fund transferred \$ 101,778 to the Debt Service Fund. The Athletic Fund transferred \$ 146 to the Principal's Fund, the Title II Fund transferred \$ 137 to the Title VI-R Fund and the Title VI-R Fund transferred \$ 137 to the Title II Fund.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 22 - CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

NOTE 23 – FISCAL EMERGENCY

Effective March 29, 2004, the Sheffield-Sheffield Lake City School District was placed in fiscal caution by the Ohio Department of Education. The District failed to submit an acceptable fiscal caution proposal in order to address the projected deficits. Therefore, June 24, the Auditor of State placed the District in fiscal watch. The fiscal watch declaration was based on the District's May 27, 2004 five-year forecast that anticipated deficits of \$ 118,000 in fiscal year (FY) 2003-04 and \$ 2.1 million for FY 2004-05. January 11, 2005, the Auditor of State declared the District in fiscal emergency for failing to submit an acceptable financial recovery plan under fiscal watch. District projections showed an anticipated deficit of \$ 1,533,171 by the end of June 2005.

NOTE 24 – SUBSEQUENT EVENTS

On December 28, 2004, the District received from the Lorain County Auditor a special advance of \$ 230,000.

On January 24, 2005, the District approved obtaining a Current Revenue Anticipation Note for \$ 350,000, which matures June 30, 2005

The Sheffield-Sheffield Lake City School District was declared to be in fiscal emergency on January 11, 2005. A financial Planning and Supervision Commission has been created to assure the fiscal integrity of the District. The Commission has responsibility to approve the District's actions regarding fiscal management matters for the District. On April 13, 2005 the Commission passed the Recovery Plan for the District and on May 3, 2005 the community passed a renewal levy which provides revenue in the amount of \$ 2,300,000 per year. A levy will be placed on the ballot in November 2005 to provide additional revenue for the District. The amount and duration of the levy has not yet been determined.

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SHEFFIELD - SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution	N/A	10.550		\$41,682		\$41,682
National School Lunch Program	N/A	10.555	\$127,542		\$127,542	
TOTAL U.S. DEPARTMENT OF EDUCATION			127,542	41,682	127,542	41,682
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	044768-6BSF-02P	84.027			616	
Special Education Grants to States	044768-6BSF-03P		12,945		25,475	
	044768-6BSF-04P		251,030		246,978	
			263,975		273,069	
Special Education - Preschool Grants	044768-PGS1-03P	84.173	950		110	
	044768-PGS1-04P		1,335		0	
			2,285		110	
<i>Total Special Education Cluster</i>			266,260		273,179	
Title I Grants to Local Education Agencies	044768-C1S1-04	84.010	125,089		125,089	
Safe and Drug-Free Schools and Communities State Grants	044768-DRS1-03	84.186	0		707	
	044768-DRS1-04		10,586		12,087	
			10,586		12,794	
Eisenhower Professional Development State Grant	044768-MSS1-02	84.281	0		137	
Innovative Educational Program Strategies	044768-C2-S1-03	84.298	8,049		1,768	
	044768-C2-S1-04		0		4,275	
			8,049		6,043	
Technology Literacy Challenge Fund Grants	044768-TF51-03	84.318	0		3,054	
	044768-TF51-04		3,316		9,201	
			3,316		12,255	
Assistive Technology	044768-ATS3-02	84.352A	(100)		0	
Improving Teacher Quality State Grants	044768-TRS1-03	84.367	3,047		6,386	
	044768-TRS1-04		59,832		51,316	
			62,879		57,702	
TOTAL U.S. DEPARTMENT OF EDUCATION			476,079	0	487,199	0
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES						
<i>Passed Through the Ohio Department of Education:</i>						
Learn and Serve America - School and Community Based Programs	044768-SVS2-03	94.004	8,339	0	8,339	0
TOTAL ALL FEDERAL FUNDS			\$611,960	\$41,682	\$623,080	\$41,682

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – ASSISTIVE TECHNOLOGY

The District received funding for the Assistive Technology program, CFDA #84.352A, but did not expend the entire amount during the grant period. The amount shown as a negative receipt is a refund of the unused funds.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

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

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

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 24, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the District's management dated May 24, 2005, we reported other matters related to noncompliance we deemed immaterial.

Sheffield-Sheffield Lake City School District
Lorain County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

May 24, 2005



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 24, 2005.

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

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

Betty Montgomery
Auditor of State

May 24, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(CONTINUED)**

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

An asterisk (*) denotes that the comment has been previously reported in our audit of the fiscal year ended June 30, 2003 financial statements in which no corrective action has been taken.

Finding Number	2004-001
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Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. Section 5705.14 indicates that before an inter-fund transfer can be made from the general fund, a resolution of the taxing authority shall be passed by a majority of the governing board. See also 1989 Op. Atty. Gen. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the general fund may be made by a resolution passed by a two-thirds vote of the taxing authority. In addition to transfers from the general fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Sections 5705.15 and 5705.16.

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year. Cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
 - A specific statement that the transaction is an advance of cash, and
 - An indication of the money (fund) from which it is expected that repayment will be made.

We noted seven instances where the Board did not approve transfers and advances totaling \$1,267,532 and \$32,639, respectively.

We recommend that the Treasurer submit transfers and advances to the Board for approval to ensure compliance with the Ohio Revised Code. We further recommend the District first consider the restrictions on inter-fund cash advances prior to advancing monies. If monies are not available in those funds which may meet the inter-fund cash advance restrictions, then the District should consider other alternatives. In addition, approval of individual transfers is a good accounting practice and provides an audit trail to support the amounts transferred.

Management should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(CONTINUED)**

Finding Number	2004-002 *
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Ohio Revised Code Section 5705.41(D)(1), prohibits a subdivision or taxing unit from making any contract or ordering any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. There are several exceptions to the standard requirement stated above, one of which is found in Ohio Revised Code Section 5705.41(D)(1):

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.
2. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

There were 19 instances out of 60 items tested where the expenditures were not certified by the Treasurer prior to incurring the commitment and the two exceptions noted above were not utilized. The District should inform all District employees of the requirements of Ohio Rev. Code Section 5705.41(D)(1) and the importance of certifying the availability of funds, because failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 4, 2005**