

CITY OF SHEFFIELD LAKE, OHIO
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Sheffield Lake, Lorain County, prepared by Costin + Company, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

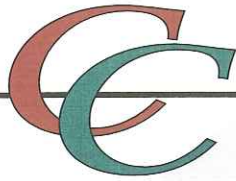
Mary Taylor, CPA
Auditor of State

August 21, 2007

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road
North Ridgeville, OH 44039INDEPENDENT AUDITOR'S REPORTTo the City Council
City of Sheffield Lake, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Ohio (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

North Ridgeville, Ohio
June 28, 2007

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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, 2006. 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 2006 were as follows.

- Total net assets decreased by 7.6% to \$ 17,773,847 at December 31, 2006.
- Total invested in capital assets, net of related debt, decreased by 5.4% to \$ 16,487,181.
- Total assets decreased by 5.5% to \$ 25,364,043 at December 31, 2006.
- Total liabilities decreased by \$ 22,268 to \$ 7,590,196 at December 31, 2006.
- Equity in pooled cash decreased by 4.2% to \$ 1,208,010.

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 Capital Projects Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities for the year ended December 31, 2006 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, 2006
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, 2006
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 2006 compared to 2005.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 3,496,199	\$ 3,995,340	\$ 649,193	\$ 691,598	\$ 4,145,392	\$ 4,686,938
Capital assets, net	13,221,906	14,156,318	7,996,745	8,029,704	21,218,651	22,186,022
Total assets	16,718,105	18,151,658	8,645,938	8,721,302	25,364,043	26,872,960
Liabilities						
Current liabilities	2,296,632	2,458,586	648,214	554,918	2,944,846	3,013,504
Long-term liabilities	2,202,403	2,168,710	2,442,947	2,430,250	4,645,350	4,598,960
Total liabilities	4,499,035	4,627,296	3,091,161	2,985,168	7,590,196	7,612,464
Net assets						
Invested in capital assets, net of related debt	11,319,519	12,184,601	5,167,662	5,218,444	16,487,181	17,403,045
Restricted	941,013	1,053,102	-	-	941,013	1,053,102
Unrestricted	(41,462)	286,659	387,115	517,690	345,653	804,349
Total net assets	\$ 12,219,070	\$ 13,524,362	\$ 5,554,777	\$ 5,736,134	\$ 17,773,847	\$ 19,260,496

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 \$ 1,508,917 to \$ 25,364,043. Current assets decreased by \$ 541,546 to \$ 4,145,392, which included a decrease in equity in pooled cash of \$ 53,566 due primarily to the acquisition of capital assets and payment of debt principal. Current liabilities decreased by \$ 68,658 to \$ 2,944,846 primarily due to payment of notes payable due within one year. Long-term liabilities increased by \$ 46,390 to \$ 4,645,350. Total net assets decreased by \$ 1,486,649 to \$ 17,773,847, with governmental net assets comprising \$ 12,219,070 and business-type net assets comprising \$ 5,554,777 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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 compared to the prior year.

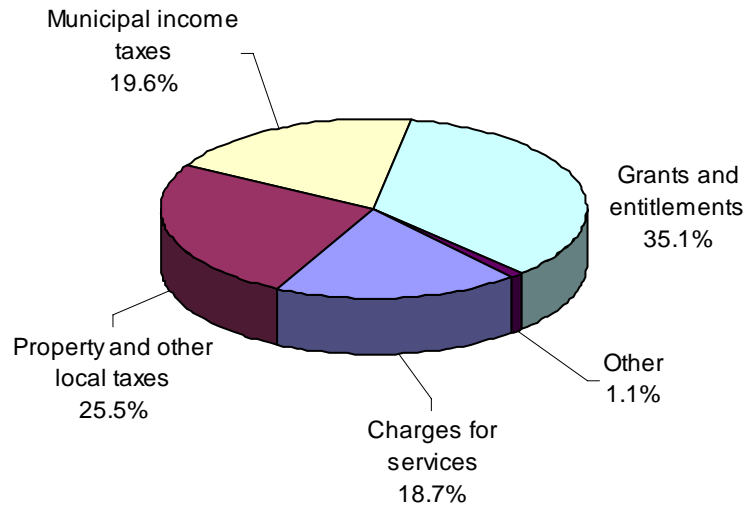
	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 1,092,829	\$ 1,048,518	\$ 1,691,985	\$ 1,701,628	\$ 2,784,814	\$ 2,750,146
Operating grants and contributions	9,703	16,459	-	-	9,703	16,459
Capital grants and contributions	907,751	1,990,536	-	699,850	907,751	2,690,386
Total program revenues	<u>2,010,283</u>	<u>3,055,513</u>	<u>1,691,985</u>	<u>2,401,478</u>	<u>3,702,268</u>	<u>5,456,991</u>
General revenues						
Property and other local taxes	1,489,330	1,431,399	-	-	1,489,330	1,431,399
Municipal income taxes	1,142,251	1,722,925	-	-	1,142,251	1,722,925
Grants and entitlements	1,127,774	992,739	-	-	1,127,774	992,739
Other	61,738	133,072	16,054	27,564	77,792	160,636
Total general revenues	<u>3,821,093</u>	<u>4,280,135</u>	<u>16,054</u>	<u>27,564</u>	<u>3,837,147</u>	<u>4,307,699</u>
Total revenues	<u>5,831,376</u>	<u>7,335,648</u>	<u>1,708,039</u>	<u>2,429,042</u>	<u>7,539,415</u>	<u>9,764,690</u>
Program expenses						
Security of persons and property	2,397,590	2,600,682	-	-	2,397,590	2,600,682
Public health and welfare	43,946	36,169	-	-	43,946	36,169
Leisure time activities	109,752	82,465	-	-	109,752	82,465
Community environment	353,457	177,526	-	-	353,457	177,526
Basic utility services	525,458	619,014	-	-	525,458	619,014
Transportation	2,702,725	3,804,927	-	-	2,702,725	3,804,927
General government	903,618	812,342	-	-	903,618	812,342
Interest	100,122	104,107	-	-	100,122	104,107
Water	-	-	560,317	601,181	560,317	601,181
Sewer	-	-	957,831	929,924	957,831	929,924
Storm water	-	-	371,248	352,829	371,248	352,829
Total program expenses	<u>7,136,668</u>	<u>8,237,232</u>	<u>1,889,396</u>	<u>1,883,934</u>	<u>9,026,064</u>	<u>10,121,166</u>
Increase (decrease) in net assets	(1,305,292)	(901,584)	(181,357)	545,108	(1,486,649)	(356,476)
Net assets at beginning of year, as restated	<u>13,524,362</u>	<u>14,425,946</u>	<u>5,736,134</u>	<u>5,191,026</u>	<u>19,260,496</u>	<u>19,616,972</u>
Net assets, end of year	<u>\$ 12,219,070</u>	<u>\$ 13,524,362</u>	<u>\$ 5,554,777</u>	<u>\$ 5,736,134</u>	<u>\$ 17,773,847</u>	<u>\$ 19,260,496</u>

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

Governmental activities

Revenues by source of governmental activities for 2006 were comprised of:

Revenues by Source, Governmental Activities



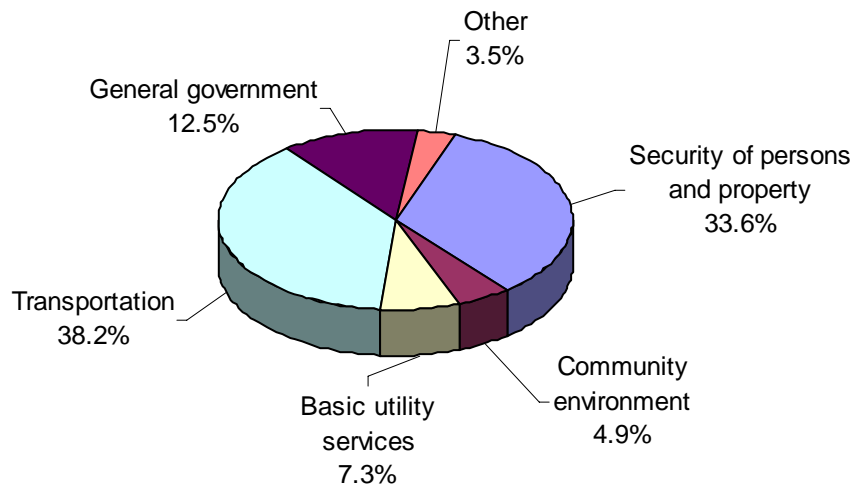
Revenues

For 2006 grants and entitlements, representing 35.1% of total general revenue, was the largest portion of general revenue. Property and other local taxes and municipal income taxes represented the next two largest sources of general revenue at 25.5% and 19.6% respectively.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

Program expenses of governmental activities for 2006 were comprised of:

Program Expenses, Governmental Activities



Program expenses

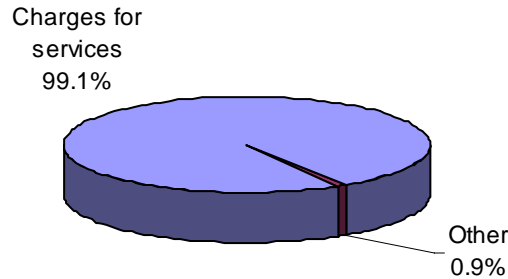
Program expenses amounted to \$ 7,136,668 in 2006, of which \$ 2,010,283 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 2,397,590 or 33.6% of total program expenses. Community environment represented \$ 353,457 or 4.9%. Basic utilities services of \$ 525,458 or 7.3% includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 2,702,725 or 38.2% of program expenses. General government represented \$ 903,618 or 12.5% of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, leisure time activities, including recreation activities and maintenance of the City's park system, and interest amounted to \$ 253,820 or 3.5%.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

Business-type activities

Revenues by source for business-type activities for 2006 were comprised of:

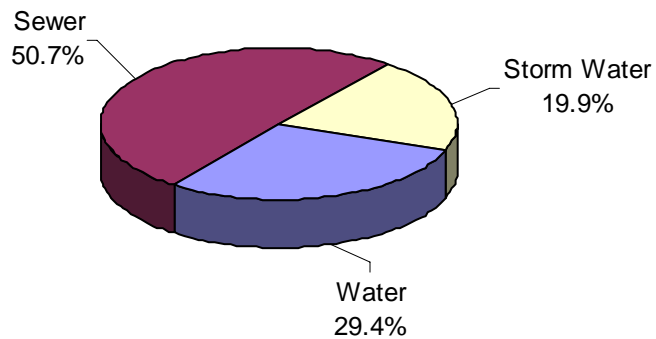
Revenue by Source, Business-type Activities



Revenues

Charges for services represented 99.1% of total revenues for business-type activities in 2006. Other general revenues represented the remaining .9% of total revenues, consisting primarily of interest income.

Expenses, Business-type Activities



Expenses

Water operations expenses amounted to \$ 560,317 or 29.4%. Sanitary sewer operations expenses amounted to \$ 957,831 or 50.7% of total program expenses and storm water operation expenses amounted to \$ 371,248 or 19.9% 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, 2006
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 \$ 2,682,564 and final budgeted receipts were \$ 2,495,048. Original appropriations were \$ 2,458,497. The City actually expended \$ 2,531,304 which was \$ 72,807 more than originally appropriated.

The City historically spends less than appropriated. For 2006, actual expenditures were 98.8% of final appropriations.

Capital Assets

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

	Governmental Activities		Business type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 484,539	\$ 484,539	\$ 153,910	\$ 153,910	\$ 638,449	\$ 638,449
Construction in progress	448,851	309,231	186,644	250,276	635,495	559,507
Buildings and improvements	666,357	485,021	131,212	134,226	797,569	619,247
Equipment and vehicles	479,541	580,405	401,937	142,034	881,478	722,439
Infrastructure	11,142,618	12,297,123	7,123,042	7,349,253	18,265,660	19,646,376
	<u>\$ 13,221,906</u>	<u>\$ 14,156,319</u>	<u>\$ 7,996,745</u>	<u>\$ 8,029,699</u>	<u>\$ 21,218,651</u>	<u>\$ 22,186,018</u>

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

The City's total capital assets, net of depreciation, under governmental activities were \$ 13,221,906 at December 31, 2006, which was \$ 934,413 lower than the previous year. Business-type capital assets, net of depreciation, decreased by \$ 32,954 to \$ 7,996,745, due to depreciation expense.

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

Debt

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

	Governmental Activities		Business type Activities		Total	
	2006	2005	2006	2005	2006	2005
Long-term notes	\$ 296,600	\$ 208,000	\$ 240,000	\$ 270,000	\$ 536,600	\$ 478,000
OPWC loans	45,005	50,935	363,708	388,948	408,713	439,883
General obligation bonds	1,511,000	1,627,000	2,000,000	2,100,000	3,511,000	3,727,000
Special assessment bonds	13,033	26,033	-	-	13,033	26,033
Capital leases	36,749	59,749	225,375	-	262,124	59,749
Accrued leave benefits	616,951	675,411	60,160	66,540	677,111	741,951
	<u>\$ 2,519,338</u>	<u>\$ 2,647,128</u>	<u>\$ 2,889,243</u>	<u>\$ 2,825,488</u>	<u>\$ 5,408,581</u>	<u>\$ 5,472,616</u>

As of December 31, 2006, the City had \$ 5,408,581 of total debt outstanding with \$ 763,231 due within one year.

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

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

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

Economic Factors and Next Year's Budget

In reaction to the slower economic recovery of the area, the City reduced budget appropriations over controllable expenses for 2006 and 2007. In preparation of its 2007 budget, the City utilized a conservative economic forecast for revenue growth and a zero-based approach to expenditure appropriations. Accordingly, the City will continue to monitor revenue receipts very closely for 2007 and will adjust the budget as deemed necessary. This action has allowed City services to not be adversely affected.

The City continues to proceed with ongoing road projects funded by a prior tax increase, specific to road improvements. The City has obtained funding from several local and state grants for construction of a boat launch project which is scheduled to start in the summer of 2007. This project should generate future economic growth for the business area, as well as the entire City.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

Requests for Information

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 810,345	\$ 397,665	\$ 1,208,010
Accounts receivable	129,884	249,228	379,112
Due from other governments	546,805	-	546,805
Inventories and supplies	6,450	-	6,450
Prepaid and deferred expenses	27,400	2,300	29,700
Income taxes receivable	384,100	-	384,100
Taxes receivable - property and other	1,512,800	-	1,512,800
Special assessments receivable	78,415	-	78,415
Capital assets			
Nondepreciable capital assets	933,390	340,554	1,273,944
Depreciable capital assets, net	12,288,516	7,656,191	19,944,707
Total assets	16,718,105	8,645,938	25,364,043
Liabilities			
Accounts and contracts payable	254,007	72,247	326,254
Accrued salaries, wages and benefits	84,136	12,563	96,699
Accrued interest payable	10,425	15,353	25,778
Matured bonds and coupons payable	749	-	749
Due to other governments	212,180	101,755	313,935
Unearned revenue	1,418,200	-	1,418,200
Long term liabilities			
Due within one year	316,935	446,296	763,231
Due in more than one year	2,202,403	2,442,947	4,645,350
Total liabilities	4,499,035	3,091,161	7,590,196
Net assets			
Invested in capital assets, net of related debt	11,319,519	5,167,662	16,487,181
Restricted for:			
Debt service	310,136	-	310,136
Capital projects	5,630	-	5,630
Highways and streets	344,006	-	344,006
Public safety	103,761	-	103,761
Recreation	47,871	-	47,871
Community environment	113,381	-	113,381
Other purposes	16,228	-	16,228
Unrestricted	(41,462)	387,115	345,653
Total net assets	\$ 12,219,070	\$ 5,554,777	\$ 17,773,847

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, 2006

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	\$ 2,397,590	\$ 197,663	\$ 9,703	\$ 1,000
Public health and welfare	43,946	4,650	-	-
Leisure time activities	109,752	29,923	-	-
Community environment	353,457	-	-	269,605
Basic utility services	525,458	580,712	-	-
Transportation	2,702,725	7,660	-	637,146
General government	903,618	272,221	-	-
Interest	100,122	-	-	-
Total governmental activities	<u>7,136,668</u>	<u>1,092,829</u>	<u>9,703</u>	<u>907,751</u>
Business-type activities:				
Water	560,317	533,950	-	-
Sewer	957,831	862,355	-	-
Storm Water	371,248	295,680	-	-
Total business-type activities	<u>1,889,396</u>	<u>1,691,985</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,026,064</u>	<u>\$ 2,784,814</u>	<u>\$ 9,703</u>	<u>\$ 907,751</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, as 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
\$ (2,189,224)	\$ -	\$ (2,189,224)
(39,296)	-	(39,296)
(79,829)	-	(79,829)
(83,852)	-	(83,852)
55,254	-	55,254
(2,057,919)	-	(2,057,919)
(631,397)	-	(631,397)
(100,122)	-	(100,122)
<u>(5,126,385)</u>	<u>-</u>	<u>(5,126,385)</u>
-	(26,367)	(26,367)
-	(95,476)	(95,476)
-	(75,568)	(75,568)
<u>-</u>	<u>(197,411)</u>	<u>(197,411)</u>
<u>(5,126,385)</u>	<u>(197,411)</u>	<u>(5,323,796)</u>
344,947	-	344,947
77,953	-	77,953
1,066,430	-	1,066,430
827,697	-	827,697
314,554	-	314,554
1,127,774	-	1,127,774
41,634	13,154	54,788
20,104	2,900	23,004
<u>3,821,093</u>	<u>16,054</u>	<u>3,837,147</u>
(1,305,292)	(181,357)	(1,486,649)
13,524,362	5,736,134	19,260,496
<u>\$ 12,219,070</u>	<u>\$ 5,554,777</u>	<u>\$ 17,773,847</u>

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CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 139,994	\$ 11,996	\$ 657,606	\$ 809,596
Cash and investments with fiscal agents	-	-	749	749
Income taxes receivables	307,280	-	76,820	384,100
Property taxes receivable	414,400	-	1,098,400	1,512,800
Special assessments receivable	-	-	78,415	78,415
Due from other governments	244,317	-	302,488	546,805
Accounts and other	33,401	-	96,483	129,884
Interfund receivable	-	-	2,117	2,117
Inventories and supplies	5,566	-	884	6,450
Prepaid expenses	25,000	-	2,400	27,400
Total assets	\$ 1,169,958	\$ 11,996	\$ 2,316,362	\$ 3,498,316
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 58,275	\$ 1,849	\$ 193,883	\$ 254,007
Accrued salaries, wages and benefits	33,842	-	50,294	84,136
Matured bonds and coupons payable	-	-	749	749
Due to other governments	103,727	-	108,453	212,180
Interfund payable	-	-	2,117	2,117
Unearned revenue	824,348	-	1,509,820	2,334,168
Total liabilities	1,020,192	1,849	1,865,316	2,887,357
Fund balances				
Reserved for inventory	5,566	-	884	6,450
Reserved for prepaids	25,000	-	2,400	27,400
Reserved for encumbrances	119	9,852	50,620	60,591
Unreserved, reported in				
General fund	119,081	-	-	119,081
Special revenue funds	-	-	177,338	177,338
Debt service funds	-	-	221,921	221,921
Capital projects funds	-	295	(2,117)	(1,822)
Total fund balances	149,766	10,147	451,046	610,959
Total liabilities and fund balances	\$ 1,169,958	\$ 11,996	\$ 2,316,362	\$ 3,498,316

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, 2006

Total governmental funds balances	\$	610,959
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		13,221,906
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	94,600	
Accounts and other receivables	23,279	
Municipal income tax	211,774	
Intergovernmental	507,900	
Special assessments	78,415	
Total		915,968
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when paid.		(10,425)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Notes payable	(296,600)	
OPWC loans payable	(45,005)	
General obligation bonds	(1,511,000)	
Special assessment bonds	(13,033)	
Capital leases	(36,749)	
Accrued leave benefits	(616,951)	
		(2,519,338)
Net assets of governmental activities	\$	12,219,070

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, 2006

	General	Capital Projects	Governmental Funds	Governmental Funds
Revenues				
Property and other local taxes	\$ 346,547	\$ -	\$ 1,149,183	\$ 1,495,730
Municipal income taxes	1,194,901	-	406,355	1,601,256
Intergovernmental revenue	460,331	637,146	876,513	1,973,990
Special assessments	-	-	25,345	25,345
Charges for services	258,253	-	578,760	837,013
Fines, licenses, and permits	139,698	-	2,510	142,208
Interest	33,364	-	8,270	41,634
Miscellaneous	71,591	-	23,842	95,433
Total revenues	2,504,685	637,146	3,070,778	6,212,609
Expenditures				
Current				
Security of persons and property	1,288,837	-	1,021,646	2,310,483
Public health and welfare	43,946	-	-	43,946
Leisure time activities	81,435	-	-	81,435
Community environment	190,936	-	255,708	446,644
Basic utility services	-	-	525,458	525,458
Transportation	-	-	818,590	818,590
General government	782,773	-	186,685	969,458
Capital outlay	-	815,263	21,826	837,089
Debt service				
Note principal	-	-	208,000	208,000
Bond principal	-	-	129,000	129,000
OPWC loan principal	2,358	-	3,571	5,929
Capital lease principal	18,579	-	4,421	23,000
Interest and fiscal charges	3,302	-	96,488	99,790
Total expenditures	2,412,166	815,263	3,271,393	6,498,822
Excess (deficiency) of revenues over expenditures	92,519	(178,117)	(200,615)	(286,213)
Other financing sources (uses)				
Transfers-in	-	-	177,233	177,233
Note proceeds	-	133,600	163,000	296,600
Transfers-out	(63,471)	-	(113,762)	(177,233)
Total other financing sources (uses)	(63,471)	133,600	226,471	296,600
Excess (deficiency) of revenues over expenditures and other sources (uses)	29,048	(44,517)	25,856	10,387
Fund balances, beginning of year	120,718	54,664	425,190	600,572
Fund balances, end of year	\$ 149,766	\$ 10,147	\$ 451,046	\$ 610,959

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, 2006

Net change in fund balances - total governmental funds	\$	10,387
<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	1,401,656
	Depreciation expense	<u>(2,336,069)</u>
		(934,413)
<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	(459,005)
	Property and other local taxes	(6,400)
	Special assessments	(9,902)
	Charges for services	23,279
	Intergovernmental revenue	<u>70,795</u>
		(381,233)
<p>Note proceeds are an other financing source in the funds, but increase long-term liabilities in the statement of net assets</p>		
		(296,600)
<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	208,000
	OPWC loan principal paid	5,929
	Bond principal paid	129,000
	Capital lease principal paid	<u>23,000</u>
		365,929
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when paid.</p>		
		(332)
<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	<u>(69,030)</u>
Change in net assets of governmental activities	\$	<u><u>(1,305,292)</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, 2006

	General Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Property and other local taxes	\$ 372,592	\$ 346,547	\$ 346,547	-
Municipal income taxes	1,287,453	1,197,457	1,197,457	-
Intergovernmental revenue	465,826	433,264	433,264	-
Charges for services	294,361	273,785	274,053	268
Fines, licenses, and permits	149,887	139,410	139,698	288
Interest	35,474	32,994	33,364	370
Miscellaneous	76,971	71,591	71,591	-
Total revenues	<u>2,682,564</u>	<u>2,495,048</u>	<u>2,495,974</u>	<u>926</u>
Expenditures				
Current				
Security of persons and property	1,400,148	1,458,549	1,456,767	1,782
Public health and welfare	45,812	47,723	44,487	3,236
Leisure time activities	83,897	87,396	83,195	4,201
Community environment	179,228	186,704	186,552	152
General government	747,148	778,312	757,945	20,367
Debt service				
OPWC loan principal	2,264	2,358	2,358	-
Total expenditures	<u>2,458,497</u>	<u>2,561,042</u>	<u>2,531,304</u>	<u>29,738</u>
Excess (deficiency) of revenues over expenditures	<u>224,068</u>	<u>(65,994)</u>	<u>(35,330)</u>	<u>30,664</u>
Other financing sources (uses)				
Transfers-out	(63,471)	(63,471)	(63,471)	-
Total other financing sources (uses)	<u>(63,471)</u>	<u>(63,471)</u>	<u>(63,471)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	160,597	(129,465)	(98,801)	30,664
Prior year encumbrances	50,772	50,772	50,772	-
Fund balances, beginning of year	<u>154,881</u>	<u>154,881</u>	<u>154,881</u>	<u>-</u>
Fund balances, end of year	<u>\$ 366,250</u>	<u>\$ 76,188</u>	<u>\$ 106,852</u>	<u>\$ 30,664</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, 2006

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Assets				
Equity in pooled cash	\$ 137,764	\$ 183,956	\$ 75,945	\$ 397,665
Accounts and other	72,809	127,616	48,803	249,228
Prepaid expenses	1,500	800	-	2,300
Nondepreciable capital assets	-	69,968	270,586	340,554
Depreciable capital assets, net	631,303	899,387	6,125,501	7,656,191
Total assets	843,376	1,281,727	6,520,835	8,645,938
Liabilities				
Current				
Accounts and contracts payable	42,015	25,647	4,585	72,247
Accrued salaries, wages and benefits	4,369	6,284	1,910	12,563
Accrued interest payable	6,200	-	9,153	15,353
Due to other governments	19,961	67,190	14,604	101,755
Notes payable	240,000	-	-	240,000
OPWC loans payable	-	3,000	22,239	25,239
General obligation bonds payable	-	-	125,000	125,000
Capital leases	-	56,057	-	56,057
Total current liabilities	312,545	158,178	177,491	648,214
Long-term liabilities				
OPWC loans payable	-	4,500	333,969	338,469
General obligation bonds payable	-	-	1,875,000	1,875,000
Capital leases	-	169,318	-	169,318
Accrued leave benefits	23,708	35,562	890	60,160
Total long-term liabilities	23,708	209,380	2,209,859	2,442,947
Total liabilities	336,253	367,558	2,387,350	3,091,161
Net assets				
Investment in capital assets, net of related debt	391,303	736,480	4,039,879	5,167,662
Unrestricted	115,820	177,689	93,606	387,115
Total net assets	\$ 507,123	\$ 914,169	\$ 4,133,485	\$ 5,554,777

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, 2006

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Operating revenues				
Charges for services	\$ 533,950	\$ 862,355	\$ 295,680	\$ 1,691,985
Miscellaneous	-	-	2,900	2,900
Total operating revenues	<u>533,950</u>	<u>862,355</u>	<u>298,580</u>	<u>1,694,885</u>
Operating expenses				
Personal services	179,689	253,603	83,466	516,758
Contractual services	244,618	567,978	3,159	815,755
Supplies and materials	37,515	31,309	5,522	74,346
Other operating	8,327	2,881	-	11,208
Depreciation	77,268	102,060	164,417	343,745
Total operating expenses	<u>547,417</u>	<u>957,831</u>	<u>256,564</u>	<u>1,761,812</u>
Operating income (loss)	<u>(13,467)</u>	<u>(95,476)</u>	<u>42,016</u>	<u>(66,927)</u>
Nonoperating revenues (expenses)				
Interest income	-	-	13,154	13,154
Interest and fiscal charges	(12,900)	-	(114,684)	(127,584)
Net nonoperating revenues (expenses)	<u>(12,900)</u>	<u>-</u>	<u>(101,530)</u>	<u>(114,430)</u>
Change in net assets	(26,367)	(95,476)	(59,514)	(181,357)
Retained earnings, beginning of year , as restated	<u>533,490</u>	<u>1,009,645</u>	<u>4,192,999</u>	<u>5,736,134</u>
Retained earnings, end of year	<u>\$ 507,123</u>	<u>\$ 914,169</u>	<u>\$ 4,133,485</u>	<u>\$ 5,554,777</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, 2006

	Water	Sewer	Storm Water	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 539,803	\$ 876,525	\$ 300,376	\$ 1,716,704
Cash paid to suppliers for materials and supplies	(19,625)	(25,073)	(5,357)	(50,055)
Cash paid for employee services and benefits	(198,382)	(260,163)	(77,109)	(535,654)
Cash paid for contractual services	(250,489)	(501,493)	(35,182)	(787,164)
Other operating revenues	-	-	2,899	2,899
Other operating expenses	(7,915)	(2,881)	-	(10,796)
Net cash provided by operating activities	<u>63,392</u>	<u>86,915</u>	<u>185,627</u>	<u>335,934</u>
Cash flows from capital and related financing activities:				
Issuance of notes	240,000	-	-	240,000
Payment on capital lease	-	(56,437)	-	(56,437)
Note principal payment	(270,000)	-	-	(270,000)
OPWC loans payments	-	(3,000)	(22,239)	(25,239)
Bond principal payments	-	-	(100,000)	(100,000)
Interest payments	(11,000)	-	(115,125)	(126,125)
Acquisition of fixed assets	(2,808)	(15,390)	(10,775)	(28,973)
Net cash (used in) capital and related financing activities	<u>(43,808)</u>	<u>(74,827)</u>	<u>(248,139)</u>	<u>(366,774)</u>
Cash flows from investing activities:				
Interest income	-	-	13,154	13,154
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>13,154</u>	<u>13,154</u>
Net increase (decrease) in cash and equivalents	19,584	12,088	(49,358)	(17,686)
Equity in pooled cash and equivalents, beginning of year	<u>118,180</u>	<u>171,868</u>	<u>125,303</u>	<u>415,351</u>
Equity in pooled cash and equivalents, end of year	<u>\$ 137,764</u>	<u>\$ 183,956</u>	<u>\$ 75,945</u>	<u>\$ 397,665</u>
Non-cash capital and related financing transactions:				
Capital asset acquired through capital lease	<u>\$ -</u>	<u>\$ 281,812</u>	<u>\$ -</u>	<u>\$ 281,812</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, 2006
(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)	\$ (13,467)	\$ (95,476)	\$ 42,016	\$ (66,927)
Adjustments:				
Depreciation	77,268	102,060	164,417	343,745
Changes in net assets (increase) decrease and liabilities increase (decrease)				
Accounts receivable and other	5,853	14,170	4,696	24,719
Accounts and contracts payable	40,562	18,784	(31,858)	27,488
Accrued salaries, wages and benefits	77	65	161	303
Due to other governments	(43,993)	51,674	5,306	12,987
Accrued leave benefits	(2,908)	(4,362)	889	(6,381)
Net cash provided by operating activities	<u>\$ 63,392</u>	<u>\$ 86,915</u>	<u>\$ 185,627</u>	<u>\$ 335,934</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, 2006

	<u>Agency Funds</u>
Assets	
Equity in pooled cash	\$ 54,964
Cash and investments with fiscal agents	3,673
Property taxes receivable	320,300
Due from other governments	16,600
Total assets	<u>\$ 395,537</u>
Liabilities	
Accounts payable	\$ 3,538
Due to others	55,099
Due to other governments	336,900
Total liabilities	<u>\$ 395,537</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, 2006

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 19.

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 19.

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, 2006

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, 2006

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.

Capital Projects Fund - This fund accounts for the resources used for the acquisition and construction of major capital assets.

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. The City has no internal service funds.

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, 2006

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, 2006

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, 2006, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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, 2006

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, 2006.

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, 2006

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

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

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

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

J. INTERFUND BALANCES

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

K. UNPAID COMPENSATED ABSENCES

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

L. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

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

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

M. FUND BALANCE RESERVES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. NET ASSETS

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

The government-wide statements of net assets reports \$ 941,013 as restricted net assets, of which \$ 286,155 is restricted by enabling legislation.

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

O. OPERATING REVENUES AND EXPENSES

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

P. CONTRIBUTIONS OF CAPITAL

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

Q. INTERFUND ACTIVITY

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

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

R. EXTRAORDINARY AND SPECIAL ITEMS

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

S. USE OF ESTIMATES

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 3 COMPLIANCE AND ACCOUNTABILITY

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

Special Revenue Funds	
Roads Income Tax Fund	\$ (69,978)
Police Levy Fund	\$ (1,517)
Police Salary Fund	\$ (168)
Police Operating Fund	\$ (1,577)
Fire Operating Fund	\$ (1,600)
Police Pension Fund	\$ (23,362)
Fire Pension Fund	\$ (23,012)
Capital Projects Fund	
Bond Construction Fund	\$ (2,117)

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

NOTE 4 RESTATEMENT OF PRIOR YEAR FUND EQUITY

In the financial statements for the year ended December 31, 2005, an error was made in the Storm Water Fund by accounting for the acquisition of capital assets as contractual services expense. An adjustment was made in the current year to correct this error. This adjustment had the following effect on net assets for business-type activities and on fund net assets on December 31, 2005.

	Storm Water Fund
Fund assets, 12/31/05 as previously reported	\$ 4,166,843
Reclassification of capital assets	26,156
Restated fund assets, at 12/31/05	\$ 4,192,999

NOTE 5 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).

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 5 BUDGETARY BASIS OF ACCOUNTING (continued)

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

	Net Change in Fund Balance
	General Fund
Budget basis	\$ (98,801)
Adjustments, increase (decrease)	
Revenue accruals	8,711
Expenditure accruals	119,138
GAAP basis, as reported	\$ 29,048

NOTE 6 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

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

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

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the City's deposits was \$ 113,935 and the bank balance was \$ 287,526. Of the bank balance, \$ 200,000 was covered by federal depository insurance and \$ 87,526 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2006, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
STAROhio	<u>n/a</u>	<u>\$ 1,152,712</u>

D. INTEREST RATE RISK

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

settlement date.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2006, the City's investments in StarOhio were rated AAA by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

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

NOTE 7 RECEIVABLES

Receivables at December 31, 2006, 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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2006.

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. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. 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, 2006 was \$ 18.65 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Property valuation consisted of:	
Real property	
Residential/agricultural	\$ 152,593,750
Commercial/industrial	15,843,090
Tangible personal property	
General	2,267,236
Public utilities	2,110,370
Total valuation	<u>\$ 172,814,446</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 7 RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

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, 2006 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 2006 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.

B. INCOME TAXES

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

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

C. INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Local government assistance	\$ 196,150
Gasoline tax	192,400
Permissive tax	45,350
Homestead and rollback	90,600
Estate tax	26,285
Miscellaneous	12,620
	\$ 563,405

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 CAPITAL ASSETS

A summary of changes in capital assets during 2006 follows:

	Balance January 1	Additions	Disposals	Balance December 31
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 484,539	\$ -	\$ -	\$ 484,539
Construction in progress	309,231	288,519	148,899	448,851
Total capital assets, not being depreciated	<u>793,770</u>	<u>288,519</u>	<u>148,899</u>	<u>933,390</u>
Capital assets, being depreciated				
Buildings and improvements	1,368,636	223,546	16,220	1,575,962
Equipment and vehicles	1,914,948	23,185	-	1,938,133
Infrastructure	33,128,100	1,015,305	-	34,143,405
Total capital assets being depreciated	<u>36,411,684</u>	<u>1,262,036</u>	<u>16,220</u>	<u>37,657,500</u>
Less accumulated depreciation				
Buildings and improvements	883,615	42,210	16,220	909,605
Equipment and vehicles	1,334,543	124,049	-	1,458,592
Infrastructure	20,830,977	2,169,810	-	23,000,787
Total accumulated depreciation	<u>23,049,135</u>	<u>2,336,069</u>	<u>16,220</u>	<u>25,368,984</u>
Total capital assets being depreciated, net	<u>13,362,549</u>	<u>(1,074,033)</u>	<u>-</u>	<u>12,288,516</u>
Total governmental capital assets, net	<u>\$ 14,156,319</u>	<u>\$ (785,514)</u>	<u>\$ 148,899</u>	<u>\$ 13,221,906</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 153,910	\$ -	\$ -	\$ 153,910
Construction in progress	250,276	13,215	76,847	186,644
Total capital assets, not being depreciated	<u>404,186</u>	<u>13,215</u>	<u>76,847</u>	<u>340,554</u>
Capital assets, being depreciated				
Buildings and improvements	150,818	-	-	150,818
Equipment and vehicles	419,277	292,795	-	712,072
Infrastructure	11,678,200	81,622	-	11,759,822
Total capital assets being depreciated	<u>12,248,295</u>	<u>374,417</u>	<u>-</u>	<u>12,622,712</u>
Less accumulated depreciation				
Buildings and improvements	16,592	3,014	-	19,606
Equipment and vehicles	277,243	32,892	-	310,135
Infrastructure	4,328,947	307,833	-	4,636,780
Total accumulated depreciation	<u>4,622,782</u>	<u>343,739</u>	<u>-</u>	<u>4,966,521</u>
Total capital assets being depreciated, net	<u>7,625,513</u>	<u>30,678</u>	<u>-</u>	<u>7,656,191</u>
Total business-type capital assets, net	<u>\$ 8,029,699</u>	<u>\$ 43,893</u>	<u>\$ 76,847</u>	<u>\$ 7,996,745</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$	69,578
General government		67,381
Leisure time activities		29,299
Transportation		2,169,811
		\$ 2,336,069

NOTE 9 NOTES PAYABLE

Notes payable during the year consisted of the following general obligation bond anticipation notes and highway improvement note:

	Balance, 12/31/05	Additions	Reductions	Balance, 12/31/06
Governmental activities				
Bond anticipation notes				
Roads - income tax fund				
3.18% issued 6/23/05, due 6/23/06	\$ 115,000	\$ -	\$ 115,000	\$ -
5.15% issued 6/22/06, due 6/22/07	-	70,000	-	70,000
Capital improvements fund				
3.18% issued 6/23/05, due 6/23/06	93,000	-	93,000	-
5.15% issued 6/22/06, due 6/22/07	-	93,000	-	93,000
Highway improvement note				
0.00%, issued 10/5/07, due 10/5/2017	-	133,600	-	133,600
Total long-term governmental activities	208,000	296,600	208,000	296,600
Business-type activities				
Bond anticipation notes				
Water fund				
3.18% issued 6/23/05, due 6/23/06	270,000	-	270,000	-
5.15% issued 6/22/06, due 6/22/07	-	240,000	-	240,000
Total long-term business-type activities	270,000	240,000	270,000	240,000
Total long-term notes payable	\$ 478,000	\$ 536,600	\$ 478,000	\$ 536,600

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 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	2005	2006	3.180%	115,000
Bond anticipation note	2005	2006	3.180%	93,000
Bond anticipation note	2006	2007	5.150%	70,000
Bond anticipation note	2006	2007	5.150%	93,000
Highway improvement note	2006	2017	0.000%	133,600
Ohio Public Works loan	2001	2017	0.000%	35,371
Ohio Public Works loan	2004	2013	0.000%	28,566
<u>Business-type activities</u>				
General obligation bonds				
Storm water improvements	2002	2021	5.300 - 5.075%	2,500,000
Bond anticipation note	2005	2006	3.180%	270,000
Bond anticipation note	2006	2007	5.150%	240,000
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, 2006

NOTE 10 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2006 were as follows:

	<u>Outstanding 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/06</u>	<u>Due in One Year</u>
<u>Governmental activities</u>					
General obligation bonds					
Street improvements (1986)					
7.250% through 2007	\$ 12,000	\$ -	\$ 6,000	\$ 6,000	\$ 6,000
Street improvements (1992)					
7.500% through 2007	30,000	-	15,000	15,000	15,000
Building improvement (1996)					
6.200% through 2016	135,000	-	10,000	125,000	10,000
Street improvement (2003)					
3.600% through 2018	1,080,000	-	65,000	1,015,000	65,000
Street improvement (1998)					
5.000% through 2018	370,000	-	20,000	350,000	20,000
	<u>1,627,000</u>	<u>-</u>	<u>116,000</u>	<u>1,511,000</u>	<u>116,000</u>
Special assessment bonds					
Street improvements (1983)					
11.125% through 2007	26,033	-	13,000	13,033	12,995
Bond anticipation notes	208,000	163,000	208,000	163,000	163,000
Highway improvement note	-	133,600	-	133,600	-
OPWC loans	50,934	-	5,929	45,005	5,929
Capital leases	59,749	-	23,000	36,749	19,011
Accrued leave benefits	675,411	11,703	70,163	616,951	-
	<u>\$ 2,647,127</u>	<u>\$ 308,303</u>	<u>\$ 436,092</u>	<u>\$ 2,519,338</u>	<u>\$ 316,935</u>
<u>Business-type activities</u>					
General obligation bonds					
Storm water improvement					
5.373% through 2021	\$ 2,100,000	\$ -	\$ 100,000	\$ 2,000,000	\$ 125,000
Bond anticipation notes	270,000	240,000	270,000	240,000	240,000
OPWC loans	388,947	-	25,239	363,708	25,239
Capital leases	-	281,812	56,437	225,375	56,057
Accrued leave benefits	66,540	-	6,380	60,160	-
	<u>\$ 2,825,487</u>	<u>\$ 521,812</u>	<u>\$ 458,056</u>	<u>\$ 2,889,243</u>	<u>\$ 446,296</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 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, 2006, excluding accrued leave benefits, are as follows:

Year	Governmental Activities				
	General Obligation Bonds		Special Assessment Bonds		Highway Improvement Note
	Principal	Interest	Principal	Interest	Principal
2007	\$ 116,000	\$ 73,270	\$ 12,995	\$ 1,446	\$ -
2008	105,000	67,937	38	-	13,360
2009	105,000	63,547	-	-	13,360
2010	110,000	58,614	-	-	13,360
2011	115,000	53,463	-	-	13,360
2012-2016	680,000	177,228	-	-	66,800
2017-2019	280,000	21,480	-	-	13,360
	<u>\$ 1,511,000</u>	<u>\$ 515,539</u>	<u>\$ 13,033</u>	<u>\$ 1,446</u>	<u>\$ 133,600</u>

Year	Governmental Activities			Total	
	Bond Anticipation Notes		OPWC Loans	Governmental Activities	
	Principal	Interest	Principal	Principal	Interest
2007	\$ 163,000	\$ 839	\$ 5,928	\$ 297,923	\$ 75,555
2008	-	-	5,928	124,326	67,937
2009	-	-	5,928	124,288	63,547
2010	-	-	5,928	129,288	58,614
2011	-	-	5,928	134,288	53,463
2012-2016	-	-	15,365	762,165	177,228
2017-2019	-	-	-	293,360	21,480
	<u>\$ 163,000</u>	<u>\$ 839</u>	<u>\$ 45,005</u>	<u>\$ 1,865,638</u>	<u>\$ 517,824</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 LONG-TERM DEBT (continued)

Year	Business-Type Activities			
	General Obligation Bonds		Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2007	\$ 125,000	\$ 109,826	\$ 240,000	\$ 12,360
2008	125,000	103,076	-	-
2009	125,000	96,139	-	-
2010	130,000	89,232	-	-
2011	135,000	82,066	-	-
2012-2016	770,000	298,090	-	-
2017-2021	590,000	107,144	-	-
2022-2025	-	-	-	-
	<u>\$ 2,000,000</u>	<u>\$ 885,573</u>	<u>\$ 240,000</u>	<u>\$ 12,360</u>

Year	Total		
	OPWC Loans	Business-Type Activities	
	Principal	Principal	Interest
2007	\$ 25,239	\$ 390,239	\$ 122,186
2008	25,238	150,238	103,076
2009	23,738	148,738	96,139
2010	22,238	152,238	89,232
2011	22,238	157,238	82,066
2012-2016	111,191	881,191	298,090
2017-2021	101,832	691,832	107,144
2022-2025	31,994	31,994	-
	<u>\$ 363,708</u>	<u>\$ 2,603,708</u>	<u>\$ 897,933</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 11 CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2006, assets under capital leases totaled \$ 100,082 in governmental activities and \$ 281,812 in business-type activities. 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, 2006.

Year Ending December 31,	Governmental Activities	Business-type Activities
2007	\$ 21,169	\$ 56,852
2008	18,755	56,852
2009	-	56,852
2010	-	56,852
Total minimum lease payments	39,924	227,408
Less amount representing interest	(3,175)	(2,033)
Net present value of minimum lease payments	<u>\$ 36,749</u>	<u>\$ 225,375</u>

NOTE 12 OPERATING LEASES

The City is obligated under a leases accounted for as an operating leases. Total lease expense for the year ended December 31, 2006 was \$ 9,137. 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, 2006.

Year ending December 31	Amount
2007	\$ 9,718
2008	9,718
2009	3,768
Total minimum payments	<u>\$ 23,204</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2006 member contribution rates were 9.0% for members in state, local, and public safety classifications. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. The 2006 employer contribution rate for state employers was 13.54% of covered payroll. For local government employer units, the rate was 13.70% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2006 was 16.93%.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$ 111,100, \$ 117,600, and \$ 109,800, respectively. For 2006 \$ 66,600 (55%) has been contributed. The balance was subsequently contributed in 2007. The full amount has been contributed for 2005 and 2004.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters pensions, respectively, were \$ 80,000 and \$ 133,400 for the year ended December 31, 2006, \$ 77,700 and \$ 147,600 for the year ended December 31, 2005, and \$ 72,100 and \$ 121,500 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. For 2006, \$ 37,000 (46%) and \$ 79,600 (60%) has been contributed for police and firefighters pensions, respectively. The balance was subsequently paid in 2007.

NOTE 14 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2006, state employers contributed at a rate of 13.54% of covered payroll, local government employer units contributed at 13.70% of covered payroll, and public safety and law enforcement employer units contributed at 16.93%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units, and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2006, the employer contribution allocated to the health care plan was 4.5% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City contributions to fund postemployment benefits for the years ended December 31, 2006, 2005, and 2004 were \$ 36,500, \$ 49,200, and \$ 32,400 respectively. For 2006 \$ 20,100 (55%) has been contributed. The balance was subsequently contributed in 2007. The full amount has been contributed for 2005 and 2004.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. 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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors 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.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$ 51,200 for police and \$ 70,400 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, the date of the last valuation available, was \$ 108,039,449, which was net of member contributions of \$ 55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters

NOTE 15 RISK MANAGEMENT

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

NOTE 16 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2006, 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, 2006.

NOTE 17 CONTINGENCIES

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 18 INTERFUND BALANCES AND TRANSFERS

At December 31, 2006 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, 2006 consisted of the following:

	Transferred from:	
General Fund	Non-major Governmental Funds	Total
<u>Transferred to:</u>		
Non-major governmental funds	\$ 63,471	\$ 113,762
		\$ 177,233

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

NOTE 19 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

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

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 20 SUBSEQUENT EVENTS

In 2006, the City was granted two interest free loans in the amounts of \$ 100,000 and \$ 65,000 from the Ohio Public Works Commission. As of December 31, 2006, the City had not received any loan proceeds.

Subsequent to December 31, 2006, the City issued tax anticipation notes in the amount of \$300,000 due to mature on November 30, 2007 for the purpose of funding retroactive pay for the fire and police departments.

Subsequent to December 31, 2006, the City's \$ 403,000 of bond anticipation notes due to mature in June 2007 were refinanced into \$298,000 bond anticipation notes with a maturity date of June 2008.

Subsequent to December 31, 2006, the City entered into a four year capital lease in the amount of \$18,154 per year for three police cruisers.

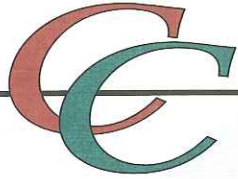
Subsequent to year end, the City entered into two operating leases in the amount of \$ 426 per month for a period of 60 months for office equipment.

CITY OF SHEFFIELD LAKE
SUPPLEMENTAL AUDITOR'S REPORTS
DECEMBER 31, 2006

CITY OF SHEFFIELD LAKE

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

YEAR ENDED JUNE 30, 2006



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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2007. 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 June 28, 2007.

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 June 28, 2007.

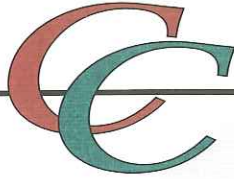
This report is intended solely for the information and use of the management, others within the organization and City Council and is not intended to be and should not be used by anyone other than these specified parties.

North Ridgeville, Ohio
June 28, 2007

CITY OF SHEFFIELD LAKE

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

YEAR ENDED DECEMBER 31, 2006



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road
North Ridgeville, OH 44039

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

To the City Council
City of Sheffield Lake, Ohio

Compliance

We have audited the compliance of the City of Sheffield Lake, Ohio, (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Sheffield Lake's management. Our responsibility is to express an opinion on the City of Sheffield Lake's compliance based on our audit.

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

In our opinion, the City of Sheffield Lake, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

Schedule of Federal Awards Expenditures

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by OMB Circular A - 133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

June 28, 2007

CITY OF SHEFFIELD LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
YEAR ENDED DECEMBER 31, 2006

CITY OF SHEFFIELD LAKE, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133§.500

DECEMBER 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510	No
(d)(1)(vii)	Major Programs	20.205 Highway Planning and Construction
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(x)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS None

CITY OF SHEFFIELD LAKE
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006

CITY OF SHEFFIELD LAKE, OHIO
SCHEDULE OF FEDERAL AWARDS EXPENDITURES

DECEMBER 31, 2006

	<u>CFDA Number</u>	<u>Pass Through Entity Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditure</u>
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed Through the Ohio Department of Development</i>				
Community Development Block Grant Small Cities Program	14.219		\$ 42,014	\$ 42,014
HOME Investment Partnerships Program	14.239	A-C-05-175-2	69,851	62,901
Total U.S. Department of Housing and Urban Development			<u>111,865</u>	<u>104,915</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the Ohio Department of Transportation</i>				
Highway Planning and Construction	20.205	06N080	604,939	604,939
Total U.S. Department of Transportation			<u>604,939</u>	<u>604,939</u>
Total Federal Financial Assistance			<u>\$ 716,804</u>	<u>\$ 709,854</u>



Mary Taylor, CPA
Auditor of State

CITY OF SHEFFIELD LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 4, 2007**