

CITY OF SHEFFIELD LAKE, OHIO
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the City of Sheffield Lake, Lorain County, prepared by Costin + Company for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

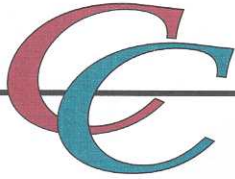
BETTY MONTGOMERY
Auditor of State

October 17, 2005

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road
North Ridgeville, OH 44039INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Sheffield Lake, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sheffield Lake, Ohio (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Roads-Income Tax Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments, and restated capital assets in the governmental type activities.

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2005, on our consideration of the City'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 Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

North Ridgeville, Ohio
July 21, 2005

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The management's discussion and analysis of the City of Sheffield Lake's financial performance presents a narrative overview and analysis of the City's financial activities for the year ended December 31, 2004. The intent of the discussion and analysis is to present the City's financial performance as a whole. Readers are encouraged to consider this information in conjunction with the basic financial statements and notes to financial statements for an enhanced understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 were as follows.

- Total net assets decreased by 12.8% to \$ 24,440,844 at December 31, 2004.
- Total invested in capital assets, net of related debt, decreased by 11.4% to \$ 21,638,233.
- Total assets decreased by 10.2% to \$ 32,709,547 at December 31, 2004.
- Total liabilities decreased by .4% to \$ 8,268,703 at December 31, 2004.
- Equity in pooled cash decreased by 10.2% to \$ 2,837,358.

Overview of Financial Statements

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

Government-wide Financial Statements

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

Fund Financial Statements

Governmental fund financial statements focus on the City's most significant, or major funds. The City's major governmental funds are the General Fund and the Road - Income Tax Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities for the year ended December 31, 2004 is presented. The City, similar to other local governments, uses fund accounting to ensure and demonstrate finance related legal requirements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Fund Categories

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

Governmental funds

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

Proprietary funds

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

Fiduciary funds

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

Notes to the Basic Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The City of Sheffield Lake as a Whole

Analysis of Net Assets

The *Statement of Net Assets* presents the City as a whole. Following is a summary of the City's net assets for 2004 compared to 2003.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 4,296,811	\$ 4,265,668	\$ 1,741,352	\$ 2,508,534	\$ 6,038,163	\$ 6,774,202
Capital assets, net	20,231,185	23,455,616	6,440,199	6,129,443	26,671,384	29,585,059
Total assets	<u>24,527,996</u>	<u>27,721,284</u>	<u>8,181,551</u>	<u>8,637,977</u>	<u>32,709,547</u>	<u>36,359,261</u>
Liabilities						
Current liabilities	2,083,725	1,784,685	256,005	290,110	2,339,730	2,074,795
Long-term liabilities	2,944,453	3,099,401	2,984,520	3,129,770	5,928,973	6,229,171
Total liabilities	<u>5,028,178</u>	<u>4,884,086</u>	<u>3,240,525</u>	<u>3,419,880</u>	<u>8,268,703</u>	<u>8,303,966</u>
Net assets						
Invested in capital assets, net of related debt	18,112,220	21,194,843	3,526,013	3,215,257	21,638,233	24,410,100
Restricted	1,205,226	1,467,644	-	-	1,205,226	1,467,644
Unrestricted	182,372	174,711	1,415,013	1,987,840	1,597,385	2,162,551
Total net assets	<u>\$ 19,499,818</u>	<u>\$ 22,837,198</u>	<u>\$ 4,941,026</u>	<u>\$ 5,203,097</u>	<u>\$ 24,440,844</u>	<u>\$ 28,040,295</u>

Investment in capital assets (land, construction in progress, buildings and improvements, equipment and vehicles and infrastructure) less any related debt to acquire those assets still outstanding represents the largest portion of net assets. Capital assets are used to provide services to the City's citizens, however, are not available for future spending. Total assets decreased by \$ 3,649,714 to \$ 32,709,547, due primarily to depreciation of capital assets. Current assets decreased by \$ 736,039. to \$ 6,038,163, which included a decrease in equity in pooled cash of \$ 321,820 due primarily to the City's payment of debt. Current liabilities increased by \$ 264,935 to \$ 2,339,730 primarily due to accounts payable. Long-term liabilities decreased by \$ 300,198 to \$ 5,928,973 primarily due to debt repayments. Total net assets decreased by \$ 3,599,451 to \$ 24,440,844, with governmental net assets comprising \$ 19,499,818 and business-type net assets comprising \$ 4,941,026 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Analysis of Changes in Net Assets

To understand what makes up changes in net assets, following are results of activities for the current year. However, since this is the first year that the City has prepared its financial statements under the new reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), revenue and expense comparisons to 2003 are not available. A comparative analysis of government-wide data will be presented in future years.

Change in Net Assets

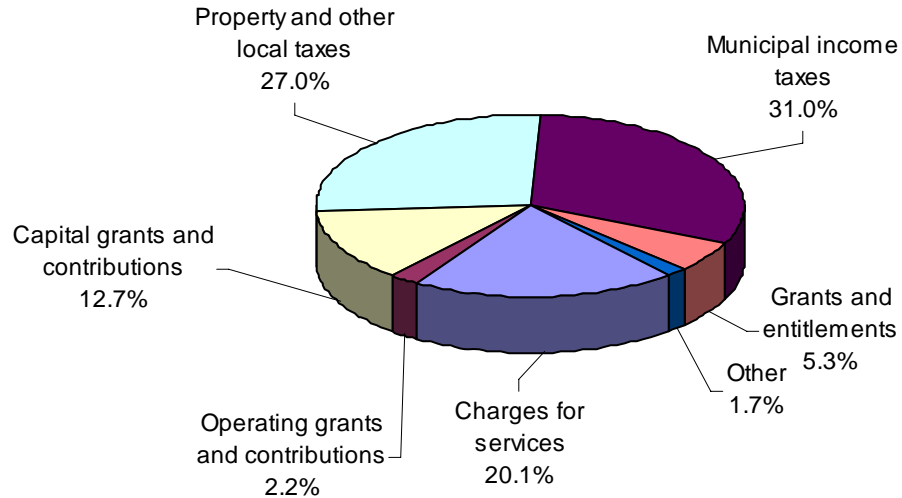
	Governmental Activities	Business-type Activites	Total
Revenues			
Program revenues			
Charges for services	\$ 1,075,594	\$ 1,667,704	\$ 2,743,298
Operating grants and contributions	118,464	-	118,464
Capital grants and contributions	84,269	110,232	194,501
Total program revenues	<u>1,278,327</u>	<u>1,777,936</u>	<u>3,056,263</u>
General revenues			
Property and other local taxes	1,441,923	-	1,441,923
Municipal income taxes	1,659,323	-	1,659,323
Grants and entitlements	878,725	-	878,725
Other	91,395	25,127	116,522
Total general revenues	<u>4,071,366</u>	<u>25,127</u>	<u>4,096,493</u>
Total revenues	<u>5,349,693</u>	<u>1,803,063</u>	<u>7,152,756</u>
Program expenses			
Security of persons and property	2,808,435	-	2,808,435
Public health and welfare	35,956	-	35,956
Leisure time activities	78,138	-	78,138
Community environment	136,030	-	136,030
Basic utility services	609,574	-	609,574
Transportation	4,161,699	-	4,161,699
General government	744,993	-	744,993
Interest	112,248	-	112,248
Water	-	717,954	717,954
Sewer	-	1,035,381	1,035,381
Storm water	-	311,799	311,799
Total program expenses	<u>8,687,073</u>	<u>2,065,134</u>	<u>10,752,207</u>
Decrease in net assets	(3,337,380)	(262,071)	(3,599,451)
Net assets, beginning of year	<u>22,837,198</u>	<u>5,203,097</u>	<u>28,040,295</u>
Net assets, end of year	<u>\$ 19,499,818</u>	<u>\$ 4,941,026</u>	<u>\$ 24,440,844</u>

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Governmental activities

Revenues by source of governmental activities for 2004 were comprised of:

Revenues by Source, Governmental Activities



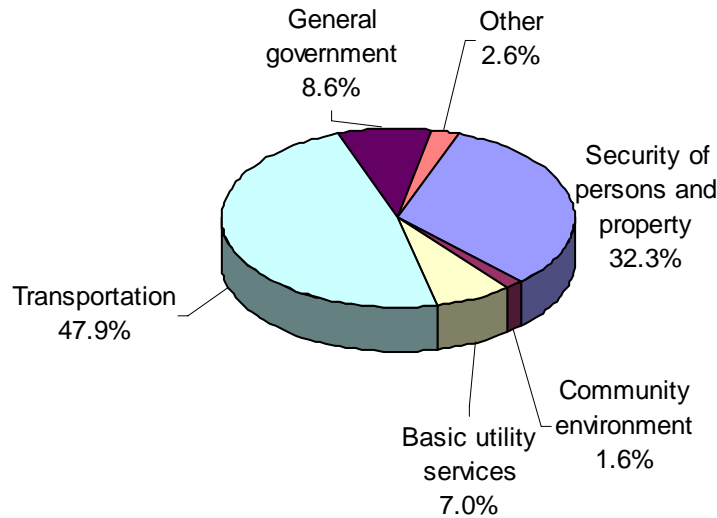
Revenues

Municipal Income Tax represented the largest portion of general revenue and 31.0% of total revenues in 2004. Property and other local taxes were also a large source of general revenues and 27.0% of total revenues, followed by charges for services of 20.1%.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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Program expenses of governmental activities for 2004 were comprised of:

Program Expenses, Governmental Activities



Program expenses

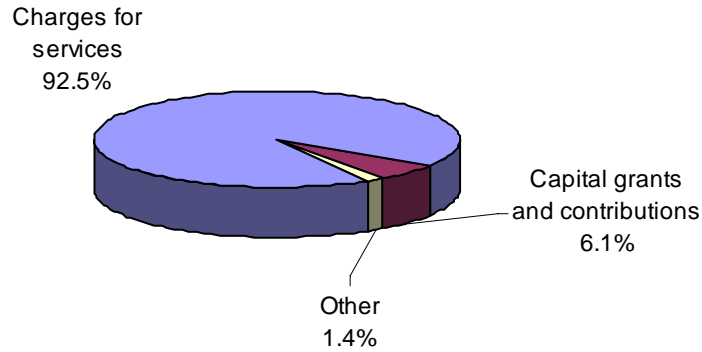
Program expenses amounted to \$ 8,687,073 in 2004, of which \$ 1,873,727 was provided by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 2,808,435 or 32.3% of total program expenses. Community environment represented \$ 136,030 or 1.6%. Basic utilities services of \$ 609,574 or 7.0% includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 4,161,699 or 47.9% of program expenses. General government represented \$ 744,993 or 8.6% of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, leisure time activities, including recreation activities and maintenance of the City's park system, public health and welfare, and interest amounted to \$ 226,342 or 2.6%.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Business-type activities

Revenues by source for business-type activities for 2004 were comprised of:

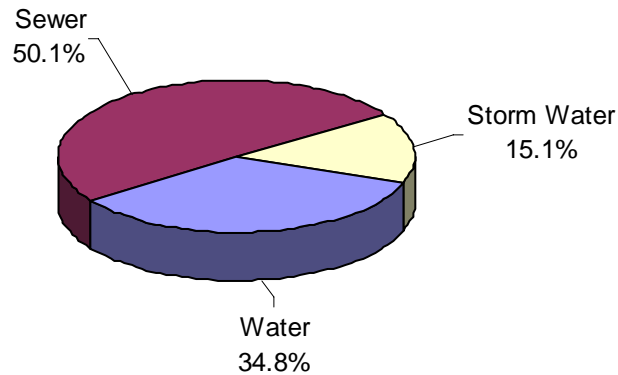
Revenue by Source, Business-type Activities



Revenues

Charges for services represented 92.5% of total revenues for business-type activities in 2004. Capital grants and contributions totaled 6.1% and other general revenues represented the remaining 1.4% of total revenues, consisting primarily of interest income.

Expenses, Business-type Activities



Expenses

Water operations expenses amounted to \$ 717,954 or 34.8%. Sanitary sewer operations expenses amounted to \$ 1,035,381 or 50.1% of total program expenses and storm water operation expenses amounted to \$ 311,799 or 15.1% for business-type activities. Water operations, sanitary sewer operations and storm water operations have historically been self-supporting through user fees and charges.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Budgetary Highlights

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

The general fund is the City's most significant budgeted fund. Original budgeted receipts (excluding other sources) for the general fund were \$ 3,391,529 and final budgeted receipts were \$ 2,475,026. Original appropriations were \$ 3,410,087. The City actually expended \$ 2,325,592 which was \$ 1,084,495 less than originally appropriated. The City historically spends less than appropriated. For 2004, actual expenditures were 94.7% of final appropriations.

Capital Assets

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

	Governmental Activities		Business type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 484,539	\$ 484,539	\$ 153,910	\$ 153,910	\$ 638,449	\$ 638,449
Construction in progress	125,799	17,395	506,523	349,557	632,322	366,952
Buildings and improvements	508,401	420,372	137,242	140,259	645,643	560,631
Equipment and vehicles	531,105	639,826	152,320	173,833	683,425	813,659
Infrastructure	18,581,341	21,893,484	5,490,204	5,311,884	24,071,545	27,205,368
	<u>\$ 20,231,185</u>	<u>\$ 23,455,616</u>	<u>\$ 6,440,199</u>	<u>\$ 6,129,443</u>	<u>\$ 26,671,384</u>	<u>\$ 29,585,059</u>

Capital assets are major assets that benefit more than one fiscal year. Concurrent with implementation of GASB 34 in 2004, the City adopted three significant changes related to capital assets. First, the City increased its capitalization threshold to \$ 5,000 from \$ 500, by which asset cost must equal \$ 5,000 or more to be capitalized. Second, capital assets under governmental activities are now depreciated. Previously, only capital assets under business-type activities (enterprise funds) were depreciated. Third, infrastructure is a new reporting category under governmental activities. Infrastructure assets are long-lived capital assets that are normally stationary in nature with a useful life significantly greater than most capital assets. The City's governmental infrastructure includes streets, bridges, culverts, sidewalks. Previously, infrastructure consisting of water distribution systems, sanitary sewer collection systems and the storm water collection systems, were only reported under business-type activities.

The City's total capital assets, net of depreciation, under governmental activities were \$ 20,231,185 at December 31, 2004, which was \$ 3,224,431 lower than the previous year. Business-type capital assets, net of depreciation, increased by \$ 310,756 to \$ 6,440,199, due to additions to infrastructure and construction in progress.

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Debt

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

	Governmental Activities		Business type Activities		Total	
	2004	2003	2004	2003	2004	2003
Long-term notes	\$ 273,000	\$ 313,000	\$ 300,000	\$ 330,000	\$ 573,000	\$ 643,000
OPWC loans	56,863	30,655	414,186	439,424	471,049	470,079
General obligation bonds	1,733,000	1,839,000	2,200,000	2,300,000	3,933,000	4,139,000
Special assessment bonds	39,033	52,033	-	-	39,033	52,033
Capital lease	17,069	26,085	-	-	17,069	26,085
Accrued leave benefits	825,488	838,628	70,334	60,346	895,822	898,974
	<u>\$ 2,944,453</u>	<u>\$ 3,099,401</u>	<u>\$ 2,984,520</u>	<u>\$ 3,129,770</u>	<u>\$ 5,928,973</u>	<u>\$ 6,229,171</u>

As of December 31, 2004, the City had \$ 5,928,973 of total debt outstanding with \$ 618,943 due within one year.

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Economic Factors and Next Year's Budget

In reaction to current economic conditions, the City reduced budget appropriations over controllable expenses for 2004 and 2005. In preparing its 2005 budget, the City utilized a conservative economic forecast for revenue growth and a zero-based approach to expenditure appropriations. The City continues to monitor revenue receipts closely for 2005 and will adjust the budget as deemed necessary. City services have not been significantly affected.

Requests for Information

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 1,354,714	\$ 1,482,644	\$ 2,837,358
Accounts receivable	129,906	256,408	386,314
Due from other governments	425,440	-	425,440
Inventories and supplies	9,210	-	9,210
Prepaid and deferred expenses	28,400	2,300	30,700
Income taxes receivable	691,200	-	691,200
Taxes receivable - property and other	1,573,900	-	1,573,900
Special assessments receivable	84,041	-	84,041
Capital assets			
Nondepreciable capital assets	610,338	660,433	1,270,771
Depreciable capital assets, net	19,620,847	5,779,766	25,400,613
Total assets	24,527,996	8,181,551	32,709,547
Liabilities			
Accounts and contracts payable	376,672	125,014	501,686
Accrued salaries, wages and benefits	90,838	16,709	107,547
Accrued interest payable	10,971	14,055	25,026
Matured bonds and coupons payable	749	-	749
Due to other governments	131,095	100,227	231,322
Unearned revenue	1,473,400	-	1,473,400
Long term liabilities			
Due within one year	493,705	125,238	618,943
Due in more than one year	2,450,748	2,859,282	5,310,030
Total liabilities	5,028,178	3,240,525	8,268,703
Net assets			
Invested in capital assets, net of related debt	18,112,220	3,526,013	21,638,233
Restricted for:			
Debt service	383,388	-	383,388
Capital projects	51,878	-	51,878
Highways and streets	453,361	-	453,361
Public safety	162,022	-	162,022
Recreation	72,495	-	72,495
Community environment	63,184	-	63,184
Other purposes	18,898	-	18,898
Unrestricted	182,372	1,415,013	1,597,385
Total net assets	\$ 19,499,818	\$ 4,941,026	\$ 24,440,844

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions
Governmental activities				
Security of persons and property	\$ 2,808,435	\$ 189,135	\$ 95,911	\$ -
Public health and welfare	35,956	-	-	-
Leisure time activities	78,138	29,610	-	34,799
Community environment	136,030	55,642	-	-
Basic utility services	609,574	557,671	-	-
Transportation	4,161,699	-	-	49,470
General government	744,993	243,536	22,553	-
Interest	112,248	-	-	-
Total governmental activities	<u>8,687,073</u>	<u>1,075,594</u>	<u>118,464</u>	<u>84,269</u>
Business-type activities:				
Water	717,954	490,516	-	-
Sewer	1,035,381	837,034	-	-
Storm Water	311,799	340,154	-	110,232
Total business-type activities	<u>2,065,134</u>	<u>1,667,704</u>	<u>-</u>	<u>110,232</u>
Total	<u>\$ 10,752,207</u>	<u>\$ 2,743,298</u>	<u>\$ 118,464</u>	<u>\$ 194,501</u>

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

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

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,523,389)	\$ -	\$ (2,523,389)
(35,956)	-	(35,956)
(13,729)	-	(13,729)
(80,388)	-	(80,388)
(51,903)	-	(51,903)
(4,112,229)	-	(4,112,229)
(478,904)	-	(478,904)
(112,248)	-	(112,248)
<u>(7,408,746)</u>	<u>-</u>	<u>(7,408,746)</u>
-	(227,438)	(227,438)
-	(198,347)	(198,347)
-	138,587	138,587
-	(287,198)	(287,198)
<u>(7,408,746)</u>	<u>(287,198)</u>	<u>(7,695,944)</u>
329,315	-	329,315
75,942	-	75,942
1,036,666	-	1,036,666
1,178,752	-	1,178,752
480,571	-	480,571
878,725	-	878,725
18,140	21,067	39,207
73,255	4,060	77,315
<u>4,071,366</u>	<u>25,127</u>	<u>4,096,493</u>
(3,337,380)	(262,071)	(3,599,451)
22,837,198	5,203,097	28,040,295
<u>\$ 19,499,818</u>	<u>\$ 4,941,026</u>	<u>\$ 24,440,844</u>

CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Roads - Income Tax	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 387,076	\$ 52,769	\$ 914,120	\$ 1,353,965
Cash and investments with fiscal agents	-	-	749	749
Income taxes receivables	552,960	138,240	-	691,200
Property taxes receivable	367,100	-	1,206,800	1,573,900
Special assessments receivable	-	-	84,041	84,041
Due from other governments	166,016	-	259,424	425,440
Accounts and other	37,381	-	92,525	129,906
Interfund receivable	-	-	2,117	2,117
Inventories and supplies	5,566	-	3,644	9,210
Prepaid expenses	25,900	-	2,500	28,400
Total assets	\$ 1,541,999	\$ 191,009	\$ 2,565,920	\$ 4,298,928
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 45,459	\$ 55,833	\$ 275,380	\$ 376,672
Accrued wages and benefits	79,335	-	11,503	90,838
Matured bonds and coupons payable	-	-	749	749
Due to other governments	15,359	-	800	16,159
Interfund payable	-	-	2,117	2,117
Unearned revenue	952,021	110,108	1,539,241	2,601,370
Accrued leave benefits	88,948	-	-	88,948
Total liabilities	1,181,122	165,941	1,829,790	3,176,853
Fund balances				
Reserved for inventory	5,566	-	3,644	9,210
Reserved for prepaids	25,900	-	2,500	28,400
Reserved for encumbrances	9,739	-	69,565	79,304
Unreserved, reported in				
General fund	319,672	-	-	319,672
Special revenue funds	-	25,068	372,521	397,589
Debt service funds	-	-	289,847	289,847
Capital projects funds	-	-	(1,947)	(1,947)
Total fund balances	360,877	25,068	736,130	1,122,075
Total liabilities and fund balances	\$ 1,541,999	\$ 191,009	\$ 2,565,920	\$ 4,298,928

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

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental funds balances		\$	1,122,075
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.			20,231,185
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Property and other local taxes	100,500		
Municipal income tax	550,539		
Intergovernmental	392,890		
Special assessments	84,041		
Total	1,127,970		1,127,970
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available resources and therefore not reported in the funds.			(114,936)
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(10,971)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Notes payable	(273,000)		
OPWC loans payable	(56,863)		
General obligation bonds	(1,733,000)		
Special assessment bonds	(39,033)		
Capital leases	(17,069)		
Accrued leave benefits	(736,540)		
	(2,855,505)		(2,855,505)
Net assets of governmental activities		\$	19,499,818

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Roads - Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and other local taxes	\$ 331,715	\$ -	\$ 1,117,708	\$ 1,449,423
Municipal income taxes	1,335,220	519,688	-	1,854,908
Intergovernmental revenue	360,424	-	682,381	1,042,805
Special assessments	-	-	33,213	33,213
Charges for services	244,662	-	557,671	802,333
Fines, licenses, and permits	189,429	-	13,753	203,182
Interest	16,232	-	1,908	18,140
Miscellaneous	66,983	-	11,512	78,495
Total revenues	2,544,665	519,688	2,418,146	5,482,499
Expenditures				
Current				
Security of persons and property	1,399,764	-	1,182,728	2,582,492
Public health and welfare	35,956	-	-	35,956
Leisure time activities	81,616	-	9,633	91,249
Community environment	128,592	-	149,427	278,019
Basic utility services	-	-	609,570	609,570
Transportation	-	538,109	340,756	878,865
General government	690,883	-	11,907	702,790
Capital outlay	-	-	118,696	118,696
Debt service				
Note principal	-	205,000	108,000	313,000
Bond principal	-	-	119,000	119,000
OPWC loan principal	2,358	-	-	2,358
Capital lease principal	4,812	-	4,204	9,016
Interest and fiscal charges	879	8,947	102,564	112,390
Total expenditures	2,344,860	752,056	2,756,485	5,853,401
Excess (deficiency) of revenues over expenditures	199,805	(232,368)	(338,339)	(370,902)
Other financing sources (uses)				
Transfers-in	-	-	173,416	173,416
Note proceeds	-	188,566	113,000	301,566
Transfers-out	(60,334)	(113,082)	-	(173,416)
Total other financing sources (uses)	(60,334)	75,484	286,416	301,566
Excess (deficiency) of revenues over expenditures and other sources (uses)	139,471	(156,884)	(51,923)	(69,336)
Fund balances, beginning of year, as restated	221,406	181,952	788,053	1,191,411
Fund balances, end of year	\$ 360,877	\$ 25,068	\$ 736,130	\$ 1,122,075

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

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds	\$	(69,336)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded net capital outlay in the current period.</p>		
Capital outlay	345,888	
Depreciation expense	<u>(3,570,319)</u>	(3,224,431)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Municipal income tax	(195,585)	
Property and other local taxes	(7,500)	
Special assessments	(17,923)	
Intergovernmental revenue	<u>(5,637)</u>	(226,645)
<p>Note and loan proceeds are an other financing source in the funds, but increase long-term liabilities in the Statement of Net Assets</p>		
		(301,566)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Note principal paid	313,000	
OPWC loan principal paid	2,358	
Bond principal paid	119,000	
Capital lease principal paid	<u>9,016</u>	443,374
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		142
<p>Some expenses reported in the statement of activities, such as accrued leave benefits and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Accrued leave benefits	46,140	
Intergovernmental payable	<u>(5,058)</u>	<u>41,082</u>
Change in net assets of governmental activities	\$	<u><u>(3,337,380)</u></u>

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Property and other local taxes	\$ 454,549	\$ 331,715	\$ 331,715	-
Municipal income taxes	1,751,313	1,278,051	1,278,051	-
Intergovernmental revenue	490,968	358,292	358,292	-
Charges for services	321,988	234,976	234,976	-
Fines, licenses, and permits	259,575	189,429	189,429	-
Interest	21,349	15,580	16,232	652
Miscellaneous	91,787	66,983	66,983	-
Total revenues	<u>3,391,529</u>	<u>2,475,026</u>	<u>2,475,678</u>	<u>652</u>
Expenditures				
Current				
Security of persons and property	1,902,107	1,370,064	1,353,113	16,951
Public health and welfare	53,888	38,815	36,464	2,351
Leisure time activities	128,095	92,265	82,621	9,644
Community environment	183,518	132,186	127,106	5,080
General government	1,139,205	820,555	723,930	96,625
Debt service				
OPWC loan principal	3,274	2,358	2,358	-
Total expenditures	<u>3,410,087</u>	<u>2,456,243</u>	<u>2,325,592</u>	<u>130,651</u>
Excess (deficiency) of revenues over expenditures	<u>(18,559)</u>	<u>18,783</u>	<u>150,086</u>	<u>131,303</u>
Other financing sources (uses)				
Advances-in	-	17,784	17,784	-
Transfers-out	-	(68,034)	(60,334)	7,700
Advances-out	-	(17,784)	(17,784)	-
Total other financing sources (uses)	<u>-</u>	<u>(68,034)</u>	<u>(60,334)</u>	<u>7,700</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(18,559)</u>	<u>(49,251)</u>	<u>89,752</u>	<u>139,003</u>
Prior year encumbrances	3,283	3,283	3,283	-
Fund balances, beginning of year	<u>239,091</u>	<u>239,091</u>	<u>239,091</u>	<u>-</u>
Fund balances, end of year	<u>\$ 223,815</u>	<u>\$ 193,123</u>	<u>\$ 332,126</u>	<u>\$ 139,003</u>

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004

	Roads - Income Tax Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Municipal income taxes	\$ 240,000	\$ 505,396	\$ 505,396	\$ -
Total revenues	<u>240,000</u>	<u>505,396</u>	<u>505,396</u>	<u>-</u>
Expenditures				
Current				
Transportation	203,761	495,000	489,829	5,171
Debt service				
Note principal	205,000	205,000	205,000	-
Interest and fiscal charges	8,947	8,947	8,947	-
Total expenditures	<u>417,708</u>	<u>708,947</u>	<u>703,776</u>	<u>5,171</u>
Excess (deficiency) of revenues over expenditures	<u>(177,708)</u>	<u>(203,551)</u>	<u>(198,380)</u>	<u>5,171</u>
Other financing sources (uses)				
Note proceeds	160,000	160,000	160,000	-
Transfers-out	-	(113,082)	(113,082)	-
Total other financing sources (uses)	<u>160,000</u>	<u>46,918</u>	<u>46,918</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(17,708)</u>	<u>(156,633)</u>	<u>(151,462)</u>	<u>5,171</u>
Prior year encumbrances	-	-	-	-
Fund balances, beginning of year	<u>168,112</u>	<u>168,112</u>	<u>168,112</u>	<u>-</u>
Fund balances, end of year	<u>\$ 150,404</u>	<u>\$ 11,479</u>	<u>\$ 16,650</u>	<u>\$ 5,171</u>

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FUND NET ASSETS -
PROPRIETARY FUNDS
DECEMBER 31, 2004

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Assets				
Equity in pooled cash	\$ 189,115	\$ 536,406	\$ 757,123	\$ 1,482,644
Accounts and other	74,214	129,537	52,657	256,408
Prepaid expenses	1,500	800	-	2,300
Nondepreciable capital assets	-	33,500	626,933	660,433
Depreciable capital assets, net	558,512	532,879	4,688,375	5,779,766
Total assets	823,341	1,233,122	6,125,088	8,181,551
Liabilities				
Current				
Accounts and contracts payable	35,856	65,914	23,244	125,014
Accrued wages and benefits	6,034	9,050	1,625	16,709
Accrued interest payable	4,020	-	10,035	14,055
Due to other governments	89,391	8,655	2,181	100,227
OPWC loans payable	-	3,000	22,238	25,238
General obligation bonds payable	-	-	100,000	100,000
Total current liabilities	135,301	86,619	159,323	381,243
Long-term liabilities				
Notes payable	300,000	-	-	300,000
OPWC loans payable	-	10,500	378,448	388,948
General obligation bonds payable	-	-	2,100,000	2,100,000
Accrued leave benefits	27,778	41,667	889	70,334
Total long-term liabilities	327,778	52,167	2,479,337	2,859,282
Total liabilities	463,079	138,786	2,638,660	3,240,525
Net assets				
Investment in capital assets, net of related debt	258,512	552,879	2,714,622	3,526,013
Unrestricted	101,750	541,457	771,806	1,415,013
Total net assets	\$ 360,262	\$ 1,094,336	\$ 3,486,428	\$ 4,941,026

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Operating revenues				
Charges for services	\$ 490,516	\$ 837,034	\$ 340,154	\$ 1,667,704
Miscellaneous	-	-	4,060	4,060
Total operating revenues	<u>490,516</u>	<u>837,034</u>	<u>344,214</u>	<u>1,671,764</u>
Operating expenses				
Personal services	182,887	240,137	12,086	435,110
Contractual services	353,795	594,478	54,226	1,002,499
Capital outlay	69,106	78,793	-	147,899
Supplies and materials	22,127	33,565	5,943	61,635
Other operating	5,631	4,104	-	9,735
Depreciation	71,789	84,304	114,261	270,354
Total operating expenses	<u>705,335</u>	<u>1,035,381</u>	<u>186,516</u>	<u>1,927,232</u>
Operating income (loss)	<u>(214,819)</u>	<u>(198,347)</u>	<u>157,698</u>	<u>(255,468)</u>
Nonoperating revenues (expenses)				
Interest income	-	-	21,067	21,067
Interest and fiscal charges	(12,619)	-	(125,283)	(137,902)
Net nonoperating revenues (expenses)	<u>(12,619)</u>	<u>-</u>	<u>(104,216)</u>	<u>(116,835)</u>
Income (loss) before contributions	(227,438)	(198,347)	53,482	(372,303)
Capital contributions	<u>-</u>	<u>-</u>	<u>110,232</u>	<u>110,232</u>
Change in net assets	(227,438)	(198,347)	163,714	(262,071)
Retained earnings, beginning of year, as restated	<u>587,700</u>	<u>1,292,683</u>	<u>3,322,714</u>	<u>5,203,097</u>
Retained earnings, end of year	<u>\$ 360,262</u>	<u>\$ 1,094,336</u>	<u>\$ 3,486,428</u>	<u>\$ 4,941,026</u>

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 487,611	\$ 831,121	\$ 341,362	\$ 1,660,094
Cash paid to suppliers for materials and supplies	(56,031)	(73,077)	14,353	(114,755)
Cash paid for employee services and benefits	(180,252)	(236,178)	(71,145)	(487,575)
Cash paid for contractual services	(277,317)	(578,847)	(31,270)	(887,434)
Other operating revenues	-	-	4,060	4,060
Other operating expenses	(2,881)	(4,104)	-	(6,985)
Net cash provided by (used in) operating activities	<u>(28,870)</u>	<u>(61,085)</u>	<u>257,360</u>	<u>167,405</u>
Cash flows from capital and related financing activities:				
Issuance of notes	630,000	-	-	630,000
Note principal payment	(660,000)	-	-	(660,000)
OPWC loans payments	-	(3,000)	(22,238)	(25,238)
Bond principal payments	-	-	(100,000)	(100,000)
Interest payments	(13,500)	-	(125,725)	(139,225)
Acquisition of fixed assets	-	-	(470,878)	(470,878)
Net cash (used in) capital and related financing activities	<u>(43,500)</u>	<u>(3,000)</u>	<u>(718,841)</u>	<u>(765,341)</u>
Cash flows from investing activities:				
Interest income	-	-	21,067	21,067
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>21,067</u>	<u>21,067</u>
Net (decrease) in cash and equivalents	(72,370)	(64,085)	(440,414)	(576,869)
Equity in pooled cash and equivalents, beginning of year	<u>261,485</u>	<u>600,491</u>	<u>1,197,537</u>	<u>2,059,513</u>
Equity in pooled cash and equivalents, end of year	<u>\$ 189,115</u>	<u>\$ 536,406</u>	<u>\$ 757,123</u>	<u>\$ 1,482,644</u>

(Continued)

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Concluded)

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (214,819)	\$ (198,347)	\$ 157,698	\$ (255,468)
Adjustments:				
Depreciation	71,789	84,304	114,261	270,354
Changes in net assets (increase) decrease and liabilities increase (decrease)				
Accounts receivable and other	(2,905)	(5,913)	(2,362)	(11,180)
Due from other governments	-	-	201,363	201,363
Prepaid expenses	100	30	-	130
Accounts and contracts payable	34,866	54,952	(207,041)	(117,223)
Accrued salaries, wages and benefits	1,306	2,111	29	3,446
Due to other governments	76,800	(4,212)	(6,593)	65,995
Accrued leave benefits	3,993	5,990	5	9,988
Net cash provided by (used in) operating activities	<u>\$ (28,870)</u>	<u>\$ (61,085)</u>	<u>\$ 257,360</u>	<u>\$ 167,405</u>

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2004

	<u>Agency Funds</u>
Assets	
Equity in pooled cash	\$ 104,249
Cash and investments with fiscal agents	5,476
Property taxes receivable	209,200
Due from other governments	10,500
Total assets	<u>\$ 329,425</u>
Liabilities	
Accounts payable	\$ 85
Due to others	109,640
Due to other governments	219,700
Total liabilities	<u>\$ 329,425</u>

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

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

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency funds account for assets of the Domonkas Library, mayor's court collections, and deposits from citizens, contractors and developers.

C. MEASUREMENT FOCUS

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements

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

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

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

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

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions (continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. BUDGETARY PROCESS

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

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

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

F. CASH AND CASH EQUIVALENTS

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

G. INVESTMENTS

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

During the year, the City invested funds in the State Treasury Assets Reserve (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

H. INVENTORIES

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

I. CAPITAL ASSETS

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of streets, bridges, culverts, curbs, sidewalks, storm sewers, and water and sanitary sewer systems. Improvements are capitalized; whereas the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. INTERFUND BALANCES

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

K. UNPAID COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

L. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

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

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

M. FUND BALANCE RESERVES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. NET ASSETS

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. CONTRIBUTIONS OF CAPITAL

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

Q. INTERFUND ACTIVITY

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

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

R. EXTRAORDINARY AND SPECIAL ITEMS

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

S. USE OF ESTIMATES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

A. CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the City implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one separate column.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. RESTATEMENT OF FUND BALANCE

An adjustment has been made to correct prior years' accrual of revenue from municipal income taxes and estate taxes, interest expense and the classification of bond anticipation notes from current liabilities to long-term liabilities. The Refuse Fund was previously reported as an enterprise fund and has been reclassified to a special revenue fund.

The implementation of the changes in accounting principles and the corrections of prior years' accruals had the following effects on fund balance of major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY
(continued)

B. RESTATEMENT OF FUND BALANCE

	General Fund	Roads- Income Tax Fund	Nonmajor	Total Governmental Activities
Fund balances,				
December 31, 2003	\$ 212,928	\$ (29,693)	\$ 567,215	\$ 750,450
Refuse fund reclassification	-	-	113,843	113,843
Capital assets, net			(2,368)	(2,368)
Revenue accruals	37,609	4,554	-	42,163
Expenditure accruals	-	-	174	174
Notes payable	-	205,000	108,000	313,000
Accrued interest	-	2,091	1,189	3,280
Compensated absences	(29,131)	-	-	(29,131)
Restated fund balances,				
December 31, 2003	<u>\$ 221,406</u>	<u>\$ 181,952</u>	<u>\$ 788,053</u>	1,191,411
GASB 34 adjustments:				
Capital assets				23,455,616
Long-term assets				1,354,615
Long-term liabilities				(3,164,444)
Governmental activities net assets, December 31, 2003				<u>\$ 22,837,198</u>

The implementation of these changes, along with an adjustment to correct certain infrastructure previously reported, had the following effect on net assets for business-type activities and on fund net assets at December 31, 2003.

	Water Fund	Sewer Fund	Storm Water Fund	Refuse Fund	Total Business-type Activities
Fund equity, December 31, 2003	\$ (30,492)	\$ 2,074,023	\$ 205,499	\$ 113,843	\$ 2,362,873
Correction of capital assets	618,192	(781,340)	3,117,215	-	2,954,067
Refuse fund reclassification	-	-	-	(113,843)	(113,843)
Business-type activities net assets, December 31, 2003	<u>\$ 587,700</u>	<u>\$ 1,292,683</u>	<u>\$ 3,322,714</u>	<u>\$ -</u>	<u>\$ 5,203,097</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 4 BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and the Roads - Income Tax Fund.

	Net Change in Fund Balance	
	General Fund	Roads - Income Tax Fund
Budget basis	\$ 89,752	\$ (151,462)
Adjustments, increase (decrease)		
Revenue accruals	51,203	14,292
Expenditure accruals	(1,484)	(19,714)
GAAP basis, as reported	\$ 139,471	\$ (156,884)

NOTE 5 POOLED CASH AND EQUIVALENTS, DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the City into three categories, active, inactive and interim.

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

Inactive deposits are public deposits that the City 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.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5 POOLED CASH AND EQUIVALENTS, DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

- 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 and 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 market daily, and that 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) 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, and
- 6) The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of tax exempt 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 City and must be purchased with the expectation that it will be held until maturity.

Protection of the City'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.

The City maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the statement of net assets and the combined balance sheet as "Equity in pooled cash."

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5 POOLED CASH AND EQUIVALENTS, DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS AND CASH ON HAND

At year-end, the carrying amount of the City's deposits was \$ 270,608 and the bank balance was \$ 298,971. Of the bank balance, \$ 200,000 is covered by federal depository insurance and \$ 98,971 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

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 City or its agent in the City'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 City'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 City'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.

Investments are categorized to give an indication of the level of risk assumed by an entity at year-end. The City invests in STAR Ohio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form. The City's interest in STAR Ohio has a carrying value and fair value of \$ 2,676,475 at December 31, 2004.

NOTE 6 RECEIVABLES

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and accounts (billings for utility service).

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

A. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 6 RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2004 was \$ 19.99 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Property valuation consisted of:	
Real property	
Residential/agricultural	\$ 128,440,060
Commercial/industrial	14,334,280
Tangible personal property	
General	4,916,420
Public utilities	2,356,080
Total valuation	<u><u>\$ 150,046,840</u></u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Sheffield Lake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 RECEIVABLES (continued)

B. INCOME TAXES

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

Of the income taxes collected, 80% is credited to the General Fund and 20% is credited to the Roads – Income Tax Fund, a special revenue fund. This distribution was determined by a 2002 vote of the people.

C. INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Local government assistance	\$ 126,090
Gasoline tax	144,350
Permissive tax	45,350
Homestead and rollback	77,100
Estate tax	21,526
Miscellaneous	11,024
	<u>\$ 425,440</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7 CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	As Restated, Balance January 1	Additions	Disposals	Balance December 31
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 484,539	\$ -	\$ -	\$ 484,539
Construction in progress	17,395	125,799	17,395	125,799
Total capital assets, not being depreciated	<u>501,934</u>	<u>125,799</u>	<u>17,395</u>	<u>610,338</u>
Capital assets, being depreciated				
Buildings and improvements	1,210,124	140,112	-	1,350,236
Equipment and vehicles	1,697,254	31,719	-	1,728,973
Infrastructure	32,312,566	99,253	84,000	32,327,819
Total capital assets being depreciated	<u>35,219,944</u>	<u>271,084</u>	<u>84,000</u>	<u>35,407,028</u>
Less accumulated depreciation				
Buildings and improvements	789,752	52,083	-	841,835
Equipment and vehicles	1,057,428	140,440	-	1,197,868
Infrastructure	10,419,082	3,377,796	50,400	13,746,478
Total accumulated depreciation	<u>12,266,262</u>	<u>3,570,319</u>	<u>50,400</u>	<u>15,786,181</u>
Total capital assets being depreciated, net	<u>22,953,682</u>	<u>(3,299,235)</u>	<u>33,600</u>	<u>19,620,847</u>
Total governmental capital assets, net	<u>\$ 23,455,616</u>	<u>\$ (3,173,436)</u>	<u>\$ 50,995</u>	<u>\$ 20,231,185</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 153,910	\$ -	\$ -	\$ 153,910
Construction in progress	349,557	156,966	-	506,523
Total capital assets, not being depreciated	<u>503,467</u>	<u>156,966</u>	<u>-</u>	<u>660,433</u>
Capital assets, being depreciated				
Buildings and improvements	150,818	-	-	150,818
Equipment and vehicles	408,008	-	-	408,008
Infrastructure	9,135,657	424,144	-	9,559,801
Total capital assets being depreciated	<u>9,694,483</u>	<u>424,144</u>	<u>-</u>	<u>10,118,627</u>
Less accumulated depreciation				
Buildings and improvements	10,559	3,017	-	13,576
Equipment and vehicles	234,175	21,513	-	255,688
Infrastructure	3,823,773	245,824	-	4,069,597
Total accumulated depreciation	<u>4,068,507</u>	<u>270,354</u>	<u>-</u>	<u>4,338,861</u>
Total capital assets being depreciated, net	<u>5,625,976</u>	<u>153,790</u>	<u>-</u>	<u>5,779,766</u>
Total business-type capital assets, net	<u>\$ 6,129,443</u>	<u>\$ 310,756</u>	<u>\$ -</u>	<u>\$ 6,440,199</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$	95,363
General government		33,134
Leisure time activities		25,498
Transportation		3,416,324
		\$ 3,570,319

NOTE 8 NOTES PAYABLE

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

	Balance, 12/31/03	Additions	Reductions	Balance, 12/31/04
Governmental activities				
Short-term				
Capital improvements fund				
2.50% issued 8/19/04, due 9/20/04	\$ -	\$ 125,000	\$ 125,000	\$ -
Long-term				
Roads - income tax fund				
2.04% issued 6/27/03, due 6/25/04	\$ 205,000	\$ -	\$ 205,000	\$ -
2.68% issued 6/25/04, due 6/24/05	-	160,000	-	160,000
Capital improvements fund				
2.20% issued 7/24/03, due 6/25/04	108,000	-	108,000	-
2.68% issued 6/25/04, due 6/24/05	-	113,000	-	113,000
Total long-term governmental activities	313,000	273,000	313,000	273,000
Business-type activities				
Long-term				
Water fund				
1.98% issued 3/27/03, due 3/27/04	330,000	-	330,000	-
1.50% issued 3/25/04, due 6/25/04	-	330,000	330,000	-
2.68% issued 6/25/04, due 6/24/05	-	300,000	-	300,000
Total long-term business-type activities	330,000	630,000	660,000	300,000
Total long-term notes payable	\$ 643,000	\$ 903,000	\$ 973,000	\$ 573,000

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 LONG-TERM DEBT

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Governmental activities</u>				
General obligation bonds				
Street improvements	1986	2007	7.250%	\$ 120,000
Street improvements	1992	2007	7.500%	\$ 160,000
Building improvements	1996	2016	6.200%	\$ 200,000
Street improvements	1998	2018	5.000%	\$ 1,200,000
Street improvements	2003	2018	3.600%	\$ 500,000
Special assessment bonds				
Street improvements	1983	2007	11.125%	\$ 317,530
Bond anticipation note	2003	2004	2.040%	\$ 205,000
Bond anticipation note	2004	2005	2.680%	\$ 160,000
Bond anticipation note	2003	2004	2.200%	\$ 108,000
Bond anticipation note	2004	2005	2.680%	\$ 113,000
Bond anticipation note	2004	2004	2.500%	\$ 125,000
Ohio Public Works loan	2001	2017	0.000%	\$ 35,371
<u>Business-type activities</u>				
General obligation bonds				
Storm water improvements	2002	2021	5.300 - 5.075%	\$ 2,500,000
Bond anticipation note	2003	2004	1.980%	\$ 330,000
Bond anticipation note	2004	2004	1.500%	\$ 330,000
Bond anticipation note	2004	2005	2.680%	\$ 300,000
Ohio Public Works loan	2000	2009	0.000%	\$ 30,000
Ohio Public Works loan	2000	2020	0.000%	\$ 124,842
Ohio Public Works loan	2003	2024	0.000%	\$ 140,949
Ohio Public Works loan	2003	2024	0.000%	\$ 81,187
Ohio Public Works loan	2003	2024	0.000%	\$ 97,793

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2004 were as follows:

	<u>Outstanding 12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/04</u>	<u>Due in One Year</u>
<u>Governmental activities</u>					
General obligation bonds					
Street improvements (1986)					
7.250% through 2007	\$ 24,000	\$ -	\$ 6,000	\$ 18,000	\$ 6,000
Street improvements (1992)					
7.500% through 2007	50,000	-	10,000	40,000	10,000
Building improvement (1996)					
6.200% through 2016	155,000	-	10,000	145,000	10,000
Street improvement (1998)					
5.000% through 2018	410,000	-	60,000	350,000	60,000
Street improvement (2003)					
3.600% through 2018	1,200,000	-	20,000	1,180,000	20,000
	<u>1,839,000</u>	<u>-</u>	<u>106,000</u>	<u>1,733,000</u>	<u>106,000</u>
Special assessment bonds					
Street improvements (1983)					
11.125% through 2007	52,033	-	13,000	39,033	13,000
Long-term notes payable	313,000	273,000	313,000	273,000	273,000
OPWC loans	30,655	28,566	2,358	56,863	5,928
Capital leases	26,085	-	9,016	17,069	6,829
Accrued leave benefits	838,628	-	13,140	825,488	88,948
	<u>\$ 3,099,401</u>	<u>\$ 301,566</u>	<u>\$ 456,514</u>	<u>\$ 2,944,453</u>	<u>\$ 493,705</u>
<u>Business-type activities</u>					
General obligation bonds					
Storm water improvement					
5.373% through 2021	\$ 2,300,000	\$ -	\$ 100,000	\$ 2,200,000	\$ 100,000
Long-term notes payable	330,000	630,000	660,000	300,000	-
OPWC loans	439,424	-	25,238	414,186	25,238
Accrued leave benefits	60,346	9,988	-	70,334	-
	<u>\$ 3,129,770</u>	<u>\$ 639,988</u>	<u>\$ 785,238</u>	<u>\$ 2,984,520</u>	<u>\$ 125,238</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 LONG-TERM DEBT (continued)

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

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

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

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, excluding accrued leave benefits, are as follows:

Year	Governmental Activities			
	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 106,000	\$ 83,406	\$ 13,000	\$ 4,339
2006	116,000	78,586	13,000	2,893
2007	116,000	73,269	13,033	1,446
2008	105,000	67,936	-	-
2009	105,000	63,546	-	-
2010-2014	615,000	238,345	-	-
2015-2019	570,000	72,438	-	-
	<u>\$ 1,733,000</u>	<u>\$ 677,526</u>	<u>\$ 39,033</u>	<u>\$ 8,678</u>

Year	Governmental Activities			Total	
	Bond Anticipation Notes		OPWC Loans	Governmental Activities	
	Principal	Interest	Principal	Principal	Interest
2005	\$ 273,000	\$ 7,316	\$ 5,928	\$ 397,928	\$ 95,061
2006	-	-	5,928	134,928	81,479
2007	-	-	5,928	134,961	74,715
2008	-	-	5,928	110,928	67,936
2009	-	-	5,928	110,928	63,546
2010-2014	-	-	22,506	637,506	238,345
2015-2019	-	-	4,717	574,717	72,438
	<u>\$ 273,000</u>	<u>\$ 7,316</u>	<u>\$ 56,863</u>	<u>\$ 2,101,896</u>	<u>\$ 693,520</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 LONG-TERM DEBT (continued)

Year	Business-Type Activities			
	General Obligation Bonds		Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2005	\$ 100,000	\$ 120,426	\$ 300,000	\$ 8,040
2006	100,000	115,126	-	-
2007	125,000	109,826	-	-
2008	125,000	102,951	-	-
2009	125,000	96,076	-	-
2010-2014	705,000	374,312	-	-
2015-2019	660,000	179,145	-	-
2020-2024	260,000	22,713	-	-
	<u>\$ 2,200,000</u>	<u>\$ 1,120,575</u>	<u>\$ 300,000</u>	<u>\$ 8,040</u>

Year	Total		
	OPWC Loans	Business-Type Activities	
	Principal	Principal	Interest
2005	\$ 25,238	\$ 425,238	\$ 128,466
2006	25,238	125,238	115,126
2007	25,238	150,238	109,826
2008	25,238	150,238	102,951
2009	23,738	148,738	96,076
2010-2014	111,193	816,193	374,312
2015-2019	111,193	771,193	179,145
2020-2024	67,110	327,110	22,713
	<u>\$ 414,186</u>	<u>\$ 2,914,186</u>	<u>\$ 1,128,615</u>

NOTE 10 CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. The assets under capital leases totaled \$ 40,804 at December 31, 2004. The leases are in effect until 2008. The following is the schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of December 31, 2004.

Year Ending December 31,	Amount
2005	\$ 8,124
2006	8,124
2007	2,749
2008	336
Total minimum lease payments	19,333
Less amount representing interest	(2,264)
Net present value of minimum lease payments	<u>\$ 17,069</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 11 OPERATING LEASES

The City is obligated under a leases accounted for as an operating leases. Total lease expense for the year ended December 31, 2004 was \$ 3,614. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2004.

Year ending December 31	Amount
2005	\$ 7,810
2006	7,558
2007	7,558
2008	7,558
2009	1,608
Total minimum payments	<u>\$ 32,092</u>

NOTE 12 DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 8.5 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 10.1 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$ 109,800, \$ 112,200, and \$ 108,000 respectively. For 2004, \$ 79,100 (72%) has been contributed. The balance was subsequently contributed in 2005. The full amount has been contributed for 2003 and 2002.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 12 DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2004, 2003, and 2002 were \$ 193,600, \$ 187,300, and \$ 175,500 respectively. For 2004, \$ 137,900 (71%) has been contributed. The balance was subsequently contributed in 2005. The full amount has been contributed for 2003 and 2002.

NOTE 13 POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.31 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$ 46,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$ 10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$ 26.9 billion and \$ 16.4 billion, respectively.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13 POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporated a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. OHIO POLICE AND FIRE PENSION FUND

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$ 28,700 for police and \$ 43,000 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$ 150,853,148, which was net of member contributions of \$ 17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

NOTE 14 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded coverage.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 15 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2004, the City recognized federal grants and entitlements. These programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

NOTE 16 CONTINGENCIES

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

NOTE 17 INTERFUND BALANCES AND TRANSFERS

At December 31, 2004 the Bond Construction Capital Projects fund owed \$ 2,117 to the General Obligation Debt Service fund. This interfund balance occurred in prior years and is related to interest proceeds received with bond proceeds.

Interfund transfers for the year ended December 31, 2004 consisted of the following:

	Transferred from:		
	General Fund	Roads- Income Tax Fund	Total
<u>Transferred to:</u>			
General Obligation Debt Service	\$ 60,334	\$ 113,082	\$ 173,416

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

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS (continued)

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2004. Financial information can be obtained by contacting the Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

NOTE 19 SUBSEQUENT EVENTS

A. NEWLY ENACTED LEGISLATION

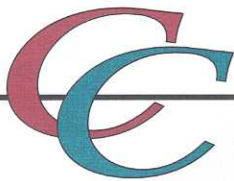
In June, 2005 the State of Ohio enacted legislation, portions of which take effect at various times, that phases out the taxation of tangible personal property used in business (other than certain public utility tangible personal property) over four years from tax year 2006 to tax year 2009. New manufacturing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

B. BOND ANTICIPATION NOTES

On June 24, 2005, the City retired \$ 573,000, in general obligation bond anticipation notes and issued \$ 478,000 in new notes with a maturity date of June 23, 2006, and an interest rate of 3.18%. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Retired</u>	<u>Issued</u>
Motorized equipment acquisition	\$ 160,000	\$ 115,000
Building improvements	113,000	93,000
Water equipment acquisition	300,000	270,000
	<u>\$ 573,000</u>	<u>\$ 478,000</u>

SUPPLEMENTAL AUDITOR'S REPORT



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road
North Ridgeville, OH 44039

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

To the City Council
City of Sheffield Lake, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sheffield Lake, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 21, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34 and changed its accounting for capital assets.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 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 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 we have reported to management of the City in a separate letter dated July 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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 City in a separate letter dated July 21, 2005.

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

North Ridgeville, Ohio
July 21, 2005



**Auditor of State
Betty Montgomery**

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CITY OF SHEFFIELD LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2005**