



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield Village, Ohio 44054-2697

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Sheffield-Sheffield Lake City School District, Lorain County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District changed the fund type classification of the Emergency Levy Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 19, 2003

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and other debits			
Equity in pooled cash and equivalents	\$712,010	\$149,146	\$222,135
Cash with Fiscal Agent	802,638		
Receivables, net			
Taxes, current	8,303,708		276,366
Taxes, delinquent	261,609		8,885
Due from other governments	2,123	29,540	
Due from other funds	21,000		
Inventories and supplies	56,131		
Fixed assets			
Accumulated depreciation			
Amount to be provided for debt			
Amount to be provided for benefits			
Amount to be provided for capital leases			
Total assets and other debits	\$10,159,219	\$178,686	\$507,386
Liabilities, fund equity and other credits			
<u>Liabilities</u>			
Accounts and contracts payable	\$28,793	\$1,192	\$887
Accrued salaries and benefits	1,309,237	69,974	
Accrued interest payable	448		
Due to other governments	231,265	9,402	
Due to other funds			
Due to students			
Due to others			
Deferred revenue	7,605,156	29,540	253,087
Claims Payable	236,443		
Notes payable	470,000		
Capital leases			
Compensated absences	85,961		
Total liabilities	9,967,303	110,108	253,974
<u>Fund equity and other credits</u>			
Investment in general fixed assets			
Retained earnings			
Unreserved			
Fund balances			
Reserved for property taxes	960,161		32,164
Reserved for inventories	56,131		
Reserved for encumbrances	19,581	10,641	13,602
Unreserved	(843,957)	57,937	207,646
Total fund equity and other credits	191,916	68,578	253,412
Total liabilities, fund equity and other credits	\$10,159,219	\$178,686	\$507,386

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-term Debt	
Enterprise	Trust and Agency			
\$34,456	\$78,859			\$1,196,606 802,638
				8,580,074
14,502				270,494
				46,165
12,798				21,000
155,752		\$9,857,336		68,929
(147,304)				10,013,088
				(147,304)
			\$546,000	546,000
			1,443,598	1,443,598
			118,542	118,542
\$70,204	\$78,859	\$9,857,336	\$2,108,140	\$22,959,830
\$1,461	\$1,487			\$33,820
31,181				1,410,392
				448
11,213			\$159,686	411,566
15,000	6,000			21,000
	52,835			52,835
	15,520			15,520
4,138				7,891,921
				236,443
			546,000	1,016,000
			118,542	118,542
3,910			1,283,912	1,373,783
66,903	75,842		2,108,140	12,582,270
		\$9,857,336		9,857,336
3,301				3,301
				992,325
				56,131
				43,824
	3,017			(575,357)
3,301	3,017	9,857,336		10,377,560
\$70,204	\$78,859	\$9,857,336	\$2,108,140	\$22,959,830

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	Governmental Fund Types	
	General	Special Revenue
Revenues		
Taxes	\$7,872,347	
Tuition and fees	121,507	
Interest	52,171	\$472
Intergovernmental	5,909,943	905,997
Extracurricular		128,643
Miscellaneous	135,636	19,719
Total revenues	<u>14,091,604</u>	<u>1,054,831</u>
Expenditures		
Current		
Instruction		
Regular	6,632,147	102,489
Special	1,490,160	363,142
Vocational education	277,495	4,605
Adult		7,741
Other	186,398	
Supporting services		
Pupil	884,115	183,705
Instructional	435,899	308,234
Board of education	16,814	
Administration	1,245,750	7,849
Fiscal	403,031	
Business	204,124	
Operation and maintenance	1,441,524	
Pupil transportation	704,455	
Central services	96,649	28,503
Non-instructional services		
Community services		48,655
Extracurricular		
Academic oriented	81,321	
Occupation oriented	26,178	
Sports oriented	220,327	78,099
Co-curricular	3,945	
Debt services		
Principal	32,510	
Interest	10,729	
Total expenditures	<u>14,393,571</u>	<u>1,133,022</u>
Excess of revenues over (under) expenditures	<u>(301,967)</u>	<u>(78,191)</u>
Other financing sources (uses)		
Operating transfers-in		11,000
Operating transfers-out	(282,498)	
Proceeds from capital leases	133,809	
Total other financing sources (uses)	<u>(148,689)</u>	<u>11,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(450,656)	(67,191)
Fund balances at beginning of year (restated)	632,230	135,769
Increase in reserve for inventories	10,342	
Fund balances at end of year	<u>\$191,916</u>	<u>\$68,578</u>

The notes to the financial statements are an integral part of this statement.

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
	\$232,950		\$8,105,297
			121,507
	34,396		52,643
			6,850,336
			128,643
		\$1	155,356
	267,346	1	15,413,782
			6,734,636
			1,853,302
			282,100
			7,741
		319	186,717
	457		1,067,820
			744,590
			16,814
	10,522		1,264,121
	3,403		406,434
			204,124
	234,120		1,675,644
			704,455
			125,152
			48,655
			81,321
			26,178
			298,426
			3,945
\$72,000			104,510
29,498			40,227
101,498	248,502	319	15,876,912
(101,498)	18,844	(318)	(463,130)
101,498	170,000		282,498
			(282,498)
			133,809
101,498	170,000		133,809
	188,844	(318)	(329,321)
	64,568	3,335	835,902
			10,342
	\$253,412	\$3,017	\$516,923

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$8,130,952	\$8,130,952	
Tuition and fees	135,191	135,151	(\$40)
Interest	50,000	52,000	2,000
Intergovernmental	5,890,057	5,915,340	25,283
Extracurricular			
Miscellaneous	83,964	84,003	39
Total revenues	14,290,164	14,317,446	27,282
Expenditures			
Current			
Instructional			
Regular	6,694,681	6,649,112	45,569
Special	1,562,324	1,517,779	44,545
Vocational education	299,800	296,112	3,688
Adult education			
Other	187,000	173,820	13,180
Supporting services			
Pupil	929,538	889,213	40,325
Instructional	418,975	396,007	22,968
Board of education	24,500	21,566	2,934
Administration	1,291,547	1,254,948	36,599
Fiscal	426,077	410,749	15,328
Business	158,609	156,080	2,529
Operation and maintenance	1,471,864	1,437,005	34,859
Pupil transportation	714,368	696,740	17,628
Central services	102,872	97,482	5,390
Non-instructional services			
Community services			
Extracurricular			
Academic oriented	90,000	80,962	9,038
Occupation oriented	28,000	26,178	1,822
Sports oriented	221,400	218,368	3,032
Co-curricular	5,000	3,945	1,055
Debt service			
Principal			
Interest			
Total expenditures	14,626,555	14,326,066	300,489
Excess of revenues over (under) expenditures	(336,391)	(8,620)	327,771
Other financing sources			
Operating transfers-in			
Operating transfers-out	(413,000)	(390,543)	22,457
Note proceeds	470,000	470,000	
Proceeds from sale of assets	50,371	52,058	1,687
Refund of prior year expenditure	1,214	1,214	
Advances out	(30,000)	(21,000)	9,000
Refund of prior year receipt			
Total other financing sources (uses)	78,585	111,729	33,144
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(257,806)	103,109	360,915
Fund balances, beginning of year (restated)	520,643	520,643	
Prior year encumbrances	64,082	64,082	
Fund balances, end of year	\$326,919	\$687,834	\$360,915

Special Revenue			Debt Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$466	\$472	\$6			
901,874	905,997	4,123			
127,690	128,643	953			
20,088	20,169	81			
<u>1,050,118</u>	<u>1,055,281</u>	<u>5,163</u>			
109,556	86,365	23,191			
352,274	339,232	13,042			
4,605	4,605				
7,741	7,741				
194,651	175,424	19,227			
339,373	323,883	15,490			
10,744	7,670	3,074			
2,777	487	2,290			
11,062	8,128	2,934			
3,331		3,331			
28,503	28,503				
57,907	51,200	6,707			
80,765	78,099	2,666			
			\$177,000	\$177,000	
			32,543	32,543	
<u>1,203,289</u>	<u>1,111,337</u>	<u>91,952</u>	<u>209,543</u>	<u>209,543</u>	
<u>(153,171)</u>	<u>(56,056)</u>	<u>97,115</u>	<u>(209,543)</u>	<u>(209,543)</u>	
11,000	11,000		209,543	209,543	
(6,602)	(6,602)				
4,398	4,398		209,543	209,543	
(148,773)	(51,658)	97,115			
37,977	37,977				
151,553	151,553				
<u>\$40,757</u>	<u>\$137,872</u>	<u>\$97,115</u>			

(Continued)

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
(Continued)

	Capital Projects		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$242,320	\$242,320	
Tuition and fees			
Interest			
Intergovernmental	34,396	34,396	
Extracurricular			
Miscellaneous			
Total revenues	276,716	276,716	
Expenditures			
Current			
Instructional			
Regular			
Special			
Vocational education			
Adult education			
Other			
Supporting services			
Pupil	10,000		\$10,000
Instructional	457	457	
Board of education			
Administration	13,400	10,522	2,878
Fiscal	4,000	3,403	597
Business			
Operation and maintenance	378,692	271,884	106,808
Pupil transportation			
Central services			
Non-instructional services			
Community services			
Extracurricular			
Academic oriented			
Occupation oriented			
Sports oriented			
Co-curricular			
Debt service			
Principal			
Interest			
Total expenditures	406,549	286,266	120,283
Excess of revenues over (under) expenditures	(129,833)	(9,550)	120,283
Other financing sources			
Operating transfers-in		170,000	170,000
Operating transfers-out			
Note proceeds			
Proceeds from sale of assets			
Refund of prior year expenditure			
Advances out			
Refund of prior year receipt			
Total other financing sources (uses)		170,000	170,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(129,833)	160,450	290,283
Fund balances, beginning of year (restated)	170	170	
Prior year encumbrances	47,026	47,026	
Fund balances, end of year	(\$82,637)	\$207,646	\$290,283

The notes to the financial statements are an integral part of this statement.

Total (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)
\$8,373,272	\$8,373,272	
135,191	135,151	(\$40)
50,466	52,472	2,006
6,826,327	6,855,733	29,406
127,690	128,643	953
104,052	104,172	120
15,616,998	15,649,443	32,445
6,804,237	6,735,477	68,760
1,914,598	1,857,011	57,587
304,405	300,717	3,688
7,741	7,741	
187,000	173,820	13,180
1,134,189	1,064,637	69,552
758,805	720,347	38,458
24,500	21,566	2,934
1,315,691	1,273,140	42,551
430,077	414,152	15,925
161,386	156,567	4,819
1,861,618	1,717,017	144,601
717,699	696,740	20,959
131,375	125,985	5,390
57,907	51,200	6,707
90,000	80,962	9,038
28,000	26,178	1,822
302,165	296,467	5,698
5,000	3,945	1,055
177,000	177,000	
32,543	32,543	
16,445,936	15,933,212	512,724
(828,938)	(283,769)	545,169
220,543	390,543	170,000
(413,000)	(390,543)	22,457
470,000	470,000	
50,371	52,058	1,687
1,214	1,214	
(30,000)	(21,000)	9,000
(6,602)	(6,602)	
292,526	495,670	203,144
(536,412)	211,901	748,313
558,790	558,790	
262,661	262,661	
\$285,039	\$1,033,352	\$748,313

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

COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Operating revenues			
Food services	\$230,152		\$230,152
Premiums			
Classroom materials and fees	51,966		51,966
Total operating revenues	282,118		282,118
Operating expenses			
Salaries and wages	185,250		185,250
Fringe benefits	80,208		80,208
Contractual services	2,049		2,049
Materials and supplies	192,986		192,986
Other expenses		\$104	104
Depreciation	856		856
Total operating expenses	461,349	104	461,453
Operating loss	(179,231)	(104)	(179,335)
Non-operating revenues			
Interest	568		568
Intergovernmental	133,934		133,934
Total non-operating revenues	134,502		134,502
Net loss	(44,729)	(104)	(44,833)
Retained earnings/Fund balance, beginning of year	48,030	104	48,134
Retained earnings/Fund balance, end of year	\$3,301		\$3,301

The notes to the financial statements are an integral part of this statement.

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activity:			
Operating loss	(\$179,231)	(\$104)	(\$179,335)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	856		856
Donated commodities	29,752		29,752
Changes in net assets (increase) decrease and liabilities increase (decrease)			
Accounts receivable	1,916		1,916
Due from other governments	(1,204)		(1,204)
Inventories and supplies	(3,712)		(3,712)
Accounts and contracts payable	1,461		1,461
Accrued salaries and wages	(423)		(423)
Due to other governments	4,833		4,833
Due to other funds	15,000		15,000
Deferred revenue	1,016		1,016
Compensated absences	(5,068)		(5,068)
Total adjustments	44,427		44,427
Net cash used in operating activities	(134,804)	(104)	(134,908)
Cash flows from non-capital financing activities			
Intergovernmental revenue	104,182		104,182
Cash flows provided by investing activities			
Interest income	568		568
Net decrease in cash and equivalents	(30,054)	(104)	(30,158)
Equity in pooled cash and equivalents, beginning of year	64,510	104	64,614
Equity in pooled cash and equivalents, end of year	\$34,456		\$34,456
Non-cash transactions:			
Disposal of fixed assets	\$560		\$560

The notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 - NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE 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, and is responsible for providing public education to residents of the District. Average daily membership on or as of, October 1, 2001 was 1,987. The District employs 147 certificated and 132 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 Sheffield-Sheffield Lake City School 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 following entities, which perform activities within the District's boundaries for the benefit of its residents, are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District. The District has no component units.

Lake Erie Educational Computer Association - The Sheffield-Sheffield Lake City School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The District's participation is disclosed in Note 18 to the financial statements.

Lake Erie Regional Council of Governments - The Lake Erie Regional Council of Governments (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The District's participation is disclosed in Note 18 to the financial statements.

Lorain County Joint Vocational School District - The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for vocational and special education needs of the students. This is a jointly governed organization. The District's participation is disclosed in Note 18 to the financial statements.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

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.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the Sheffield-Sheffield Lake City School District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Sheffield-Sheffield Lake City School District has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Revenues 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the 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 the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Property tax revenues, grant revenues and interest revenues are susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, if any, which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Governmental funds include the following fund types:

General Fund - used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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Capital Projects Fund - used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

Proprietary Fund Type

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary fund.

As permitted, the Board of Education has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations. Proprietary funds include the following fund type:

Enterprise Funds - used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Board of Education is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Fund - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Nonexpendable Trust Fund - accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups

The District maintains two account groups as described below:

General Fixed Assets Account Group - used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary or trust funds.

General Long-Term Debt Account Group - used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

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B. Deposits and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Interest revenue credited to the general fund during fiscal 2002 amounted to \$52,171, which includes \$20,510 assigned from other funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 5.

C. Receivables

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

D. Inventories and Supplies

Inventories are valued at cost or market using the first in/first out method. The costs of inventory items are recognized as expenditures when purchased in the governmental funds. Governmental fund-type inventories, on hand at year-end, are offset by a fund balance reserve, which indicates they do not constitute available spendable resources even though they are a component of assets.

Proprietary fund type inventory costs are charged to operations when consumed. Inventories of proprietary funds consist of donated food, purchased food and school supplies held for resale. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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E. Fixed Assets and Depreciation

GENERAL FIXED ASSETS ACCOUNT GROUP

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend the asset's useful life are not capitalized. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group. Interest incurred during construction is not capitalized on general fixed assets.

PROPRIETARY FUNDS

Property, plant and equipment reflected in the proprietary funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life - Years</u>
Furniture, fixtures and minor equipment	5 – 20

F. Long-term Liabilities

The District reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term account group. The tax and revenue anticipation notes are fund liabilities of the fund receiving the proceeds.

G. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, the District has established a policy to include all employees with 10 years of service in their GASB Statement No. 16 accrual.

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The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

H. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventories, and property taxes. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

I. Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

J. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

K. Use of Estimates

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

NOTE 3 - PRIOR PERIOD ADJUSTMENT

During the fiscal year 2002, the District decided to reclassify the Emergency Levy fund, a Special Revenue Fund, into the General Fund. The Emergency Levy Fund is used for operating expenditures and is best presented in the General Fund.

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The District also has restated the July 1, 2001 fund equity to reflect amounts held by Lake Erie Regional Council (LERC) on behalf of the District to pay health care claims and added claims payable. The effect of these changes is as follows:

Combined Statement of Revenues, Expenditures and Changes in Fund Balances	General Fund	Special Revenue Fund Type
Excess of Revenues and Other Financing Sources	(\$828,181)	\$430,374
Over (Under) Expenditures and Other Financing Uses		
Adjustment- Emergency Levy Fund 016	510,025	(510,025)
Adjustment to deduct Claims Payable	(216,874)	
Adjustment to add Cash with Fiscal Agent	739,912	
Excess of Revenues and Other Financing Sources		
Over (Under) Expenditures and Other Financing Uses (Restated)	<u>\$204,882</u>	<u>(\$79,651)</u>
Fund Balance, June 30, 2001	(\$400,833)	\$645,794
Adjustment- Emergency Levy Fund 016	510,025	(510,025)
Adjustment to deduct Claims Payable	(216,874)	
Adjustment to add Cash With Fiscal Agent	739,912	
Fund Balance, July 1, 2001 (Restated)	<u>\$632,230</u>	<u>\$135,769</u>
Combined Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual (Non-GAAP Budgetary Basis)	General Fund	Special Revenue Fund Type
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(\$596,248)	(\$115,065)
Adjustment- Emergency Levy Fund 016	271,255	(271,255)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (Restated)	<u>(\$324,993)</u>	<u>(\$386,320)</u>
Fund Balance, June 30, 2001	\$249,388	\$309,232
Adjustment- Emergency Levy Fund 016	271,255	(271,255)
Fund Balance, July 1, 2001 (Restated)	<u>\$520,643</u>	<u>\$37,977</u>

NOTE 4 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the object code function level within each fund. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed or are deficient of current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

Budgetary Reporting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

1. Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balances for governmental fund types.

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess of revenues and other financing sources over (under) expenditures and other financing uses Reconciliation of budget basis to GAAP basis				
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$103,109	(\$51,658)		\$160,450
Adjustments, increase (decrease)				
Revenue accruals	(615,305)	(450)	(\$108,045)	(9,370)
Expenditure accruals	61,540	(15,083)	108,045	37,764
GAAP basis, as reported	(\$450,656)	(\$67,191)		\$188,844

B. Fund Equity Deficits

Not apparent in the general purpose financial statements are deficit fund equity balances of \$9,125 in DPIA Fund and \$14,306 in the Miscellaneous State Grants Fund, both special revenue funds, and \$21,728 in the Food Service Fund, an enterprise fund. These deficit fund equity balances at year-end resulted from reflecting expenditures in accordance with the modified accrual basis, which is

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substantially larger than the amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent period.

NOTE 5 - DEPOSITS AND INVESTMENTS

The Sheffield-Sheffield Lake City School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash and equivalents." Cash and cash equivalents that are held separately for the District by fiscal agents and not held with the Treasurer are recorded on the combined balance sheet as "Cash with Fiscal Agent".

A. Legal Requirements

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

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

Inactive deposits are public deposits that the District's Board of Education has identified as not required for use within the current two 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 obligations provided they matured or were redeemable within two years from the date of purchase:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities 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 two percent and be marked to daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division 1) or 2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 of debt of the District, and must be purchased with the expectation that it will be held until maturity.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. Deposits

At year-end, the carrying amount of the Sheffield-Sheffield Lake City School District's deposits was (\$299,824) and the bank balance was \$19,596 all of which was covered by federal depository insurance or collateral held by a qualified third party trustee in the name of the Sheffield-Sheffield Lake City School District.

At year-end, the District had \$802,638 in cash and cash equivalents which are included on the combined balance sheet as part of "Cash with Fiscal Agent". This represents monies held by Lake Erie Regional Council of Governments (LERC). LERC is the District's fiscal agent for health insurance, and therefore, the District cannot classify this money by risk under GASB Statement No. 3.

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investment for which the securities are held by the broker or dealer or by its trust department but not in the District's name. Investment in STAR Ohio, 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.

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Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for at June 30, 2002. The District's interest in STAR Ohio has a carrying value and market value of \$1,496,430.

NOTE 6 - FIXED ASSETS AND ACCUMULATED DEPRECIATION

A. General Fixed Assets Account Group

The changes in general fixed assets during the year consisted of:

	Balance 7/1/01	Additions	Disposals	Balance 6/30/02
Land	\$11,310	\$450,000		\$461,310
Buildings and improvements	4,478,239		\$41,592	4,436,647
Furniture and equipment	2,603,011	687,888	121,039	3,169,860
Vehicles	1,331,880		4,500	1,327,380
Library books	446,079	16,060		462,139
Total	\$8,870,519	\$1,153,948	\$167,131	\$9,857,336

B. Proprietary Fund Type Fixed Assets

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	Balance 6/30/02
Furniture, fixtures and equipment	\$144,952
Vehicles	10,800
Total	155,752
Less accumulated depreciation	(147,304)
Net fixed assets	\$8,448

NOTE 7 - DEFERRED REVENUE

Deferred revenue at year-end consisted of:

	Balance 6/30/02
Property taxes	\$7,858,243
Grants	29,540
Federal commodities, unused	4,138
Total	\$7,891,921

NOTE 8 - NOTES PAYABLE

A. Tax Anticipation Notes

The following is a description of the Tax anticipation notes outstanding as of June 30, 2002:

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	Outstanding 6/30/01	Additions	Deductions	Outstanding 6/30/02
Tax anticipation notes (2000) 5.8% through 2005	\$105,000	\$470,000	\$105,000	\$470,000

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
Through November 30, 2002	\$1,840,000
December 1, 2002 through November, 2003	1,380,000
December 1, 2003 through November, 2004	920,000
December 1, 2004 through November, 2005	460,000

B. Energy Conservation Notes

The following is a description of the District's Energy conservation notes outstanding as of June 30, 2002:

	Outstanding 6/30/01	Additions	Deductions	Outstanding 6/30/02
General obligation notes				
Energy conservation, (1998) 5.15% through 2007	\$451,000		\$55,000	\$396,000
Energy conservation, (1999) 4.85% through 2008	167,000		17,000	150,000
Total	\$618,000		\$72,000	\$546,000

NOTE 9 - DEBT SERVICE REQUIREMENTS TO MATURITY

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

Year ending June 30,	Principal	Interest	Total
2003	\$76,000	\$25,739	\$101,739
2004	80,000	21,778	101,778
2005	84,000	17,613	101,613
2006	88,000	13,246	101,246
2007	94,000	8,625	102,625
2008-2009	124,000	4,332	128,332
Total	\$546,000	\$91,333	\$637,333

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NOTE 10 - GENERAL LONG-TERM DEBT

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account groups. Compensated absences and the amount due to other governments will be paid from the fund from which the employee is paid.

	Outstanding 6/30/01	Additions	Deductions	Outstanding 6/30/02
Due to other governments	\$138,828	\$159,686	\$138,828	\$159,686
Notes payable	618,000		72,000	546,000
Capital leases	38,065	133,809	53,332	118,542
Compensated absences	1,322,424	49,840	88,352	1,283,912
Total	<u>\$2,117,317</u>	<u>\$343,335</u>	<u>\$352,512</u>	<u>\$2,108,140</u>

NOTE 11 - CAPITAL LEASES

The Sheffield-Sheffield Lake City School District is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the General Fixed Asset Account Group and the General Long-Term Debt Account Group, respectively. The assets under capital leases totaled \$235,332 at June 30, 2002. 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, 2002.

Year ending June 30,	Amount
2003	\$44,675
2004	43,632
2005	38,416
2006	5,587
Total minimum lease payments	132,310
Less amount representing interest	(13,768)
Net present value of minimum lease payments	<u>\$118,542</u>

NOTE 12 - OPERATING LEASES

Sheffield-Sheffield Lake City School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the district's account groups. During 2002, expenditures for operating leases totaled \$34,656. Minimum lease payments due in 2003 (the last year for these leases) totaled \$14,400.

NOTE 13 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Taxes collected on real property, other than public utility, in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously. The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the District its portion of the taxes collected.

The tax applied to real property collected in 2002 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$55.51 per \$1,000 of valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$32.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$34.22 per \$1,000 of assessed valuation for all other real property. The tax rate applied to tangible personal property for the current year ended June 30, 2002, was \$55.51 per \$1,000 of valuation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year 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 at June 30, 2002 was \$992,325 and is recognized as revenue and a reservation of fund balance.

The property valuation consisted of:

Real Property – 2001	
Residential / Agricultural	\$170,608,290
Commercial / Industrial	59,643,450
Public Utilities	1,298,250
 Tangible Personal Property – 2002	
General	37,656,560
Public Utilities	<u>7,158,600</u>
Total	<u><u>\$276,365,150</u></u>

NOTE 14 - RISK MANAGEMENT

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. The District has a comprehensive property and casualty policy with the Travelers Aetna Insurance Company, which

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

includes boiler coverage. The deductible is \$1,000 per incident. All Board Members, Administrators and employees are covered under a school district liability policy with OSBA/BASA Nationwide Insurance. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 in the aggregate.

The Board President and the Superintendent are covered with surety bonds for \$20,000. A surety bond, in the amount of \$100,000 also covers the Treasurer. These bonds are all with Nationwide Mutual Insurance Company.

Remaining employees who handle money are covered with a public employees blanket bond in the amount of \$5,000. The Nationwide Insurance Company also provides this coverage.

All vehicles are insured with Nationwide Insurance Company and have a \$100 deductible.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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.

The District provides life insurance and accidental death and dismemberment insurance to its employees based on years of service.

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self insured 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 District would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical, dental and vision plan with deductibles of \$50 for single and \$100 for family coverage. Stop loss coverage is provided by a private insurance carrier for all individual claims in excess of \$165,000.

The LERC's pool premiums are billed to each participating 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 District currently reports all of its health care risk management activities in its General Fund. Claims payable is based upon Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires a liability for unpaid claims costs, including estimates of incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can reasonably be estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

Claims payable at June 30, 2002, is estimated by LERC at \$236,443. The change in claims liability for 2002 is as follows:

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

Year	Beginning Balance	Claims	Claims Payments	Ending Balance
2002	<u>\$216,874</u>	<u>\$1,333,140</u>	<u>\$1,313,571</u>	<u>\$236,443</u>

Only the change in liability for the fiscal year 2002 is reported above. Not enough information is available to report the change in liability for 2001.

NOTE 15 - PENSION PLANS

A. School Employees Retirement System (SERS)

The Sheffield-Sheffield Lake City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$133,333, \$86,576 and \$112,611, respectively. The full amount has been contributed for 2001 and 2000. For 2002, 44% has been contributed with the remainder being reported as a fund liability and within the respective funds and the general long-term debt account group.

B. State Teachers Retirement System (STRS)

The Sheffield-Sheffield Lake City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer defined benefit pension plan administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions to STRS for the years ended June 30, 2002, 2001, and 2000 were \$725,984, \$686,359, and \$425,368, respectively. The full amount has been contributed for 2001 and 2000. For 2002, 85% has been contributed with the remainder being reported as a fund liability.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

NOTE 16 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$343,887 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$247,001 during the 2002 fiscal year.

NOTE 17 - RETIREMENT INCENTIVE PLAN

The Board of Education and the Sheffield-Sheffield Lake Teacher Association adopted a retirement incentive policy, effective August 31, 1994. Teachers who retire in the first year they are eligible under STRS shall be paid a retirement incentive bonus in the amount of \$10,000. The amount of early retirement incentive recorded to the general fund is \$10,000 and in the general long-term debt account group is \$45,000. These amounts are part of the compensated absences liability on the balance sheet.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Lake Erie Educational Computer Association (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software package 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, 2002 the District paid approximately \$23,214 to LEECA.

B. Lake Erie Regional Council of Governments (LERC)

The Lake Erie Regional Council of Governments (LERC) is a jointly governed organization among fourteen 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, cooperative purchasing, 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. LERC is governed by a board of directors chosen from the general membership. 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, 2002 the District paid approximately \$1,628,114 to LERC.

C. Lorain County Joint Vocational School District

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for vocational and special education needs of the students. The Board of the Lorain County Joint Vocational School District 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 Sheffield-Sheffield Lake City School District's students may attend the Lorain County Joint Vocational School District. Each school district's control is limited to its representation on the board. Financial information can be obtained by contacting the Lorain County Joint Vocational School District, 15181 State Route 58, Oberlin, Ohio 44074.

NOTE 19 - CONTINGENT LIABILITIES

The District receives financial assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

agency. Any disallowed claims could be liabilities of the general fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the District's financial statements.

NOTE 20 - SCHOOL FUNDING DECISION

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 School 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 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of school food service, uniform school supplies, and community education services. Segment information related to these follows:

	Food Service	Uniform School Supplies	Community Education	Total
Operating revenues	\$230,152	\$51,966		\$282,118
Operating expenses				
Salaries and wages	184,250		\$1,000	185,250
Fringe benefits	80,026		182	80,208
Contractual services	2,049			2,049
Materials and supplies	145,645	47,341		192,986
Depreciation	856			856
Total operating expenses	<u>412,826</u>	<u>47,341</u>	<u>1,182</u>	<u>461,349</u>
Operating income (loss)	(182,674)	4,625	(1,182)	(179,231)
Nonoperating revenues	<u>134,502</u>			<u>134,502</u>
Net income (loss)	<u>(\$48,172)</u>	<u>\$4,625</u>	<u>(\$1,182)</u>	<u>(\$44,729)</u>
Other information				
Net working capital	<u>(\$26,266)</u>	<u>\$25,029</u>		<u>(\$1,237)</u>
Fixed asset disposals	<u>\$560</u>			<u>\$560</u>
Total assets	<u>\$43,714</u>	<u>\$26,490</u>		<u>\$70,204</u>
Total equity	<u>(\$21,728)</u>	<u>\$25,029</u>		<u>\$3,301</u>

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

NOTE 22 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During fiscal year ended June 30, 2002, the reserve activity (cash basis) was as follows:

	Textbook	Capital Maintenance
Balance, July 1, 2001	(\$135,224)	
Required set aside	238,443	\$238,443
Offset credits		
Qualifying expenditures	(353,720)	(569,990)
Balance June 30, 2002	(\$250,501)	(\$331,547)
Cash Balance Carried Forward to FY 2003	(\$250,501)	

The District had offsets and qualifying disbursements during the year that reduced the textbooks and capital acquisition set-aside amounts below zero. The extra amount for textbooks is being carried forward to reduce the set-aside requirements of future years. By law, the extra amount disbursed for Capital Acquisition cannot be carried forward.

NOTE 23 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002, consist of the following fund receivable and payable:

Fund	Receivable	Payable
General Fund	\$21,000	
Enterprise Fund		
Food service		\$15,000
Agency Fund		
Student activities		6,000
Total	\$21,000	\$21,000

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program		10.550
National School Lunch Program		10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	044768-6BSF-02P 044768-6BSF-01P	84.027
Special Education - Preschool Grant	044768-PGS1-02P 044768-PGS1-01P	84.173
Total Special Education Cluster		
Grants to Local Educational Agencies (ESEA Title I)	044768-C1S1-02 044768-C1S1-01	84.010
Total Title I		
Drug-Free Schools Grant	0044768-DRS1-02 0044768-DRS1-01	84.186
Total Drug Free Schools		
Eisenhower Professional Development State Grant	044768-MSS1-02 044768-MSS1-01 044768-MSS1-00	84.281
Total Eisenhower Professional Development State Grant		
Innovative Educational Program Strategies	044768-C2-S1-02 044768-C2-S1-01 044768-C2-S1-00	84.298
Total Innovative Educational Program Strategies		
Technology Literacy Challenge Fund Grants	044768-TF51-01 044768-TF52-01 044768-TF53-01	84.318
Total Technology Literacy Challenge Fund Grants		
Comprehensive School Reform Demonstration	044768-RFS2-01 044768-RFS1-00	84.332
Total Comprehensive School Reform Demonstration		
Class Size Reduction Subsidy	044768-CRS1-02 044768-CRS1-01	84.340
Total Class Size Reduction Subsidy		
Total Department of Education		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passes Through Ohio Department of MRDD:</i>		
Community Alternative Funding Systems		93.778
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
<i>Passed Through Ohio Department of Education:</i>		
Learn and Serve America	04768-SVS2-02	94.004
Total Federal Financial Assistance		

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$31,636		\$30,694
<u>\$98,476</u>		<u>\$98,476</u>	
<u>98,476</u>	<u>31,636</u>	<u>98,476</u>	<u>30,694</u>
145,276		116,645	
10,003		11,552	
7,370		1,996	
		2,137	
<u>162,649</u>		<u>132,330</u>	
136,962		134,858	
		14,307	
<u>136,962</u>		<u>149,165</u>	
7,461		7,461	
		2,782	
<u>7,461</u>		<u>10,243</u>	
7,631		7,494	
656		1,372	
		444	
<u>8,287</u>		<u>9,310</u>	
10,503		7,059	
5,390		7,360	
486		486	
<u>16,379</u>		<u>14,905</u>	
100,000		100,000	
75,000		75,000	
25,000		25,000	
<u>200,000</u>		<u>200,000</u>	
71,900		42,116	
		44,908	
<u>71,900</u>		<u>87,024</u>	
38,289		29,327	
		6,752	
<u>38,289</u>		<u>36,079</u>	
<u>641,927</u>		<u>639,056</u>	
<u>8,545</u>		<u>8,545</u>	
<u>3,000</u>		<u>2,946</u>	
<u>\$751,948</u>	<u>\$31,636</u>	<u>\$749,023</u>	<u>\$30,694</u>

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had \$4,138 in food commodities inventory.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield Village, Ohio 44054-2697

To the Board of Education:

We have audited the financial statements of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 19, 2003, in which we noted the District changed the fund type classification of the Emergency Levy Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving

the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 19, 2003.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 19, 2003



**Auditor of State
Betty Montgomery**

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

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield Village, Ohio 44054-2697

To the Board of Education:

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 are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District 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 have a direct and material effect on a major federal program in order 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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 19, 2003

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002

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)?	No
(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):	Technology Literacy Grant CFDA #84.318
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 18, 2003**