

Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 25, 2007

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

The discussion and analysis of Sheffield-Sheffield Lake City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2006 are as follows:

- In total, net assets increased by \$3,480,715.
- Revenues for governmental activities totaled \$19,652,155 in 2006. Of this total, 88.6 percent consisted of General revenues while Program revenues accounted for the balance of 11.4 percent.
- Program expenses totaled \$16,171,440. Instructional expenses made up 58.9 percent of this total while support services accounted for 35.9 percent. Other expenses rounded out the remaining 5.2 percent.
- Outstanding general obligation debt decreased to \$ 579,221 from \$1,488,443 in 2005.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

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

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

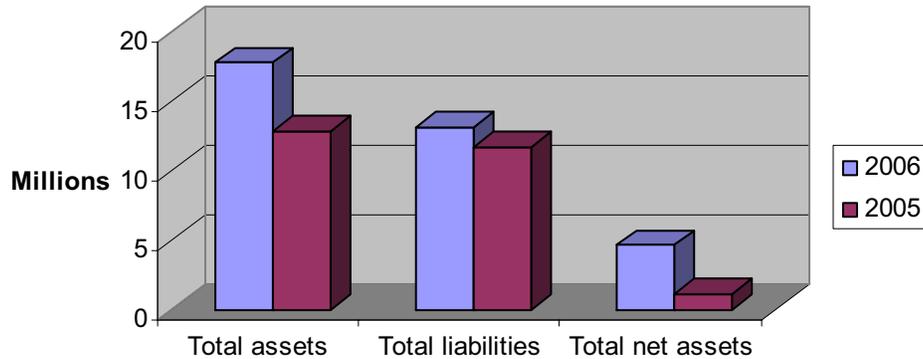
The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets
Governmental Activities

| | 2006 | 2005 | Change |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 15,355,882 | \$ 10,484,777 | \$ 4,871,105 |
| Capital assets, net | 2,421,621 | 2,379,350 | 42,271 |
| Total assets | <u>17,777,503</u> | <u>12,864,127</u> | <u>4,913,376</u> |
| Liabilities | | | |
| Other liabilities | 11,123,569 | 9,064,498 | 2,059,071 |
| Long term liabilities | 2,040,192 | 2,666,602 | (626,410) |
| Total liabilities | <u>13,163,761</u> | <u>11,731,100</u> | <u>1,432,661</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 2,203,621 | 2,066,380 | 137,241 |
| Restricted | 378,669 | 455,419 | (76,750) |
| Unrestricted (deficit) | 2,031,452 | (1,388,772) | 3,420,224 |
| Total net assets | <u>\$ 4,613,742</u> | <u>\$ 1,133,027</u> | <u>\$ 3,480,715</u> |

Net Assets (Governmental Activities)



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the net assets were \$4,613,742.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

At year-end capital assets represented 13.6% of total assets. Capital assets include land, construction in progress, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$2,203,621. These capital assets are used to provide services to the students and are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$ 378,669, represents resources that are subject to external restriction on how they are spent. The remaining balance of unrestricted net assets of \$2,031,452 may be used to meet the District's ongoing obligations to the students and creditors.

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

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$17,414,977 or 88.6 percent of the total revenue. The most significant portion of the General revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$2,237,178 or only 11.4 percent of total revenue.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

Table 2 shows the changes in net assets for fiscal year 2006. This is the third year the School District has prepared financial statements following GASB Statement 34, allowing revenue and expense comparisons to fiscal year 2005 to be available.

Table 2
Governmental Activities

| | 2006 | % | 2005 | % |
|--|--------------------|----------------|-------------------|----------------|
| | | of Total | | of Total |
| General revenues | | | | |
| Property taxes levied for: | | | | |
| General purpose | 10,542,484 | 53.65% | \$9,683,576 | 51.72% |
| Capital improvements | 301,506 | 1.54% | 320,964 | 1.71% |
| Grants and entitlements not restricted to specific purpose | 6,396,482 | 32.55% | 6,339,275 | 33.86% |
| Investment earnings | 154,135 | 0.78% | 49,464 | 0.26% |
| Miscellaneous | 20,370 | 0.10% | 79,860 | 0.43% |
| Total general revenues | <u>17,414,977</u> | <u>88.62%</u> | <u>16,473,139</u> | <u>87.98%</u> |
| Program revenues | <u>2,237,178</u> | <u>11.38%</u> | <u>2,250,709</u> | <u>12.02%</u> |
| Total revenue | <u>19,652,155</u> | <u>100.00%</u> | <u>18,723,848</u> | <u>100.00%</u> |
| Governmental activities | | | | |
| Instruction | | | | |
| Regular | 7,359,706 | 45.51% | 8,055,929 | 45.05% |
| Special | 1,872,758 | 11.58% | 2,277,829 | 12.74% |
| Vocational | 268,624 | 1.66% | 293,260 | 1.64% |
| Other instruction | 17,801 | 0.11% | 31,307 | 0.18% |
| Supporting services | | | | |
| Pupil | 1,027,994 | 6.36% | 1,117,054 | 6.25% |
| Instructional staff | 487,165 | 3.01% | 607,105 | 3.40% |
| Board of education | 34,250 | 0.21% | 30,860 | 0.17% |
| Administration | 1,322,444 | 8.18% | 1,341,861 | 7.50% |
| Fiscal services | 434,293 | 2.69% | 391,501 | 2.19% |
| Business | 95,299 | 0.59% | 157,886 | 0.88% |
| Operation and maintenance | 1,542,030 | 9.54% | 1,517,016 | 8.48% |
| Pupil transportation | 682,359 | 4.22% | 762,037 | 4.26% |
| Central services | 184,696 | 1.14% | 175,513 | 0.98% |
| Operation of non-instructional services | | | | |
| Food service operation | 400,945 | 2.48% | 584,134 | 3.27% |
| Community services | 68,683 | 0.42% | 47,631 | 0.27% |
| Extracurricular activities | 348,328 | 2.15% | 433,896 | 2.43% |
| Interest | 24,065 | 0.15% | 56,738 | 0.32% |
| Totals | <u>16,171,440</u> | <u>100.00%</u> | <u>17,881,557</u> | <u>100.00%</u> |
| Change in net assets | <u>\$3,480,715</u> | | <u>\$ 842,291</u> | |

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

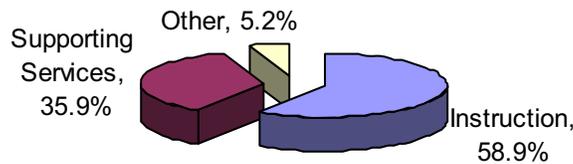
Governmental Activities

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

The primary source of revenue for governmental activities is derived from property taxes. Property taxes made up 55.2 percent of revenues for governmental activities for the Sheffield-Sheffield Lake City School District in fiscal year 2006.

The largest Governmental Activities program expense remains instruction, comprising 58.9 percent of total expenses. When combined with pupil, staff and business operations, these categories encompass 94.8 percent. The remaining program expenses of 5.2 percent are budgeted to facilitate other obligations of the School District, such as food service programs, community service activities, numerous extracurricular activities and interest payments.

Program Expenses



Effective July 1, 2005 the District implemented \$1,284,000 in cost reductions. The reductions included reductions in force totaling nearly thirty (30) positions district wide and limiting purchases of instructional materials, computers and text books.

On November 8, 2005 the taxpayers of the District passed a five-year 5.99 mill Emergency Operating Levy that will provide \$1,894,000 per year for the life of the levy. The District's taxpayers, as a whole, are by far the primary support for the District's students.

In May of 2006, the District was released from Fiscal Emergency by the Auditor of State.

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

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

Table 3
Governmental Activities

| | Total Cost Of Services | Net Cost Of Services |
|---|---------------------------|-------------------------|
| Governmental activities | | |
| Instruction | | |
| Regular | \$ 7,359,706 | \$ (6,425,221) |
| Special | 1,872,758 | (1,264,765) |
| Vocational | 268,624 | (268,624) |
| Other instruction | 17,801 | (17,801) |
| Supporting services | | |
| Pupil | 1,027,994 | (954,381) |
| Instructional staff | 487,165 | (435,187) |
| Board of education | 34,250 | (34,250) |
| Administration | 1,322,444 | (1,322,444) |
| Fiscal services | 434,293 | (434,293) |
| Business | 95,299 | (95,299) |
| Operation and maintenance | 1,542,030 | (1,542,030) |
| Pupil transportation | 682,359 | (681,859) |
| Central services | 184,696 | (160,118) |
| Operation of non-instructional services | | |
| Food service operation | 400,945 | 32,982 |
| Community services | 68,683 | (14,019) |
| Extracurricular activities | 348,328 | (292,888) |
| Interest | 24,065 | (24,065) |
| Totals | \$ 16,171,440 | \$(13,934,262) |

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 67.1 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 39.6 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 13.8 percent of all governmental expenses.

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

School District Funds

Information regarding the School District's major fund can be found on page 15. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 19,666,726 and expenditures of \$ 17,365,411. The net change in fund balance for the year was most significant in the General Fund, an increase of \$ 2,232,206 with an additional increase in the other funds totaling \$ 73,337.

General Fund Budgeting Highlights

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

For the General Fund, final budget estimated revenue was \$18.6 million. The actual revenue received was \$17.6 million.

Final budget estimated expenditures were \$ 16.5 million. The actual expenditures on the budget basis (cash outlays plus encumbrances) were \$ 16.4 million.

Capital Assets and Debt Administration

At the end of fiscal 2006 the School District had \$2.4 million invested in land, construction in progress, building and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2006 values compared to 2005.

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

| | 2006 | 2005 |
|---------------------------|---------------------|---------------------|
| Land | \$ 461,310 | \$ 461,310 |
| Construction in progress | 90,468 | - |
| Building and improvements | 1,029,820 | 1,035,075 |
| Furniture and equipment | 705,167 | 716,167 |
| Vehicles | 134,856 | 166,798 |
| | <u>\$ 2,421,621</u> | <u>\$ 2,379,350</u> |

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Unaudited

Debt

At June 30, 2006, the School District had no outstanding bonds. The School District's debt consists of two energy conservation notes totaling \$218,000 and a Solvency Assistance Fund Advance of \$361,221. This advance will be repaid during Fiscal 2007.

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

School District Outlook

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

The District relies heavily upon real estate taxes, personal property taxes and state funding as sources of revenue. The School District's financial future took a turn for the better with the passage of a 5.99 mill five-year Emergency Operating Levy on November 8, 2005.

State funding continues to be a challenge not only in the Sheffield-Sheffield Lake City School District but statewide. Significant changes are not expected any time soon. Until the state provides an adequate/equitable system of funding education, the District will continue to depend on the residents of the District to bear the cost of educating our children.

The financial statements represent our continued effort to keep the District informed of the use of their tax dollars and the cost to the District to maintain the excellence in education provided our students and expected of our community.

Contacting the School District's Financial Management

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

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2006

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Equity in pooled cash | \$ 2,738,823 |
| Cash with fiscal agent | 923,626 |
| Due from other governments | 75,511 |
| Taxes receivable | 11,617,922 |
| Capital assets | |
| Nondepreciable capital assets | 551,778 |
| Depreciable capital assets, net | 1,869,843 |
| Total assets | 17,777,503 |
| Liabilities | |
| Accounts and contracts payable | 39,580 |
| Accrued salaries, wages and benefits | 1,256,322 |
| Claims payable | 482,740 |
| Due to other governments | 447,447 |
| Accrued interest payable | 917 |
| Unearned revenue | 8,896,563 |
| Long-term liabilities | |
| Due within one year | 543,039 |
| Due in more than one year | 1,497,153 |
| Total liabilities | 13,163,761 |
| Net assets | |
| Invested in capital assets, net of related debt | 2,203,621 |
| Restricted for: | |
| Capital projects | 227,261 |
| School support | 106,017 |
| Extracurricular activities | 8,908 |
| State grants | 5,979 |
| Federal grants | 29,485 |
| Other purposes | 1,019 |
| Unrestricted | 2,031,452 |
| Total net assets | \$ 4,613,742 |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

| | Expenses | Program Revenues | | Net (Expense) |
|---|----------------------|--------------------------------------|---|---|
| | | Charges for Services and Sales | Operating Grants Interest and Contributions | Revenue and Changes in Net Assets |
| Governmental activities | | | | |
| Instruction | | | | |
| Regular | \$ 7,359,706 | \$ 807,267 | \$ 127,218 | \$ (6,425,221) |
| Special | 1,872,758 | - | 607,993 | (1,264,765) |
| Vocational | 268,624 | - | - | (268,624) |
| Other instruction | 17,801 | - | - | (17,801) |
| Supporting services | | | | |
| Pupil | 1,027,994 | 61,784 | 11,829 | (954,381) |
| Instructional staff | 487,165 | - | 51,978 | (435,187) |
| Board of education | 34,250 | - | - | (34,250) |
| Administration | 1,322,444 | - | - | (1,322,444) |
| Fiscal services | 434,293 | - | - | (434,293) |
| Business | 95,299 | - | - | (95,299) |
| Operation and maintenance | 1,542,030 | - | - | (1,542,030) |
| Pupil transportation | 682,359 | - | 500 | (681,859) |
| Central services | 184,696 | - | 24,578 | (160,118) |
| Operation of non-instructional services | | | | |
| Food service operation | 400,945 | 265,335 | 168,592 | 32,982 |
| Community services | 68,683 | 54,664 | - | (14,019) |
| Extracurricular activities | 348,328 | 55,440 | - | (292,888) |
| Interest | 24,065 | - | - | (24,065) |
| Totals | <u>\$ 16,171,440</u> | <u>\$ 1,244,490</u> | <u>\$ 992,688</u> | <u>(13,934,262)</u> |

General revenues

Property taxes levied for:

| | |
|---|-------------------|
| General purpose | 10,542,484 |
| Capital improvements | 301,506 |
| Grants and entitlements not restricted to specific purposes | 6,396,482 |
| Investment earnings | 154,135 |
| Miscellaneous | 20,370 |
| Total general revenues | <u>17,414,977</u> |

Change in net assets

| | |
|---------------------------------|---------------------|
| Change in net assets | 3,480,715 |
| Net assets at beginning of year | 1,133,027 |
| Net assets at end of year | <u>\$ 4,613,742</u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Equity in pooled cash | \$ 2,404,958 | \$ 333,865 | \$ 2,738,823 |
| Receivables, net of allowance | | | |
| Taxes, current | 11,004,683 | 305,186 | 11,309,869 |
| Taxes, delinquent | 299,824 | 8,229 | 308,053 |
| Due from other governments | - | 75,511 | 75,511 |
| Interfund receivable | 30,105 | - | 30,105 |
| Total assets | \$ 13,739,570 | \$ 722,791 | \$ 14,462,361 |
| Liabilities and fund balances | | | |
| Liabilities | | | |
| Accounts and contracts payable | 12,062 | 27,518 | \$ 39,580 |
| Accrued salaries, wages and benefits | 1,205,343 | 50,979 | 1,256,322 |
| Due to other governments | 397,247 | 17,268 | 414,515 |
| Interfund payable | - | 30,105 | 30,105 |
| Deferred revenue | 8,961,412 | 255,661 | 9,217,073 |
| Compensated absences payable | 68,520 | - | 68,520 |
| Total liabilities | 10,644,584 | 381,531 | 11,026,115 |
| Fund balances | | | |
| Reserved for property taxes | 2,343,095 | 70,211 | 2,413,306 |
| Reserved for encumbrances | 159,152 | 59,524 | 218,676 |
| Unreserved, reported in | | | |
| General Fund | 592,739 | - | 592,739 |
| Special Revenue Funds | - | 89,514 | 89,514 |
| Capital Projects Funds | - | 122,011 | 122,011 |
| Total fund balances | 3,094,986 | 341,260 | 3,436,246 |
| Total liabilities and fund balances | \$ 13,739,570 | \$ 722,791 | \$ 14,462,361 |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

| | | |
|--|----|-------------|
| Total governmental fund balances | \$ | 3,436,246 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | | 2,421,621 |
| Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes. | | 320,510 |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | 440,886 |
| Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. | | (32,932) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| Compensated absences | | (1,392,451) |
| Notes payable | | (218,000) |
| Loans payable | | (361,221) |
| Interest payable | | (917) |
| | | (1,972,589) |
| Net assets of governmental activities | \$ | 4,613,742 |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2006

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$ 10,591,611 | \$ 304,596 | \$ 10,896,207 |
| Tuition and fees | 727,227 | 75,160 | 802,387 |
| Interest | 128,876 | 241 | 129,117 |
| Intergovernmental | 6,362,435 | 1,063,706 | 7,426,141 |
| Charges for services | - | 255,938 | 255,938 |
| Extracurricular | - | 73,276 | 73,276 |
| Other | 24,469 | 59,191 | 83,660 |
| Total revenues | <u>17,834,618</u> | <u>1,832,108</u> | <u>19,666,726</u> |
| Expenditures | | | |
| Current | | | |
| Instruction | | | |
| Regular | 7,241,692 | 281,543 | 7,523,235 |
| Special | 1,966,447 | 209,138 | 2,175,585 |
| Vocational | 261,603 | - | 261,603 |
| Other instruction | 19,876 | - | 19,876 |
| Supporting services | | | |
| Pupil | 859,851 | 282,461 | 1,142,312 |
| Instructional staff | 424,477 | 76,740 | 501,217 |
| Board of education | 27,136 | 581 | 27,717 |
| Administration | 1,290,060 | 10,662 | 1,300,722 |
| Fiscal services | 430,852 | 5,205 | 436,057 |
| Business | 90,431 | - | 90,431 |
| Operation and maintenance | 1,429,619 | 198,111 | 1,627,730 |
| Pupil transportation | 708,517 | 617 | 709,134 |
| Central services | 160,159 | 31,639 | 191,798 |
| Operation of non-instructional services | | | |
| Food service operation | - | 465,490 | 465,490 |
| Community services | - | 73,897 | 73,897 |
| Extracurricular activities | 260,708 | 78,728 | 339,436 |
| Debt service | | | |
| Principal | 366,733 | 88,000 | 454,733 |
| Interest | 11,193 | 13,245 | 24,438 |
| Total expenditures | <u>15,549,354</u> | <u>1,816,057</u> | <u>17,365,411</u> |
| Excess (deficiency) of revenues over expenditures | <u>2,285,264</u> | <u>16,051</u> | <u>2,301,315</u> |
| Other financing sources (uses) | | | |
| Transfers-in | - | 57,286 | 57,286 |
| Proceeds from the sale of assets | 4,228 | - | 4,228 |
| Transfers-out | (57,286) | - | (57,286) |
| Total other financing sources (uses) | <u>(53,058)</u> | <u>57,286</u> | <u>4,228</u> |
| Net change in fund balances | 2,232,206 | 73,337 | 2,305,543 |
| Fund balances, beginning of year | <u>862,780</u> | <u>267,923</u> | <u>1,130,703</u> |
| Fund balances, end of year | <u>\$ 3,094,986</u> | <u>\$ 341,260</u> | <u>\$ 3,436,246</u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

| | | |
|---|----------------------|----------------------------|
| Net change in fund balances - total governmental funds | | \$ 2,305,543 |
| <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 exceeded capital outlay in the current period.</p> | | |
| | Capital outlay, net | 297,728 |
| | Depreciation expense | <u>(255,457)</u> |
| | Total | 42,271 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | Property taxes | (52,217) |
| | Intergovernmental | <u>12,457</u> |
| | | (39,760) |
| <p>Repayment of note and capital lease principal and interest is an expenditure in the governmental funds, but the repayment reduces long-term liabilities and accrued interest in the statement of net assets</p> | | |
| | | 455,106 |
| <p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> | | |
| | Compensated absences | 121,373 |
| | Pension obligations | <u>219,518</u> |
| | | 340,891 |
| <p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p> | | |
| | | <u>376,664</u> |
| Change in net assets of governmental activities | | <u><u>\$ 3,480,715</u></u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2006

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|-------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Revenues | | | | |
| Taxes | \$ 9,680,269 | \$ 10,771,927 | \$ 10,188,903 | \$ (583,024) |
| Tuition and fees | 499,198 | 768,840 | 727,227 | (41,613) |
| Interest | 40,411 | 136,250 | 128,876 | (7,374) |
| Charges for services | - | 135,571 | 128,233 | (7,338) |
| Intergovernmental | 5,395,496 | 6,735,924 | 6,371,346 | (364,578) |
| Other | 8,726 | 25,869 | 24,469 | (1,400) |
| Total revenues | <u>15,624,100</u> | <u>18,574,381</u> | <u>17,569,054</u> | <u>(1,005,327)</u> |
| Expenditures | | | | |
| Current | | | | |
| Instruction | | | | |
| Regular | 7,604,945 | 7,461,605 | 7,433,037 | 28,568 |
| Special | 1,768,899 | 2,001,599 | 1,996,464 | 5,135 |
| Vocational | 323,320 | 344,820 | 312,632 | 32,188 |
| Other instruction | 19,065 | 19,765 | 19,479 | 286 |
| Supporting services | | | | |
| Pupil | 833,303 | 908,603 | 852,096 | 56,507 |
| Instructional staff | 511,823 | 461,523 | 427,472 | 34,051 |
| Board of education | 27,720 | 32,420 | 27,148 | 5,272 |
| Administration | 1,190,624 | 1,217,724 | 1,317,820 | (100,096) |
| Fiscal services | 414,017 | 429,617 | 427,596 | 2,021 |
| Business | 112,558 | 144,558 | 109,480 | 35,078 |
| Operation and maintenance | 1,257,960 | 1,342,960 | 1,407,408 | (64,448) |
| Pupil transportation | 638,400 | 833,900 | 816,693 | 17,207 |
| Central services | 158,545 | 183,145 | 173,076 | 10,069 |
| Extracurricular activities | 294,312 | 292,747 | 260,910 | 31,837 |
| Debt service | | | | |
| Principal | 821,222 | 807,977 | 821,222 | (13,245) |
| Interest | 13,340 | 26,585 | 13,340 | 13,245 |
| Total expenditures | <u>15,990,053</u> | <u>16,509,548</u> | <u>16,415,873</u> | <u>93,675</u> |
| Excess (deficiency) of revenues over expenditures | <u>(365,953)</u> | <u>2,064,833</u> | <u>1,153,181</u> | <u>(911,652)</u> |
| Other financing sources (uses) | | | | |
| Advances-in | - | - | 38,817 | 38,817 |
| Proceeds from the sale of assets | - | - | 4,228 | 4,228 |
| Advances-out | - | - | (30,105) | (30,105) |
| Transfers-out | (24,500) | (24,500) | (57,286) | (32,786) |
| Total other financing sources (uses) | <u>(24,500)</u> | <u>(24,500)</u> | <u>(44,346)</u> | <u>(22,846)</u> |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | <u>(390,453)</u> | <u>2,040,333</u> | <u>1,108,835</u> | <u>(934,498)</u> |
| Fund balances, beginning of year | 622,208 | 622,208 | 622,208 | - |
| Prior year encumbrances | 510,853 | 510,853 | 510,853 | - |
| Fund balances, end of year | <u>\$ 742,608</u> | <u>\$ 3,173,394</u> | <u>\$ 2,241,896</u> | <u>\$ (934,498)</u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS
INTERNAL SERVICE FUND

JUNE 30, 2006

| | <u>Internal Service Fund - Self Insurance</u> |
|-----------------------|---|
| Assets | |
| Equity in pooled cash | <u>\$ 923,626</u> |
| Liabilities | |
| Claims payable | <u>482,740</u> |
| Total liabilities | <u>482,740</u> |
| Net assets | |
| Unrestricted | <u>\$ 440,886</u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR JUNE 30, 2006

| | Internal Service Fund - Self Insurance |
|-------------------------------|--|
| Operating revenues | |
| Charges for services | \$ 2,231,511 |
| Operating expenses | |
| Purchased services | 100,572 |
| Claims | 1,779,293 |
| Total operating expenses | 1,879,865 |
| Operating income | 351,646 |
| Non-operating revenue | |
| Interest | 25,018 |
| Change in net assets | 376,664 |
| Net assets, beginning of year | 64,222 |
| Net assets, end of year | \$ 440,886 |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND

FOR THE YEAR JUNE 30, 2006

| | <u>Internal Service Fund - Self Insurance</u> |
|---|---|
| Cash flows from operating activities | |
| Cash received from interfund services | \$ 2,231,511 |
| Cash payments for goods and services | (100,572) |
| Cash payments for claims | (1,771,129) |
| Net cash provided by operating activities | <u>359,810</u> |
| | |
| Cash flows from investing activities | |
| Interest | <u>25,018</u> |
| | |
| Net increase in cash and cash equivalents | 384,828 |
| | |
| Cash and cash equivalents, beginning of year | <u>538,798</u> |
| | |
| Cash and cash equivalents, end of year | <u><u>\$ 923,626</u></u> |
| | |
| Reconciliation of operating loss to net cash used for operating activities | |
| Operating income | \$ 351,646 |
| Adjustments | |
| Increase in claims payable | <u>8,164</u> |
| Net cash provided by operating activities | <u><u>\$ 359,810</u></u> |

See the accompanying notes to the Basic Financial Statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2006

| | <u>Agency Funds</u> |
|-----------------------|---------------------|
| Assets | |
| Equity in pooled cash | \$ 69,510 |
| Total assets | <u>69,510</u> |
| Liabilities | |
| Due to students | 55,116 |
| Due to others | 14,394 |
| Total liabilities | <u>\$ 69,510</u> |

See the accompanying notes to the Basic Financial Statements.

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Sheffield-Sheffield Lake City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2005 was 1,812. The District employs 134 certificated and 103 non-certificated employees.

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

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

The District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council of Governments (LERC), the Lorain County Joint Vocational School District and the Ohio School Council. These organizations and their relationships with the District are described in more detail in Notes 10 and 17 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds (continued)

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

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

Proprietary Fund

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no Trust Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. MEASUREMENT FOCUS

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

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

E. BUDGETARY PROCESS

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

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

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

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio). Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2006, totaled \$ 154,135.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2006.

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

G. INVENTORY

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

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

H. RESTRICTED ASSETS

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

I. CAPITAL ASSETS

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

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

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and improvements | 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 8 years |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

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

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

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

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

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

The government-wide statement of net assets reports \$ 378,669 of restricted net assets, none of which is restricted by enabling legislation.

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

N. FUND BALANCE RESERVES AND DESIGNATIONS

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. INTERFUND TRANSACTIONS

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

Q. ESTIMATES

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

At June 30, 2006, the following funds had deficit fund balances. The General Fund is liable for deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

| | |
|---------------------------------|-------------|
| Nonmajor Funds: | |
| Food Service | \$ (34,094) |
| High School Critical Transition | (8,134) |
| Preschool Disability | (4,838) |
| Miscellaneous Federal Grants | (946) |
| Total | \$ (48,012) |

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

| Net Change in Fund Balance | |
|----------------------------------|--------------|
| Budget basis | \$ 1,108,835 |
| Adjustments, increase (decrease) | |
| Revenue accruals | 265,564 |
| Expenditure accruals | 866,519 |
| Other sources (uses) | (8,712) |
| GAAP basis, as reported | \$ 2,232,206 |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

A. LEGAL REQUIREMENTS(continued)

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

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

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

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the District's deposits was \$ 1,000,655 and the bank balance was \$ 1,185,895. Of the bank balance, \$100,000 was covered by federal depository insurance and \$ 1,085,475 was uninsured. Of the remaining balance, \$ 1,085,475 was collateralized with securities held by the pledging institution's trust department not in the District's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District 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 June 30, 2006, the District had the following investments:

| | Maturity | Fair Value |
|---|----------|---------------|
| Investment in State Treasurer's Investment Pool | n/a | \$ 2,730,604 |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

D. INTEREST RATE RISK

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

E. CREDIT RISK

The District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2006, the District's investments in StarOhio were rated AAAM by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected from tangible personal property, other than public utility, in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value of inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2005/2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2006, was \$ 2,343,095 in the General Fund and \$ 70,211 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

| | 2005 Second - Half Collections | | | 2006 First - Half Collections | |
|---|-----------------------------------|---------------|---|----------------------------------|---------------|
| | Amount | % | | Amount | % |
| Agricultural/Residential | \$ 203,687,680 | 63.01 | % | \$ 206,925,540 | 63.24 |
| Commercial/Industrial | 82,294,190 | 25.46 | | 87,762,890 | 26.82 |
| Public Utilities | 1,307,210 | 0.40 | | 7,855,690 | 2.40 |
| Tangible Personal Property | 35,980,806 | 11.13 | | 24,680,027 | 7.54 |
| Total Assessed Value | <u>\$ 323,269,886</u> | <u>100.00</u> | % | <u>\$ 327,224,147</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | <u>\$ 51.33</u> | | | <u>\$ 57.16</u> | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, interfund, and amounts due from other governments. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

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

| | Amount |
|----------------------------------|------------------|
| Governmental Activities | |
| Food Service | \$ 22,317 |
| Ohio Reads | 10,139 |
| High Schools that Work | 2,847 |
| IDEA | 21,953 |
| High School Critical Transition | 10,000 |
| Title I TA | 1,234 |
| Title VI SDFSC | 730 |
| ECSE | 179 |
| Title II A | 6,112 |
| Total due from other governments | <u>\$ 75,511</u> |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 – INTERFUND ADVANCES

Interfund receivables and payables at June 30, 2006 are as follows:

| Major Fund: | Receivable | Payable |
|---------------------------------|------------------|------------------|
| General Fund | <u>\$ 30,105</u> | <u>\$ -</u> |
| Non-major funds: | | |
| Ohio Reads | - | 6,740 |
| High Schools that Work | - | 1,647 |
| Title VI B | - | 7,932 |
| High School Critical Transition | - | 8,134 |
| Preschool Disabilities | - | 4,687 |
| Title II A | - | 18 |
| Miscellaneous Federal Grants | - | 947 |
| Total non-major funds | <u>-</u> | <u>30,105</u> |
| Total | <u>\$ 30,105</u> | <u>\$ 30,105</u> |

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | Balance June 30, 2005 | Additions | Disposals | Balance June 30, 2006 |
|--|--------------------------|------------------|-----------------|--------------------------|
| Governmental Activities | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$ 461,310 | \$ - | \$ - | \$ 461,310 |
| Construction in progress | - | 90,468 | - | 90,468 |
| Total nondepreciable capital assets | <u>461,310</u> | <u>90,468</u> | <u>-</u> | <u>551,778</u> |
| Depreciable capital assets | | | | |
| Buildings and improvements | 4,429,317 | 69,908 | - | 4,499,225 |
| Furniture and equipment | 2,010,469 | 121,318 | 57,064 | 2,074,723 |
| Vehicles | 1,312,175 | 20,135 | - | 1,332,310 |
| Total capital assets being depreciated | <u>7,751,961</u> | <u>211,361</u> | <u>57,064</u> | <u>7,906,258</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 3,394,242 | 75,163 | - | 3,469,405 |
| Furniture and equipment | 1,294,302 | 128,217 | 52,963 | 1,369,556 |
| Vehicles | 1,145,377 | 52,077 | - | 1,197,454 |
| Total accumulated depreciation | <u>5,833,921</u> | <u>255,457</u> | <u>52,963</u> | <u>6,036,415</u> |
| Depreciable capital assets, net of accumulated depreciation | <u>1,918,040</u> | <u>(44,096)</u> | <u>4,101</u> | <u>1,869,843</u> |
| Governmental activities capital assets, net | <u>\$ 2,379,350</u> | <u>\$ 46,372</u> | <u>\$ 4,101</u> | <u>\$ 2,421,621</u> |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

| | | |
|---|-----------|----------------|
| Instruction | | |
| Regular | \$ | 84,857 |
| Special | | 11,774 |
| Vocational education | | 8,817 |
| Supporting services | | |
| Pupil | | 5,539 |
| Instructional staff | | 15,049 |
| Board of education | | 6,533 |
| Administration | | 8,496 |
| Fiscal services | | 1,159 |
| Business | | 5,909 |
| Operation and maintenance | | 10,276 |
| Pupil transportation | | 56,395 |
| Central services | | 107 |
| Operation of non-instructional services | | |
| Food service operation | | 21,472 |
| Community service | | 341 |
| Extracurricular activities | | 18,733 |
| Total depreciation expense | <u>\$</u> | <u>255,457</u> |

NOTE 10 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with the Indiana Insurance Company for property and casualty insurance. Professional liability is covered by the Ohio School Council with a \$ 1,000,000 per occurrence and a \$ 3,000,000 aggregate limit. Settled claims have not exceeded this commercial coverage in any of the past several years.

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

B. WORKERS' COMPENSATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 10 - RISK MANAGEMENT (continued)

C. EMPLOYEE MEDICAL BENEFITS

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December, 1988. The LERC is a claims-servicing pool comprised of eleven Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating School District would be liable for all outstanding claims beyond their individual balance. The LERC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$ 75 for single and \$ 125 for family coverage.

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

The claim liability of \$ 482,740 reported at June 30, 2006, was estimated by LERC and is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2006 and 2005 are summarized below. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

| | June 30, 2006 | June 30, 2005 |
|----------------------------------|---------------|---------------|
| Unpaid claims, beginning of year | \$ 474,576 | \$ 450,648 |
| Incurred claims | 1,779,293 | 1,836,467 |
| Claims payment | (1,771,129) | (1,812,539) |
| Unpaid claims, end of year | \$ 482,740 | \$ 474,576 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$227,116, \$302,900, and \$310,500, respectively; 33 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$971,036, \$1,134,900, and \$1,120,600, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$74,695 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$289,687.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 13 – TAX ANTICIPATION NOTE

The following is a description of the tax anticipation note activity as of June 30, 2006:

| | Outstanding July 1, 2005 | Additions | Retired | Outstanding June 30, 2006 |
|------------------------------|-----------------------------|-----------|------------|------------------------------|
| Tax anticipation note (2000) | | | | |
| 5.8% through 2005 | \$ 460,000 | \$ - | \$ 460,000 | \$ - |

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2006 were as follows:

| | Balance June 30, 2005 | Additions | Retired | Balance June 30, 2006 | Amounts Due In One Year |
|----------------------------|--------------------------|------------|--------------|--------------------------|----------------------------|
| Energy conservation notes: | | | | | |
| 1998, 5.15% | \$ 213,000 | \$ - | \$ 67,000 | \$ 146,000 | \$ 71,000 |
| 1999, 4.85% | 93,000 | - | 21,000 | 72,000 | 23,000 |
| Total notes | 306,000 | - | 88,000 | 218,000 | 94,000 |
| Loan payable | 722,443 | - | 361,222 | 361,221 | 361,221 |
| Capital leases | 5,511 | - | 5,511 | - | - |
| Compensated absences | 1,632,648 | 845,702 | 1,017,379 | 1,460,971 | 87,818 |
| | \$ 2,666,602 | \$ 845,702 | \$ 1,472,112 | \$ 2,040,192 | \$ 543,039 |

The energy conservation notes will be paid from the Debt Service Fund. The loan payable and capital lease will be repaid from the General Fund. The compensated absences will be repaid from the funds from which employee's salaries are paid.

NOTE 15 – DEBT SERVICE REQUIREMENTS TO MATURITY

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

| Year ending June 30, | Principal | Interest | Total |
|-------------------------|------------|-----------|------------|
| 2007 | \$ 455,221 | \$ 8,625 | \$ 463,846 |
| 2008 | 99,000 | 3,726 | 102,726 |
| 2009 | 25,000 | 606 | 25,606 |
| | \$ 579,221 | \$ 12,957 | \$ 592,178 |

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 16 – SET-ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

| | Textbook | Capital Maintenance |
|--------------------------------|--------------|------------------------|
| Balance, July 1, 2005 | \$ (131,957) | \$ - |
| Required set aside | 300,256 | 300,256 |
| Offset credits | - | - |
| Qualifying expenditures | (242,868) | (501,602) |
| Totals | \$ (74,569) | \$ (201,346) |
| Carry forward at June 30, 2006 | \$ (74,569) | |

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 242,868 and \$ 501,602, respectively. Textbook expenditures have exceeded statutory requirements by \$74,569 which may be used to offset future years' set aside requirements. Although the District had qualifying expenditures during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

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

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2006, the District paid \$ 204,523 to LEECA.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

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

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. A board of directors chosen from the general membership governs LERC. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

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

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

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every fiscal year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006 the District paid \$113,682 to the Council.

The District participates in the Council's electric purchase program which was implemented during fiscal year 2000. The program allows school districts to purchase electricity at reduced rates for a period of eight years through Energy Acquisition Corporation (Corporation), a non-profit corporation with a self-appointing board of trustees. The Corporation issued \$ 119,140,000 of notes to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI). The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement during the eight year period, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$ 89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

D. OHIO SCHOOLS COUNCIL

Financial information can be obtained by contacting the Executive Secretary at the Ohio Schools Council at 6133 Rockside Road, Independence, Ohio 44131.

NOTE 18 - INTERFUND TRANSFERS

During the year ended June 30, 2006, interfund transfers were made to fund operating activities in various funds and for debt service payments.

| | |
|-----------------------------|-----------------------|
| | <u>Transfer from:</u> |
| | General Fund |
| Transfer to: | |
| Nonmajor Governmental Funds | <u>\$ 57,286</u> |

NOTE 19 - CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

NOTE 20 - FISCAL EMERGENCY

The Sheffield-Sheffield Lake City School District was released from fiscal emergency in May 2006 by the Auditor of State.

NOTE 21 - SUBSEQUENT EVENT

In August 2006, the District entered into a lease agreement with monthly payments of \$ 3,617 for 60 months for equipment.

SHEFFIELD - SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|---|----------------------------------|---------------------------|------------------|----------------------|------------------|--------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | | | | |
| Food Distribution | N/A | 10.550 | | \$20,459 | | \$20,459 |
| <i>Child Nutrition Cluster:</i> | | | | | | |
| National School Lunch Program | 044768-LLP405 | 10.555 | \$18,930 | | \$18,930 | |
| | 044768-LLP406 | 10.555 | 94,700 | | 94,700 | |
| Total U.S. Department of Agriculture | | | <u>113,630</u> | <u>20,459</u> | <u>113,630</u> | <u>20,459</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | | | | |
| <i>Special Education Cluster:</i> | | | | | | |
| Access Grant | 044768-6BSD-05 | 84.027 | 8,072 | | 1,294 | |
| Access Grant | 044768-6BSD-06 | 84.027 | 35,587 | | 38,915 | |
| Special Education - Grants to States | 044768-6BSF-05 | 84.027 | 43,313 | | 24,108 | |
| Special Education - Grants to States | 044768-6BSF-06 | 84.027 | 391,837 | | 357,286 | |
| Total Special Education - Grants to States | | | <u>478,809</u> | <u>0</u> | <u>421,603</u> | <u>0</u> |
| Special Education - Preschool Grants | 044768-PGS1-05 | 84.173 | 3,216 | | 3,417 | |
| Special Education - Preschool Grants | 044768-PGS1-06 | 84.173 | 6,435 | | 11,122 | |
| Total Special Education - Preschool Grants | | | <u>9,651</u> | <u>0</u> | <u>14,539</u> | <u>0</u> |
| Total Special Education Cluster | | | <u>488,460</u> | <u>0</u> | <u>436,142</u> | <u>0</u> |
| Title I Grants to Local Educational Agencies | 044768-C1S1-05 | 84.010 | (4,378) | | 1,383 | 0 |
| Title I Grants to Local Educational Agencies | 044768-C1S1-06 | 84.010 | 83,262 | | 79,910 | |
| Total Title I Grants to Local Educational Agencies | | | <u>78,884</u> | <u>0</u> | <u>81,293</u> | <u>0</u> |
| Vocational Education - Basic Grants to States | 20A0-2005 | 84.048 | 10,000 | 0 | 18,134 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 044768-DRS1-05 | 84.186 | 2,980 | | 0 | |
| Safe and Drug-Free Schools and Communities - State Grants | 044768-DRS1-06 | 84.186 | 5,526 | | 5,477 | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | <u>8,506</u> | <u>0</u> | <u>5,477</u> | <u>0</u> |
| State Grants for Innovative Programs | 044768-C2S1-05 | 84.298 | 469 | | 1,569 | |
| State Grants for Innovative Programs | 044768-C2S1-06 | 84.298 | 7,079 | | 6,229 | |
| Total State Grants for Innovative Programs | | | <u>7,548</u> | <u>0</u> | <u>7,798</u> | <u>0</u> |
| Education Technology - State Grants | 044768-TJ51-05 | 84.318 | 1,269 | | 1,502 | |
| Education Technology - State Grants | 044768-TJ51-06 | 84.318 | 1,076 | | 2,023 | |
| Total Education Technology - State Grants | | | <u>2,345</u> | <u>0</u> | <u>3,525</u> | <u>0</u> |
| Improving Teacher Quality - State Grants | 044768-TRS1-05 | 84.367 | 10,517 | | 10,535 | |
| Improving Teacher Quality - State Grants | 044768-TRS1-06 | 84.367 | 50,973 | | 47,683 | |
| Total Improving Teacher Quality - State Grants | | | <u>61,490</u> | <u>0</u> | <u>58,218</u> | <u>0</u> |
| Total U.S. Department of Education | | | <u>657,233</u> | <u>0</u> | <u>610,587</u> | <u>0</u> |
| <u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Learn and Serve America - School and Community Based Programs | 044768-SVS1-05 | 94.004 | 2,322 | 0 | 2,089 | 0 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | |
| <i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| State Children's Insurance Program | N/A | 93.767 | 720 | | 720 | |
| Medical Assistance - Medicaid Title XIX | N/A | 93.778 | 8,417 | | 8,417 | |
| Total U.S. Department of Health and Human Services | | | <u>9,137</u> | <u>0</u> | <u>9,137</u> | <u>0</u> |
| Total Federal Financial Assistance | | | <u>\$782,322</u> | <u>\$20,459</u> | <u>\$735,443</u> | <u>\$20,459</u> |

The accompanying notes to this schedule are an integral part of this schedule.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

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

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D – CARRYOVER FUNDS

Negative receipts are shown in the Title I Grants to Local Educational Agencies, CFDA #84.010. The negative receipt represents monies on the final expenditure report that were unspent after the initial period of availability had ended. In accordance with carryover provisions permitted by the Ohio Department of Education, these monies were carried over to the subsequent years' award amount.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated May 25, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-003. In a separate letter to the District's management dated May 25, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 25, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Sheffield-Sheffield Lake City School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Sheffield-Sheffield Lake City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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www.auditor.state.oh.us

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

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

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

Mary Taylor, CPA
Auditor of State

May 25, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2006-001 |
|-----------------------|-----------------|

Posting of Estimated Resources and Appropriations

The estimated resources posted to the District's revenue report did not reconcile to the Amended Official Certificate of Estimated Resources, as approved by the County Budget Commission, by approximately \$2,987,000. In addition, appropriations posted to the District's budget reports did not agree to the amounts adopted by the Board of Education and certified by the County Budget Commission by approximately \$267,000. This deficiency prevented the Board and the Treasurer from effectively evaluating, on an on-going basis, the status of anticipated resources versus actual receipts and appropriations versus actual expenditures.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(CONTINUED)**

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2006-001 |
|-----------------------|-----------------|

Posting of Estimated Resources and Appropriations (Continued)

We recommend the Treasurer post to the budgetary account ledgers the original and amended estimated resources and appropriations as adopted by the Board and certified by the Budget Commission. Posting of budgetary activity should be accurate and completed in a timely manner. This will assist the Board and the Treasurer in effectively monitoring and assessing variances in estimated resources and appropriations with actual receipt and expenditure activity.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2006-002 |
|-----------------------|-----------------|

Policy for Access Swipe Cards

Management should develop a written policy to be submitted to the Board of Education for approval concerning security for District building access swipe cards and the employees' responsibility when issued a swipe card. Deficiencies found included:

- Swipe cards being shared with other employees;
- No current listing of employees issued a temporary or permanent swipe card;
- Some employees had both a temporary and permanent swipe card;
- Employees were not required to return their swipe cards upon leaving employment with the District.

Failure to properly monitor issuance and usage of swipe cards could lead to an unauthorized person having access to the District buildings and Board office.

We recommend that management develop a written policy concerning procedures and employees' responsibility in safeguarding building access swipe cards. An inventory should be conducted for all employees that have been issued a swipe card. At the time inventory is conducted, the employees should be given the policy to read and an inventory assignment sheet to sign acknowledging they have read and understand the policy. The card identification number should be the card number issued to them. The policy should identify the procedures for usage and safeguarding of the swipe card, instruct employees not to lend the swipe card to other employees, note it is the employees' responsibility to notify the operations supervisor when a card is lost or stolen, and direct employees to return the card when they leave employment with the District.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2006-003 |
|-----------------------|-----------------|

Appropriations in Excess of Estimated Resources Plus Available Balances

Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources. In addition, Ohio Rev. Code Section 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(CONTINUED)**

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2006-003 |
|-----------------------|-----------------|

Appropriations in Excess of Estimated Resources plus Available Balances (Continued)

The following funds had appropriations in excess of estimated resources plus available balances at June 30, 2006:

| Fund | Estimated Resources | Appropriations | Variance |
|-----------------------------|---------------------|----------------|-----------|
| Management Information | \$11,873 | \$13,710 | \$(1,837) |
| Title I-D | \$282 | \$6,747 | \$(6,465) |
| High Schools That Work | \$9,521 | \$14,175 | \$(4,654) |
| Special Education-Preschool | \$12,928 | \$14,538 | \$(1,610) |

This condition resulted from a lack of monitoring by management and could result in a fund balance deficit if actual expenditures were equal to the annual appropriations.

We recommend management review and monitor their estimated resources to ensure that original and/or amended appropriations are within certified estimated resources.

We did not receive a response from Officials to the findings reported above.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2005-001 | The District had numerous deficit fund balances contrary to Ohio Rev. Code Section 5705.10. | No | Finding repeated in Management Letter. |
| 2005-002 | The District had expenditures plus encumbrances in excess of appropriations at June 30, 2005 contrary to Ohio Rev. Code Section 5705.41(B). | No | Finding repeated in Management Letter. |
| 2005-003 | The District failed to obtain bids for paving projects contrary to Ohio Rev. Code Section 3313.46(A)(2). | Yes | Finding no longer valid. |
| 2005-004 | The District had appropriations in excess of estimated resources at June 30, 2005 contrary to Ohio Rev. Code Section 5705.39. | No | Finding repeated as 2006-003. |
| 2005-005 | No SAS 70 Tier II report provided by the third-party administrator. | Yes | District no longer uses the previous third-party administrator, switched to Medical Mutual of Ohio and has obtained a Tier II SAS 70 report. |
| 2005-006 | Amounts approved on the various budgetary documents did not reconcile to the District's revenue and expenditure ledgers. | No | Finding repeated as 2006-001. |
| 2005-007 | Minutes of the Board of Education meetings were not timely authenticated by the signatures of the Superintendent and the Treasurer. | Yes | Finding no longer valid. |



Mary Taylor, CPA
Auditor of State

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 24, 2007**