

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

***GENERAL PURPOSE
FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 1999***

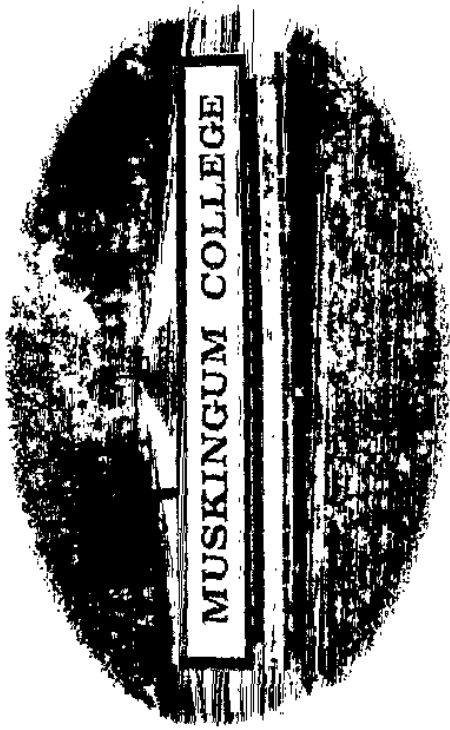
TRIMBLE, JULIAN & GRUBE, INC.

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**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

***GENERAL PURPOSE
FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 1999***

LARRY PAXTON, FINANCE DIRECTOR



As County Auditor, it is with great pleasure that I present to you this Comprehensive Annual Financial Report for Muskingum County.

The report consists of three major sections; an introductory section, a financial section, and a statistical section. Its design assists the reader in a clear understanding of the contents. The table of contents identifies in more detail the information contained in these sections.

The publication of this report is a continuation of the level of professionalism the Muskingum County Auditor's office has worked to attain. Please feel free to direct any questions or comments to our Accounting Department.

Anita J. Adams, Auditor
(740) 455-7109

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Members of Council and Mayor
City of Shelby, Richland County
23 W. Main Street
Shelby, Ohio 44875

We have reviewed the Independent Auditor's Report of the City of Shelby, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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



JIM PETRO
Auditor of State

July 1, 2000

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 WORTHINGTON WOODS BOULEVARD
SUITE B
WORTHINGTON, OHIO 43085

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Independent Auditor's Report


Members of Council and Mayor
City of Shelby
23 W. Main Street
Shelby, Ohio 44875

We have audited the accompanying general purpose financial statements of the City of Shelby, Richland County, (the "City") as of and for the year ended December 31, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Shelby, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 19, 2000, on our consideration of the City of Shelby's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



Trimble, Julian & Grube, Inc.
June 19, 2000

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CITY OF SHELBY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999

	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Types			Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations	General			
										Assets			
ASSETS AND OTHER DEBITS													
ASSETS:													
Equity in pooled cash and cash equivalents.	\$665,856	\$824,510	\$1,458,178	\$4,468,278	\$8,361,829	\$155,253	\$124,256						\$16,058,160
Equity in pooled cash and cash equivalents - nonexpendable trust fund							23,261						23,261
Cash in segregated accounts.							10,462						10,462
Receivables (net of allowances for uncollectibles):													
Income taxes	247,301			247,054									494,355
Real and other taxes	328,926	467,124											796,050
Accounts.		2,600											764,942
Special assessments					669,128								764,942
Due from other governments	252,864	78,118											330,982
Prepayments	15,429	6,659		1,875	51,500								75,463
Materials and supplies inventory	15,173	38,929			660,619								714,721
Property, plant and equipment (net of accumulated depreciation where applicable)											\$4,300,903		21,371,905
OTHER DEBITS:													
Amount available in debt service fund for retirement of general long-term obligations . . .											\$1,302,798		1,302,798
Total assets and other debits.	\$1,525,549	\$1,417,940	\$2,223,120	\$4,717,207	\$26,814,078	\$155,253	\$157,979	\$4,300,903	\$1,302,798	\$42,614,827			

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
LIABILITIES, EQUITY AND OTHER CREDITS										
LIABILITIES:										
Accounts payable	\$19,555	\$109,584		\$72,461	\$337,465					\$539,065
Accrued wages and benefits	53,723	13,255			71,852				\$274,976	138,830
Compensated absences payable	3,350	3,409			331,953					613,688
Accrued interest payable			\$764,942		14,137					14,137
Deferred revenue	373,880	466,566				\$209,675				1,605,388
Claims payable										209,675
Due to other governments	71,746	66,715			62,074		\$10,462			210,997
Restricted/refundable deposits							124,256			124,256
Bond anticipation note payable					4,000,000				673,100	4,000,000
Special assessment bonds payable									343,416	673,100
OPWC notes payable									11,306	343,416
Capital lease obligation										11,306
Total liabilities	522,254	659,529	764,942	72,461	4,817,481	209,675	134,718	1,302,798		8,483,858
EQUITY AND OTHER CREDITS:										
Investment in general fixed assets								\$4,300,903		4,300,903
Contributed capital					2,040,760					2,040,760
Retained earnings (accumulated deficit):					19,955,837	(54,422)				19,901,415
Unreserved										
Fund balances:										
Reserved for encumbrances	162,183	124,810		504,980						791,973
Reserved for debt service			1,458,178							1,458,178
Reserved for prepayments	15,429	6,659		1,875						23,963
Reserved for materials and supplies inventory	15,173	38,929					20,293			54,102
Reserved for principal encumbrance							2,968			20,293
Unreserved-undesignated	810,510	588,013		4,137,891						5,539,382
Total equity and other credits	1,003,295	758,411	1,458,178	4,644,746	21,996,597	(54,422)	23,261	4,300,903		34,130,949
Total liabilities, equity and other credits	\$1,525,549	\$1,417,940	\$2,223,120	\$4,717,207	\$26,814,078	\$155,253	\$157,979	\$4,300,903	\$1,302,798	\$42,614,877

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Municipal income tax	\$1,163,759	\$166,663		\$1,247,087	\$2,577,509
Property and other taxes	267,309	401,131			668,440
Charges for services	229,000	36,109		76,416	341,525
Licenses, permits and fees	14,130	19,175			33,305
Fines and forfeitures	137,626	4,613		22,344	164,583
Intergovernmental	792,477	636,374		32,855	1,461,706
Special assessments		3,529	\$293,287		296,816
Investment income	210,594	1,742	46,672	106,723	365,731
Rental income		13,665			13,665
Other	13,939	14,255		10,439	38,633
Total revenue	2,828,834	1,297,256	339,959	1,495,864	5,961,913
Expenditures:					
Current Operations:					
General government	732,841	195,511			928,352
Security of persons and property	1,657,844	365,204			2,023,048
Public health and welfare		198,332			198,332
Transportation		633,788			633,788
Community environment		221,632			221,632
Leisure time activity		54,758			54,758
Capital outlay	13,620			1,386,654	1,400,274
Debt service:					
Principal retirement	2,314		255,852		258,166
Interest and fiscal charges	998		43,359		44,357
Total expenditures	2,407,617	1,669,225	299,211	1,386,654	5,762,707
Excess (deficiency) of revenues over (under) expenditures	421,217	(371,969)	40,748	109,210	199,206
Other financing sources (uses):					
Operating transfers in		419,000		16,000	435,000
Operating transfers out	(435,000)				(435,000)
Proceeds of capital lease transaction	13,620				13,620
Total other financing sources (uses)	(421,380)	419,000		16,000	13,620
Excess of revenues and other financing sources over (under) expenditures and other uses	(163)	47,031	40,748	125,210	212,826
Fund balances, January 1	1,003,335	711,702	1,417,430	4,519,536	7,652,003
Increase (decrease) in reserve for inventory	123	(322)			(199)
Fund balances, December 31	\$1,003,295	\$758,411	\$1,458,178	\$4,644,746	\$7,864,630

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum Only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Actual	Variance: Favorable (Unfavorable)	
Revenues:															
Income taxes		\$267,486	\$28,705	\$3,200,000	\$2,570,484	(\$629,516)							\$3,200,000	\$2,570,484	(\$629,516)
Property and other taxes		204,425	24,575	413,326	403,327	(9,999)							632,107	671,013	18,906
Charges for services		12,614	14,130	1,516	36,109	(1,416)							330,642	341,525	10,883
Licenses, permits and fees		122,857	137,627	14,770	20,279	(1,104)							32,893	33,505	412
Fines and forfeitures		572,899	641,770	68,871	524,518	70,948							144,474	164,584	20,110
Intergovernmental		187,995	210,594	22,599	1,804	(62)							269,088	1,270,091	97,603
Special assessments		12,443	13,939	1,496	10,503	582							931,523	365,731	(565,792)
Investment income		1,352,014	1,514,546	162,532	4,225,649	(569,213)							10,503	11,065	462
Rental income		937,403	851,461	85,942	293,492	75,906							12,947	10,739	(2,208)
Other		1,861,831	1,750,696	111,135	468,653	49,119							899,116	249,077	(650,039)
Total revenues		2,799,234	2,602,157	197,077	2,132,751	308,487							6,783,779	5,760,018	(1,023,761)
Expenditures:															
Current:															
General government		937,403	851,461	85,942	293,492	75,906									
Security of persons and property		1,861,831	1,750,696	111,135	468,653	49,119									
Public health and welfare															
Transportation															
Community development															
Leisure time activity															
Capital outlay															
Debt service:															
Principal retirement															
Interest and fiscal charges															
Total expenditures		2,799,234	2,602,157	197,077	2,132,751	308,487									
Excess (deficiency) of revenues over (under) expenditures		(1,447,220)	(1,087,611)	359,609	2,092,898	(260,726)									
Other financing sources (uses):															
Operating transfers in		1,033,736	1,180,245	124,509	383,546	35,354									
Operating transfers (out)		(453,000)	(435,000)	0	(2,966,220)	(2,403,821)									
Total other financing sources (uses)		600,736	725,245	124,509	(2,582,574)	(597,753)									
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)		(846,484)	(562,366)	484,118	(489,676)	(37,027)									
Fund balances, January 1		749,513	749,513	0	635,320	635,320									
Prior year encumbrances appropriated		96,971	96,971	0	108,090	108,090									
Fund balances, December 31		\$0	\$484,118	\$484,118	\$253,734	\$290,761									

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1999

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Charges for services	\$8,069,313	\$423,302		\$8,492,615
Investment earnings			\$740	740
Other operating revenues	66,030	31,473		97,503
Total operating revenues	8,135,343	454,775	740	8,590,858
Operating expenses:				
Personal services	2,040,969	563,493		2,604,462
Contract services	248,223		833	249,056
Materials and supplies	3,693,098			3,693,098
Utilities	196,853			196,853
Depreciation	889,052			889,052
Other	485,928			485,928
Total operating expenses	7,554,123	563,493	833	8,118,449
Operating income (loss)	581,220	(108,718)	(93)	472,409
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(14,137)			(14,137)
Investment earnings	136,015	5,557		141,572
Nonoperating expenses	(97,139)			(97,139)
Total nonoperating revenues (expenses)	24,739	5,557		30,296
Net income (loss)	605,959	(103,161)	(93)	502,705
Depreciation on fixed assets acquired by contributed capital	47,413			47,413
Retained earnings/fund balance, January 1	19,302,465	48,739	\$23,354	19,374,558
Retained earnings (accumulated deficit)/ fund balance, December 31	19,955,837	(54,422)	23,261	19,924,676
Contributed capital at beginning of year	1,858,173			1,858,173
Contributions from other funds	230,000			230,000
Depreciation on fixed assets acquired by contributed capital	(47,413)			(47,413)
Contributed capital at end of year	2,040,760			2,040,760
Fund equity, December 31	\$21,996,597	(\$54,422)	\$23,261	\$21,965,436

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1999

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from customers	\$8,137,530	\$423,302		\$8,560,832
Cash received from other operations	66,030	31,473		97,503
Cash paid for personal services	(2,015,432)	(543,415)		(2,558,847)
Cash paid for contract services	(408,187)		(\$833)	(409,020)
Cash paid for materials and supplies	(3,662,087)			(3,662,087)
Cash paid for utilities	(196,853)			(196,853)
Cash paid for other expenses	(485,928)			(485,928)
Net cash provided by (used in) operating activities	1,435,073	(88,640)	(833)	1,345,600
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,172,076)			(1,172,076)
Proceeds from issuance of note	4,000,000			4,000,000
Fiscal costs related to note issuance	(32,139)			(32,139)
Net cash provided by capital and related financing activities	2,795,785			2,795,785
Cash flows from investing activities:				
Interest received	136,015	5,557	740	142,312
Net cash provided by investing activities	136,015	5,557	740	142,312
Net increase (decrease) in cash and cash equivalents	4,366,873	(83,083)	(93)	4,283,697
Cash and cash equivalents at January 1	3,994,956	238,336	23,354	4,256,646
Cash and cash equivalents at December 31	\$8,361,829	\$155,253	\$23,261	\$8,540,343
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$581,220	(\$108,718)	(\$93)	\$472,409
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	889,052			889,052
Interest reported as operating income			(740)	(740)
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	65,895			65,895
Decrease in accounts receivable	68,217			68,217
Increase in prepayments	(4,287)			(4,287)
Decrease in accounts payable	(143,348)			(143,348)
Increase in accrued wages and benefits	21,977			21,977
Increase in compensated absences payable	15,279			15,279
Decrease in due to other governments	(58,932)			(58,932)
Increase in claims payable		20,078		20,078
Net cash provided by (used in) operating activities	\$1,435,073	(88,640)	(833)	\$1,345,600

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 1 - DESCRIPTION OF THE CITY

The City is a home rule municipal corporation incorporated as a City in 1922 under the laws of the State of Ohio. The City operates under its own charter and is governed by a mayor-council form of government, which was adopted on January 1, 1923.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes. As chief conservator of the peace, the mayor oversees the enforcement of all laws and ordinances. The mayor also executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a five member council with four members elected from wards and the president of Council elected at large. Members of Council are elected to two year terms. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity

For financial reporting purposes, the City's GPFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's GPFS to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of three insurance purchasing pools which are described in Note 15.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation and wastewater.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of fund or account groups, each of which is considered a separate account entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate. The various funds are summarized by type in the GPFS.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

GOVERNMENTAL FUNDS:

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund accounts for the general operating revenues and expenditures of the City not recorded elsewhere.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds - These funds are used to account for revenues received and used to pay principal and interest on debt reported in the City's general long-term obligations account group.

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS:

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS:

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include nonexpendable trust funds and agency funds. The nonexpendable trust funds are accounted for in the same manner as proprietary funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. At December 31, 1999, there were no accruals for the agency funds which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Fixed Assets Account Group - This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those accounted for in the enterprise funds. General fixed assets include land, buildings, building improvements, computer equipment, vehicles, and furniture and equipment owned by the City.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except those that are accounted for in the proprietary funds.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the sixty days after year-end to be used to pay liabilities of the current year.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: reimbursements from other governments, amounts receivable from city income tax withholdings, charges for services, interest on investments and state-levied, locally-shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance). Other revenues including: licenses, permits, certain charges for services, and miscellaneous revenues are recorded as revenue if they are deemed to be both measurable and available. Property taxes measurable as of December 31, 1999, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance current year activities, have been recorded as deferred revenue.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City reports *deferred revenues* on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized when the related liability is expected to be liquidated with expendable available financial resources with the following exceptions: general long-term obligation principal and interest is reported only when paid; and the costs of accumulated unpaid vacation and sick leave are reported in the period due rather than in the period earned by employees.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and the nonexpendable trust funds. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust funds are accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

TAX BUDGET

During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

ESTIMATED RESOURCES

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

APPROPRIATIONS

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

LAPSING OF APPROPRIATIONS

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

ENCUMBRANCES

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

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. The City incurred no expenditures or revenues in providing these services. The participating former employees make premium payments directly to the City's Insurance Provider and the Provider is responsible for all claims.

F. Cash and Investments

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

During fiscal year 1999, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. The following funds were credited with more interest revenue than would have been received based upon their share of the City's cash fund balance during 1999:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Cash Fund Balance</u>	<u>Interest Assigned by Other Funds</u>
General Fund	\$210,594	\$28,139	\$182,455
<u>Debt Service Funds</u>			
Light Debt Service	38,048	30,306	7,742
<u>Capital Projects Funds</u>			
Sanitary Storm Sewer & Equipment	91,050	73,253	17,797

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City has segregated bank accounts for monies held separate from the City's central bank account. This interest bearing depository account is presented on the combined balance sheet as "Cash in Segregated Accounts" since it is not required to be deposited into the City treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, equity in pooled cash and investments, as well as segregated investments with original maturities of three months or less at the time they are purchased by the City, are considered to be cash equivalents. Investments with maturities greater than three months at the time of purchase are not considered to be cash equivalents.

An analysis of the Treasurer's investment account at year end is provided in Note 4.

G. Inventories of Materials and Supplies

Inventories of materials and supplies of governmental funds are stated at cost while *inventories of proprietary funds are stated at the lower of cost or market*. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources.

H. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

Fixed assets include land, buildings, improvements, and equipment owned by the City. When purchased such assets are recorded as expenditures in the governmental funds and are accounted for in the general fixed assets account group.

Infrastructure fixed assets such as streets, sidewalks, curbs and gutters are not capitalized by the City and are not reported as part of the general fixed assets account group.

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation expense is not recorded in the general fixed asset account group.

2. *Proprietary Fund Fixed Assets*

Fixed assets in the proprietary funds are capitalized in the individual funds in which they are utilized. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation on fixed assets used in proprietary funds is computed and recorded using the straight-line method. Estimated useful lives of the various classes of fixed assets are as follows:

<u>Description</u>	<u>Estimated Life</u>
Building	30-50 years
Improvements/Infrastructure	10-50 years
Equipment	5-10 years

I. Compensated Absences

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

In conformity with GASB Statement No. 16, "Accounting for 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 City 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 the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. Payment of vacation and sick leave recorded in the general long-term obligations account group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and sick leave when such payments become due.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

J. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receivables and revenues when the entitlement occurs (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Intergovernmental receivables are reported as revenue if they are both measurable and available and intended to finance fiscal 1999 operations. Intergovernmental receivables that are measurable as of December 31, 1999, but are intended to finance 2000 operations, whose availability is indeterminable, have been recorded as deferred revenue.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in that fund.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the presentation of short-term note liability in the fund that received the note proceeds, with long-term obligations presented in the general long obligations account group. Principal and interest payments on matured general long-term obligations and special assessment debt are reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. Intrafund transfers have been eliminated for GAAP reporting.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

An analysis of interfund transactions is presented in Note 5.

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports amounts representing encumbrances outstanding, amount available for debt service, prepayments, materials and supplies inventory, and principal endowment as reservations of fund balance in the governmental funds.

N. Estimates

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

O. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the enterprise funds that is not subject to repayment. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets *acquired or constructed with contributed resources is expensed and closed to contributed capital at year end.*

P. Total Columns on General Purpose Financial Statements

Total columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Retained Earnings

The following fund had deficit retained earnings as of December 31, 1999:

	<u>Deficit Retained Earnings</u>
<u>Internal Service Fund</u>	
Hospitalization	\$54,422

This fund complied with Ohio state law, which does not permit a cash basis deficit at year end. The accumulated deficit in the Hospitalization internal service fund is a result of the application of GAAP, namely in the recognition of claims incurred as of December 31, 1999, but not paid until 2000, as a fund liability. The deficit will be eliminated as premiums are collected to pay the claims.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Monies held by the City are classified by State Statute into two categories. Active monies are public monies determined to be necessary to meet current demand upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Monies held by the City which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons;
3. Obligations of the City.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year end, the carrying amount of the City's deposits, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$1,659,723 and the bank balance was \$1,772,950. Of the bank balance:

1. \$342,713 was covered by federal depository insurance; and
2. \$1,430,237 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

	<u>Category</u>			<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
Repurchase Agreements	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$14,432,160</u>	<u>\$14,432,160</u>

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and</u> <u>Cash Equivalents/</u> <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$16,091,883	\$ 0
Investments of the Cash		
Management Pool:		
Repurchase Agreement	<u>(14,432,160)</u>	<u>14,432,160</u>
GASB Statement No. 3	<u>\$ 1,659,723</u>	<u>\$14,432,160</u>

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 1999:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ ---	\$435,000
<u>Special Revenue Funds</u>		
City Administration	30,000	---
Street	100,000	---
Police Pension	183,000	---
Fire Pension	<u>106,000</u>	<u>---</u>
Total Special Revenue Funds	<u>419,000</u>	<u>---</u>
<u>Capital Projects Funds</u>		
Police Equipment	<u>16,000</u>	<u>---</u>
Total	<u>\$435,000</u>	<u>\$435,000</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied on January 1 in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the City Auditor at 35% of appraised market value. All property is required to be revalued every six years with a triennial update. The last revaluation was completed in 1994. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20, with the remainder payable June 20. In certain instances, State statute permits earlier or later payment dates to be established.

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 6 - PROPERTY TAXES - (Continued)

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1st of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-City taxpayers are due September 20. Single City 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. Under Ohio law personal property taxes do not attach as a lien on the personal property. Public utility real and tangible personal property taxes collected in one calendar year are levied on January 1 in the preceding calendar year on assessed values determined as of January 1 of the preceding year, the lien date.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Shelby. The County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively.

The full tax rate for all City operations for the year ended December 31, 1999, was \$5.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property for tax year 1999 are as follows:

Real Property	\$112,696,590
Public Utility Property	3,181,790
Tangible Personal Property	<u>46,361,150</u>
 Total Valuation	 <u>\$162,239,530</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 1999. 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 December 31 and are not intended to finance 1999 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 7 - LOCAL INCOME TAX

The City levies a municipal income tax of one and a half percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are received by the City Income Tax special revenue fund and are transferred to other funds as determined by the City.

NOTE 8 - RECEIVABLES

Receivables at December 31, 1999, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the combined balance sheet. Receivables have been recorded to the extent that they are both measurable and available at December 31, 1999, as well as intended to finance fiscal 1999 operations. All receivables are considered fully collectible.

A summary of the principal items of receivables follows:

<u>Fund/Description</u>	<u>Amount</u>
<u>General Fund</u>	
Income taxes	\$247,301
Real and other taxes	328,926
Intergovernmental	252,864
<u>Special Revenue Funds</u>	
Real and other taxes	467,124
Accounts	2,600
Intergovernmental	78,118
<u>Debt Service Funds</u>	
Special assessments	764,942
<u>Capital Projects Funds</u>	
Income taxes	247,054
<u>Enterprise Funds</u>	
Accounts	669,128

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 9 - FIXED ASSETS

A. Proprietary Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 1999, follows:

Land and improvements	\$ 392,689
Buildings and improvements	12,500,011
Infrastructure	4,876,507
Machinery and equipment	14,872,870
Vehicles	501,712
Construction in progress	<u>885,570</u>
Total	34,029,359
Less: accumulated depreciation	<u>(16,958,357)</u>
 Total net assets	 <u>\$17,071,002</u>

The construction in progress represents costs incurred and paid by December 31 for electric system improvements and the Rehab of Reservoir #2, Phase #1 project in the amounts of \$614,798 and \$270,772, respectively. The electric system improvements are expected to be completed by July 1, 2000 at an estimated cost of \$2,000,000. The Rehab of Reservoir #2 project is expected to be completed by April 1, 2001 at an estimated cost of \$3,000,000.

B. General Fixed Assets

A summary of the changes in general fixed assets during 1999 follows:

	<u>Balance at</u> <u>1/1/99</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/99</u>
Land and land improvements	\$ 577,323	\$ 91,000	\$ ---	\$ 668,323
Buildings and				
Building improvements	885,374	92,000	---	977,374
Machinery equipment	868,600	27,999	---	896,599
Vehicles	<u>1,254,136</u>	<u>522,471</u>	<u>(18,000)</u>	<u>1,758,607</u>
 Total fixed assets	 <u>\$3,585,433</u>	 <u>\$733,470</u>	 <u>\$(18,000)</u>	 <u>\$4,300,903</u>

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The City has entered into a capitalized lease for police phone equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined GPFS for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$13,620. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$2,314 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 1999:

<u>Fiscal Year Ending December 31.</u>	<u>Amount</u>
2000	\$ 3,312
2001	3,312
2002	3,312
2003	<u>3,312</u>
Total	13,248
Less: amount representing interest	<u>(1,942)</u>
Present value of net minimum lease payments	<u>\$11,306</u>

NOTE 11 - COMPENSATED ABSENCES

Employees earn vacation and sick leave at different rates which are affected by length of service. Vacation can be carried over at different rates depending on the department. Service and office employees may carry over 80 hours while the police may carry over 40 hours for use in the following year. Sick leave accrual is continuous, without limit.

Upon retirement, an employee can be paid for his/her accumulated hours of sick leave up to 720 hours, except for eligible fire department employees, who can be paid for his/her accumulated hours up to 2,160 hours. Upon retirement, termination, or death of the employee, vacation is paid for the total time accumulated for the employee.

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

For governmental funds, the current portion of unpaid compensated absences is the amount to be paid using available expendable resources, and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the general long-term obligations account group. At December 31, 1999, these amounts were \$6,759 and \$274,976, respectively.

In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability. The liability for compensated absences in the proprietary funds at December 31, 1999, was \$331,953.

NOTE 12 - LONG-TERM OBLIGATIONS

A. Change in long-term obligations of the City during 1999, were as follows:

	<u>Interest Rates</u>	<u>Balance Outstanding 12/31/98</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/99</u>
<u>Special Assessment Bonds:</u>					
Fox Run 4	5.20%	\$ 103,000	\$ ---	\$ (51,000)	\$ 52,000
Shelby Avenue	5.45%	93,100	---	(31,000)	62,100
Riverview Estates	4.25%	610,000	---	(110,000)	500,000
Fox Run 3	5.45%	20,000	---	(20,000)	---
Fox Run 5	5.60%	<u>77,000</u>	<u>---</u>	<u>(18,000)</u>	<u>59,000</u>
Total Special Assessment Bonds Payable		<u>\$ 903,100</u>	<u>\$ ---</u>	<u>\$(230,000)</u>	<u>\$ 673,100</u>
<u>OPWC Notes Payable:</u>					
Wareham Road	0.0%	\$ 292,410	\$ ---	\$ (16,245)	\$ 276,165
Auburn Street	0.0%	<u>76,858</u>	<u>---</u>	<u>(9,607)</u>	<u>67,251</u>
Total OPWC Notes Payable		<u>\$ 369,268</u>	<u>\$ ---</u>	<u>\$(25,852)</u>	<u>\$ 343,416</u>
<u>Other Long-Term Obligations:</u>					
Accrued Pension Debt		\$ 175,029	\$ ---	\$(175,029)	\$ ---
Capital Lease Obligation		---	13,620	(2,314)	11,306
Compensated Absences		<u>228,391</u>	<u>46,585</u>	<u>---</u>	<u>274,976</u>
Total Other Long-Term Obligations		<u>\$ 403,420</u>	<u>\$60,205</u>	<u>\$(177,343)</u>	<u>\$ 286,282</u>
Total		<u>\$1,675,788</u>	<u>\$60,205</u>	<u>\$(433,195)</u>	<u>\$1,302,798</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Special Assessment Bonds: Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in the debt service fund and the debt will also be retired from this fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

OPWC Notes Payable: The City has entered into debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund construction projects. These notes are retired through the General Bond Retirement SSE debt service fund. The OPWC notes are interest free.

Accrued Pension Debt: During fiscal year 1999, the City retired its police pension liability by taking advantage of a 30% discount and making a payment of \$122,739 to the Police and Fireman's Disability and Pension fund. This liability was paid from taxes receipted into the Police Pension special revenue fund.

Compensated Absences: Sick leave and vacation benefits are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employee's salaries are paid.

B. Principal and interest requirements to retire the long-term obligations outstanding at December 31, 1999, are as follows:

Year Ended	Special Assessment Bonds			OPWC Notes		
	Principal	Interest	Total	Principal	Interest	Total
2000	\$217,000	\$31,892	\$248,892	\$ 25,852	\$ ---	\$ 25,852
2001	171,100	21,260	192,360	25,852	---	25,852
2002	150,000	13,045	163,045	25,852	---	25,852
2003	135,000	6,075	141,075	25,852	---	25,852
2004	---	---	---	25,852	---	25,852
2005 - 2009	---	---	---	100,440	---	100,440
2010 - 2014	---	---	---	81,226	---	81,226
2015 - 2016	---	---	---	32,490	---	32,490
Total	<u>\$673,100</u>	<u>\$72,272</u>	<u>\$745,372</u>	<u>\$343,416</u>	<u>\$ 0</u>	<u>\$343,416</u>

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 13 - BOND ANTICIPATION NOTE PAYABLE

On December 1, 1999, the City issued a \$4,000,000 bond anticipation note for electric system improvements. The bond anticipation note is reported as a fund liability in the electric enterprise fund, the fund that received the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/98</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/99</u>
Electric System Improvements - 4.30%	12/01/99	12/02/00	\$ <u>0</u>	<u>\$4,000,000</u>	\$ <u>---</u>	<u>\$4,000,000</u>

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. These enterprise funds include sewer, water, and electric. Segment information for the year ended December 31, 1999 was as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Operating revenues	\$633,998	\$1,072,554	\$6,428,791	\$ 8,135,343
Operating expenses before depreciation	467,944	705,455	5,491,672	6,665,071
Depreciation expense	214,439	224,430	450,183	889,052
Operating income (loss)	(48,385)	142,669	486,936	581,220
Net income (loss)	(48,385)	142,669	511,675	605,959
Additions to property, plant and equipment	237,400	407,721	756,955	1,402,076
Net working capital	418,476	548,921	3,811,690	4,779,087
Total assets	4,563,020	7,840,299	14,410,759	26,814,078
Bonds and other long term liabilities payable from operating revenues	---	---	4,000,000	4,000,000
Total liabilities	71,279	188,298	4,557,904	4,817,481
Retained earnings	2,450,981	7,652,001	9,852,855	19,955,837
Contributed capital	2,040,760	---	---	2,040,760
Total equity	4,491,741	7,652,001	9,852,855	21,996,597

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1999, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits. A summary of the City's insurance coverages at December 31, 1999, follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
OML Joint Self-Insurance Pool	Property	\$1,000
	General Liability	1,000
	Inland Marine	250
	Errors and Omission	1,000
	Law Enforcement	1,000
	Excess Liability	1,000
Shelby Mutual Insurance Company	Public Employee Dishonest Bond	1,000
Adams, Albert Curry Agency, Inc.	Property Coverage	
	Light Plant	25,000
Adams Albert Curry Agency, Inc.	Automobile	250 Comprehensive
		1,000 Collision
Aten & Menetti Agency, Inc.	Steam Boiler	200,000 Light Plant
		5,000 Water Plant
		250 City Hall

CITY OF SHELBY, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

NOTE 15 - RISK MANAGEMENT - (Continued)

The City has elected to provide a comprehensive medical benefits package through a self-insured program providing either Fee for Service (FFS) or Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Benefit Services, Inc., located in Akron, Ohio, reviews all claims for the plan which are then paid by the City. The total monthly premium paid into the internal service fund for the FFS plan is \$143.75 for single coverage and \$415.77 for family coverage and for the PPO plan is \$130.60 for single coverage and \$386.12 for family coverage. The employee's share for the FFS plan is \$10.50 for single coverage and \$27 per month for family coverage.

The claims liability of \$209,675 reported in the Hospitalization internal service fund at December 31, 1999, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30 "Risk Financing Omnibus," which requires that a liability for claims be reported at the estimated ultimate cost of settling the claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amounts for the years ended December 31, 1999 and 1998 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
1999	\$189,597	\$563,493	\$(543,415)	\$209,675
1998	\$291,865	\$317,829	\$(420,097)	\$189,597

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 16 - DEFINED PENSION PLANS

A. Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system created by the State of Ohio. The PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 1999 was 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.0 percent of covered salary. The employer contribution rate for employees other than law enforcement was 13.55 percent of covered payroll; 9.35 percent was the portion used to fund pension obligations for 1999. The employer contribution rate for law enforcement employees was 16.7 percent of covered payroll; 12.5 percent was the portion used to fund pension obligations for 1999. The City's contributions for pension obligations to the PERS for the years ended December 31, 1999, 1998, and 1997 were \$349,409, \$328,768 and \$335,801, respectively; 75.7 percent has been contributed for 1999 and 100 percent for 1998 and 1997. \$85,033, representing the unpaid contribution for 1999, is recorded as a liability within the respective funds.

B. Police and Fireman's Disability Pension Fund

Full-time uniformed employees of the City participate in the Police and Fireman's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer defined benefit pension plan. The PFDPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by Ohio State Legislature and are codified by Ohio Revised Code Chapter 742. The PFDPF issues a publicly available financial report that includes financial statements and required supplementary information for the PFDPF. That report may be obtained by writing to the Police and Fireman's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 16 - DEFINED PENSION PLANS - (Continued)

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to the PFDPF for the years ended December 31, 1999, 1998, and 1997 were \$232,890, \$214,970 and \$203,441, respectively; 73.6 percent has been contributed for 1999 and 100 percent for the years 1998 and 1997. \$61,408, representing the unpaid contribution for 1999, is recorded as a liability within the respective funds.

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Public Employees Retirement System

PERS provides post retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers." A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate for local employers was 13.55% of covered payroll; 4.2% was the portion that was used to fund health care. The law enforcement employer rate for 1999 was 16.7% of covered payroll; 4.2% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The City's contribution actually made to fund postemployment benefits was \$108,317.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 were \$523.599 million. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9.870 billion. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - (Continued)

During 1999, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

Additional information on the PERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 1999, Comprehensive Annual Financial Report.

B. Police and Fireman's Disability Pension Fund

The PFDPF provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers." The Ohio Revised Code provides that health care cost paid from the funds of the PFDPF shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation rate will be 7.25 percent in 2000. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1998 (the latest information available), is 11,424 for police officers and 9,186 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$40,710 and \$29,572, respectively. The PFDPF's total health care expenses for the year ending December 31, 1998 (the latest information available), was \$78.597 million which was net of member contributions of \$5.332 million.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

The City's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the City reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER (UNDER) EXPENDITURES AND OTHER USES

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget Basis	\$ (362,366)	\$ (152,649)	\$42,122	\$ (429,674)
Adjustments:				
Net Adjustment for Revenue Accruals	1,314,288	(2,359,180)	---	1,246,787
Net Adjustment for Expenditure Accruals	12,802	(78,710)	(1,374)	(25,768)
Net adjustment for Other Financing Sources/ (Uses) Accruals	(1,146,625)	2,403,821	---	(1,243,576)
Encumbrances	<u>181,738</u>	<u>233,749</u>	<u>---</u>	<u>577,441</u>
GAAP Basis	<u>\$ (163)</u>	<u>\$ 47,031</u>	<u>\$40,748</u>	<u>\$ 125,210</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

NOTE 19 - CONSTRUCTION COMMITMENTS

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 1999, the significant outstanding construction commitments are:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance 12/31/99</u>
Mansfield Asphalt Paving Co.	\$ 455,000	\$157,507	\$ 297,493
First Energy Services Corp.	2,059,000	88,783	1,970,217
RCR Services, Inc.	592,285	---	592,285
Underground Utilities	433,920	212,670	221,250
Smith Paving Co.	<u>376,951</u>	<u>193,210</u>	<u>183,741</u>
Totals	<u>\$3,917,156</u>	<u>\$652,170</u>	<u>\$3,264,986</u>

NOTE 20 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 1999.

B. Litigation

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.

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TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 WORTHINGTON WOODS BOULEVARD
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WORTHINGTON, OHIO 43085

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

Members of Council and Mayor
City of Shelby
23 W. Main Street
Shelby, Ohio 44875

We have audited the financial statements of the City of Shelby as of and for the year ended December 31, 1999, and have issued our report thereon dated June 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

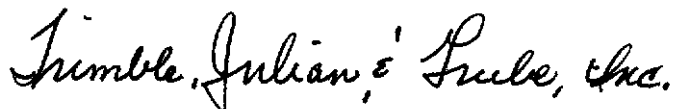
As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance, which we have reported to management of the City of Shelby in a separate letter dated June 19, 2000.

Members of Council and Mayor
City of Shelby
Page 2

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shelby's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Shelby in a separate letter dated June 19, 2000.

This report is intended for the information of the City of Shelby and its management and is not intended to be and should not be used by anyone other than these specified parties.



Trimble, Julian & Grube, Inc.
June 19, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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800-282-0370

Facsimile 614-466-4490

CITY OF SHELBY

RICHLAND 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.

By: Susan Babbitt

Date: JULY 20, 2000