

CITY OF SHELBY
Richland County, Ohio



Basic Financial Statements

December 31, 2012



Dave Yost • Auditor of State

Members of Council
City of Shelby
43 W. Main Street
Shelby, Ohio 44875

We have reviewed the *Independent Auditor's Report* of the City of Shelby, Richland County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 11, 2013

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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of Council
City of Shelby
43 West Main Street
Shelby, Ohio 44875

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2012, the City adopted new accounting guidance, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
June 14, 2013

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

The City of Shelby's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net position increased \$1,377,475. Net position of governmental activities decreased \$244,340, net position of business-type activities increased by \$1,621,815.
- The General Fund reported a fund balance of \$696,833.
- Business-type operations reflected an operating income (loss) of \$1,743,511.

Overview of the Financial Statements

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City's financial situation as a whole and to give a detailed view of the City's fiscal condition.

The Statement of Net Position and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Shelby is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes to those assets. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial wellbeing. Some of these factors include the City's tax base and the condition of capital assets.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

In the Government-wide Financial Statements, the City is divided into two kinds of activities.

- **Governmental Activities** - Most of the City's programs and services are reported here including general government, security of persons and property, public health and welfare, transportation, community environment, and leisure time activity. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and State grants and other shared revenues.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The City's major governmental funds are the General and the Police and Court Construction funds.

Governmental Funds - Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

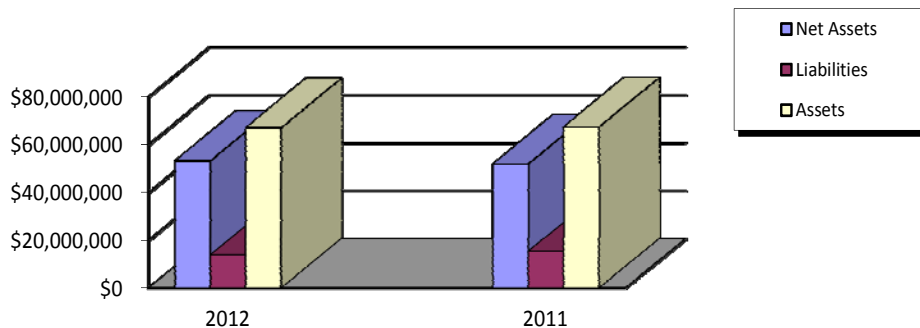
Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type.

The City as a Whole

As stated previously, the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and Other Assets	\$11,981,459	\$13,417,928	\$9,926,061	\$8,952,755	\$21,907,520	\$22,370,683
Capital Assets	17,672,821	16,898,173	27,424,539	27,972,842	45,097,360	44,871,015
Total Assets	29,654,280	30,316,101	37,350,600	36,925,597	67,004,880	67,241,698
Liabilities:						
Long-Term Liabilities	7,212,642	7,493,851	4,686,765	5,602,166	11,899,407	13,096,017
Other Liabilities	1,192,895	1,329,167	756,710	1,038,121	1,949,605	2,367,288
Total Liabilities	8,405,537	8,823,018	5,443,475	6,640,287	13,849,012	15,463,305
Net Position:						
Net Investment in Capital Assets	16,186,380	15,865,840	22,983,990	22,644,427	39,170,370	38,510,267
Restricted	3,844,752	3,986,606	0	0	3,844,752	3,986,606
Unrestricted	1,217,611	1,640,637	8,923,135	7,640,883	10,140,746	9,281,520
Total Net Position	\$21,248,743	\$21,493,083	\$31,907,125	\$30,285,310	\$53,155,868	\$51,778,393



Total net position of the City as a whole increased \$1,377,475. Net position of the City's governmental activities decreased \$244,340, while the net position of the City's business-type activities increased \$1,621,815 from 2011. The City had an unrestricted net position balance of \$10,140,746 that may be used to meet the government's ongoing obligations to citizens and creditors.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

Current and Other Assets decreased mainly due to a decrease in equity in pooled cash and investments which was mainly due to a decrease in bank balance. Long-Term Liabilities decreased mainly due to the City making regularly scheduled principal payments.

Table 2 shows the changes in net position for the year ended December 31, 2012 and revenue and expense comparisons to 2011.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	\$950,559	\$868,251	\$13,527,367	\$13,023,694	\$14,477,926	\$13,891,945
Operating Grants and Contribut	1,068,953	1,914,315	7,381	176,544	1,076,334	2,090,859
Capital Grants and Contributor	286,238	135,668	0	0	286,238	135,668
Total Program Revenues	2,305,750	2,918,234	13,534,748	13,200,238	15,840,498	16,118,472
General Revenues:						
Income Taxes	3,144,101	3,040,428	0	0	3,144,101	3,040,428
Property Taxes	630,491	642,603	0	0	630,491	642,603
Excise Taxes	371,769	360,742	0	0	371,769	360,742
Grants and Entitlements	347,228	689,335	0	0	347,228	689,335
Investment Earnings	34,631	15,822	9,113	10,324	43,744	26,146
Other Revenues	161,667	59,597	415,627	215,166	577,294	274,763
Total General Revenues	4,689,887	4,808,527	424,740	225,490	5,114,627	5,034,017
Total Revenues	6,995,637	7,726,761	13,959,488	13,425,728	20,955,125	21,152,489
Program Expenses:						
General Government	1,263,429	932,947	0	0	1,263,429	932,947
Public Safety	3,355,720	3,245,390	0	0	3,355,720	3,245,390
Leisure Time Activities	75,792	80,782	0	0	75,792	80,782
Community Development	785,050	1,617,244	0	0	785,050	1,617,244
Transportation and Street Repa	1,139,683	949,972	0	0	1,139,683	949,972
Public Health and Welfare	292,517	261,318	0	0	292,517	261,318
Other	28,775	36,336	0	0	28,775	36,336
Interest and Fiscal Charges	299,011	50,494	0	0	299,011	50,494
Sewer	0	0	1,394,653	1,546,341	1,394,653	1,546,341
Water	0	0	1,889,217	2,145,267	1,889,217	2,145,267
Electric	0	0	9,053,803	9,817,486	9,053,803	9,817,486
Total Program Expenses	7,239,977	7,174,483	12,337,673	13,509,094	19,577,650	20,683,577
Change in Net Position	(244,340)	552,278	1,621,815	(83,366)	1,377,475	468,912
Net Position - Beginning of Year	21,493,083	20,940,805	30,285,310	30,368,676	51,778,393	51,309,481
Net Position - End of Year	\$21,248,743	\$21,493,083	\$31,907,125	\$30,285,310	\$53,155,868	\$51,778,393

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

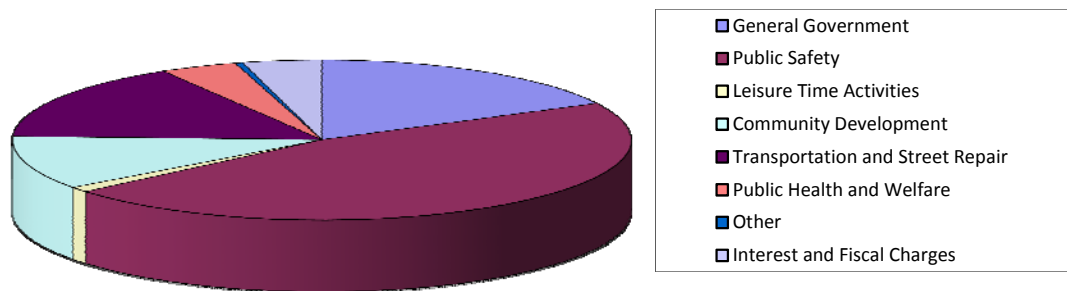
Governmental Activities

The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 81% of the City's governmental activities total general revenue.

Operating Grants and Contributions decreased mainly due to all of the FEMA monies for various community development projects were received in 2011. General Government expenses increased mainly due to increases in personnel costs and general inflationary factors. Community Development expenses decreased mainly due to community development projects (grant monies from FEMA) within the City were all spent in 2011.

Governmental Activities
 Program Expenses for 2012

Program Expenses	Percentage
General Government	17.45%
Public Safety	46.35%
Leisure Time Activities	1.05%
Community Development	10.84%
Transportation and Street Repair	15.74%
Public Health and Welfare	4.04%
Other	0.40%
Interest and Fiscal Charges	4.13%
Other	100.00%



General Government includes legislative and administration expenses, including City Council, the Mayor's office, Civil Service, Finance, Building and Zoning programs, and various non-department charges.

Business-Type Activities

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of \$13,989,910 and expenses of \$12,246,399 for fiscal year 2012. Business activities receive no support from tax revenues. The business activities net position at the end of the year was \$31,907,125, which increase \$1,621,815 from 2011.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

The City's Funds

The City has two major governmental funds: the General, and Police and Court Construction Funds. Assets of the major governmental funds comprised \$6,816,232 (61%), of the total \$11,229,343 governmental funds' assets.

General Fund: Fund balance at December 31, 2012 was \$696,833. The General fund balance decreased from 2011 due to a decrease in taxes revenue.

Police and Court Construction Fund: Fund balance at December 31, 2012 was \$5,289,012. The fund balance decreased mainly due to the continuation of the construction of the Justice Center.

General Fund Budgeting Highlights

The City's General Fund budget is formally adopted at the program or budget center level. Financial reports, which compare actual performance with the budget, are prepared monthly and presented to the Council so the Council is able to review the financial status and measure the effectiveness of the budgetary controls.

As the City completed the year, its General Fund balance reported an actual fund balance of \$213,343, on a Non-GAAP Budgetary Basis.

Variations from the original budget amounts to the final budget amounts are primarily due to the following reasons: The City underestimated taxes, charges for services and intergovernmental revenues, while total expenditures were underestimated the general government and public safety expense.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$45,097,360 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2012 balances compared to 2011:

Table 3
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$405,871	\$215,712	\$233,440	\$233,440	\$639,311	\$449,152
Construction in Progress	358,921	260,500	5,984	407,823	364,905	668,323
Buildings and Improvements	4,996,020	4,167,398	13,863,483	13,836,733	18,859,503	18,004,131
Equipment	4,231,439	3,824,993	28,825,088	28,526,276	33,056,527	32,351,269
Infrastructure	20,181,306	20,168,422	24,018,411	23,228,230	44,199,717	43,396,652
Accumulated Depreciation	(12,500,736)	(11,738,852)	(39,521,867)	(38,259,660)	(52,022,603)	(49,998,512)
Total Net Capital Assets	<u>\$17,672,821</u>	<u>\$16,898,173</u>	<u>\$27,424,539</u>	<u>\$27,972,842</u>	<u>\$45,097,360</u>	<u>\$44,871,015</u>

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

See Note 8 to the basic financial statements for further details on the City's capital assets.

Debt

The City had \$6,761,114 in bonds and loans outstanding for Governmental Activities and \$4,440,549 in loans and revenue bonds outstanding for Business-Type Activities.

Table 4
Outstanding Debt at Year End

		2012	2011
Governmental Activities:			
Special Assessment Bonds:			
Street Improvement - Fox Run 7	4.24%	\$123,884	\$144,531
Total Special Assessment Bonds		123,884	144,531
General Obligation Bonds:			
2003 Various Purpose Bonds	4.25%	0	141,040
2007 Various Purpose Bonds	4.75%	135,000	155,000
2011 Municipal Justice Center Improvements	2.00%	6,285,000	6,385,000
Premium on Bonds		144,127	150,295
Total General Obligation Bonds		6,564,127	6,831,335
OPWC Loan:			
Wareham Road	0.00%	73,103	89,348
Total Governmental Activities Debt		\$6,761,114	\$7,065,214
Business Type Activities:			
OPWC Loan:			
Wastewater treatment plant expansion	3.00%	\$0	\$28,571
OWDA Loans:			
EQ basin	1.00%	472,619	658,392
WTP upgrade	2.75%	2,167,930	2,391,452
Total OWDA Loans		2,640,549	3,049,844
Revenue Bonds:			
Electric System Revenue Bonds	1.00%	1,800,000	2,250,000
Total Business-Type Activities Debt		4,440,549	5,328,415
Total Debt		\$11,201,663	\$12,393,629

See Note 10 to the basic financial statements for further details on the City's long-term debt.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2012
(Unaudited)

Economic Outlook

Since the 1800's the City has been known for its talented work force, which continues to be innovative, productive and stable. The City's industrial base continues to be strong and competitive, producing and shipping goods and materials around the world. While national trends reflect mergers and consolidations, the City has been aggressive and successful in adapting to these changing times by creating new opportunities. In 2009 a substantial number of homes were demolished due to the flood of 2007. Where some of these homes were created, there is now an exciting opportunity to develop a park located near the City's Central Business District. The City is excited about the prospects of this area and the chance to create interest in the City's downtown business district.

The Technology Parkway area is creating excitement about increased business within the City. The Kehoe Center continues to grow with North Central State University. North Central State University currently has 950 students attending classes at the Kehoe Center campus and a four-year degree is possible in business or engineering on the Shelby Campus. A Convention Center is currently being financed and Phase I will be built on the third floor of the Kehoe Center. With a study complete for feasibility of a hotel near the Convention Center the possibilities are endless. This is becoming a gem for the City and will be a driving force in the future.

Shelby City Schools are in the process of building a new high school. The City passed a bond issue to pay for the construction of a new Justice Center to house our police force and municipal court and City council chambers. The citizens are very supportive of the Cities future.

The City relies upon grants, entitlements, property and income taxes to fund the general services of the City. The City also has experienced revenue stagnation as other communities in Ohio, but has contained its operation expenses.

The City is proud of continuing to meet the needs of its citizens, employees and vendors through cooperation, hard work and determination.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Lafferty, Finance Director, 43 W. Main Street, Shelby, Ohio, 44875.

City of Shelby, Ohio
Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$9,210,201	\$6,655,833	\$15,866,034
Restricted Cash and Investments	26,011	3,567	29,578
Cash and Cash Equivalents with Fiscal Agent	527,834	0	527,834
Receivables:			
Taxes	1,314,047	0	1,314,047
Accounts	2,330	1,669,173	1,671,503
Interest	3,253	3,614	6,867
Intergovernmental	463,241	0	463,241
Special Assessments	20,581	0	20,581
Internal Balances	5,831	(5,831)	0
Prepays	40,311	138,186	178,497
Inventory	149,368	966,291	1,115,659
Deferred Bond Issuance Costs	218,451	0	218,451
Investment in Joint Venture	0	495,228	495,228
Nondepreciable Capital Assets	764,792	239,424	1,004,216
Depreciable Capital Assets, Net	16,908,029	27,185,115	44,093,144
Total Assets	29,654,280	37,350,600	67,004,880
Liabilities:			
Accounts Payable	164,132	552,897	717,029
Accrued Wages and Benefits	310,575	164,492	475,067
Retainage Payable	26,011	3,567	29,578
Accrued Interest Payable	21,135	34,774	55,909
Contracts Payable	0	980	980
Unearned Revenue	602,414	0	602,414
Claims Payable	68,628	0	68,628
Long-Term Liabilities:			
Due Within One Year	244,346	948,700	1,193,046
Due In More Than One Year	6,968,296	3,738,065	10,706,361
Total Liabilities	8,405,537	5,443,475	13,849,012
Net Position:			
Net Investment in Capital Assets	16,186,380	22,983,990	39,170,370
Restricted for:			
Debt Service	842,071	0	842,071
Capital Projects	1,235,957	0	1,235,957
Human Services Programs	300,389	0	300,389
Community Development Projects	672,857	0	672,857
Mini Park Trust Nonexpendable	20,000	0	20,000
Mini Park Trust Expendable	5,007	0	5,007
Street Maintenance, Construction and Repair	519,820	0	519,820
Other Purposes	248,651	0	248,651
Unrestricted	1,217,611	8,923,135	10,140,746
Total Net Position	\$21,248,743	\$31,907,125	\$53,155,868

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,263,429	\$471,640	\$0	\$0
Public Safety	3,355,720	380,061	17,778	286,238
Leisure Time Activities	75,792	15,192	6,984	0
Community Development	785,050	40,982	473,493	0
Transportation and Street Repair	1,139,683	11,502	532,027	0
Public Health and Welfare	292,517	31,182	38,671	0
Other	28,775	0	0	0
Interest and Fiscal Charges	299,011	0	0	0
Total Governmental Activities	7,239,977	950,559	1,068,953	286,238
Business-Type Activities:				
Sewer	1,394,653	1,540,667	7,381	0
Water	1,889,217	1,900,676	0	0
Electric	9,053,803	10,086,024	0	0
Total Business-Type Activities	12,337,673	13,527,367	7,381	0
Totals	\$19,577,650	\$14,477,926	\$1,076,334	\$286,238

General Revenues:

Income Taxes

Property Taxes Levied for:

General Purposes

Special Revenue Purposes

Other Taxes:

Excise Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Other Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$791,789)	\$0	(\$791,789)
(2,671,643)	0	(2,671,643)
(53,616)	0	(53,616)
(270,575)	0	(270,575)
(596,154)	0	(596,154)
(222,664)	0	(222,664)
(28,775)	0	(28,775)
(299,011)	0	(299,011)
<u>(4,934,227)</u>	<u>0</u>	<u>(4,934,227)</u>
0	153,395	153,395
0	11,459	11,459
0	1,032,221	1,032,221
<u>0</u>	<u>1,197,075</u>	<u>1,197,075</u>
<u>(4,934,227)</u>	<u>1,197,075</u>	<u>(3,737,152)</u>
3,144,101	0	3,144,101
214,703	0	214,703
415,788	0	415,788
371,769	0	371,769
347,228	0	347,228
34,631	9,113	43,744
161,667	415,627	577,294
4,689,887	424,740	5,114,627
(244,340)	1,621,815	1,377,475
<u>21,493,083</u>	<u>30,285,310</u>	<u>51,778,393</u>
<u>\$21,248,743</u>	<u>\$31,907,125</u>	<u>\$53,155,868</u>

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2012

	General	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$480,501	\$5,252,391	\$3,477,309	\$9,210,201
Restricted Cash and Investments	0	22,282	3,729	26,011
Receivables:				
Taxes	694,085	101,097	518,865	1,314,047
Accounts	2,330	0	0	2,330
Interest	2,711	0	542	3,253
Intergovernmental	204,955	0	258,286	463,241
Special Assessments	143	0	20,438	20,581
Prepays	24,586	0	15,725	40,311
Inventory	31,151	0	118,217	149,368
Total Assets	1,440,462	5,375,770	4,413,111	11,229,343
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	15,006	31,172	117,954	164,132
Accrued Wages and Benefits	283,223	0	27,352	310,575
Retainage Payable	0	22,282	3,729	26,011
Deferred Revenue	445,400	33,304	667,014	1,145,718
Total Liabilities	743,629	86,758	816,049	1,646,436
Fund Balances:				
Nonspendable	58,577	0	153,942	212,519
Restricted	0	5,289,012	3,441,839	8,730,851
Assigned	324,064	0	1,281	325,345
Unassigned	314,192	0	0	314,192
Total Fund Balances	696,833	5,289,012	3,597,062	9,582,907
Total Liabilities and Fund Balances	\$1,440,462	5,375,770	\$4,413,111	\$11,229,343

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 December 31, 2012

Total Governmental Fund Balance		\$9,582,907
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		17,672,821
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income Taxes	\$200,677	
Delinquent Property Taxes	58,938	
Interest	3,253	
Intergovernmental	259,855	
Other	<u>20,581</u>	
		543,304
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position	\$459,206	
Allocation to Business-Type Activities	<u>5,831</u>	
		465,037
In the statement of net position interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(21,135)
Some liabilities reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(451,528)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		
		218,451
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(6,761,114)</u>
Net Position of Governmental Activities		<u>\$21,248,743</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2012

	General	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$2,773,675	\$615,682	\$738,662	\$4,128,019
Fines, Licenses and Permits	247,412	0	104,987	352,399
Charges for Services	418,500	0	154,174	572,674
Investment Earnings	29,337	0	2,044	31,381
Intergovernmental	427,113	0	1,368,791	1,795,904
Special Assessments	0	0	25,486	25,486
Other Revenues	9,651	1,441	150,572	161,664
Total Revenues	3,905,688	617,123	2,544,716	7,067,527
Expenditures:				
Current:				
General Government	1,074,366	0	16	1,074,382
Public Safety	2,821,493	3,350	407,217	3,232,060
Leisure Time Activities	0	0	66,373	66,373
Community Development	76,032	0	639,028	715,060
Transportation and Street Repair	54,115	0	475,972	530,087
Public Health and Welfare	0	0	291,224	291,224
Other	0	0	28,775	28,775
Capital Outlay	13,708	908,426	750,098	1,672,232
Debt Service:				
Principal Retirement	0	100,000	197,932	297,932
Interest and Fiscal Charges	0	285,538	19,409	304,947
Total Expenditures	4,039,714	1,297,314	2,876,044	8,213,072
Excess of Revenues Over (Under) Expenditures	(134,026)	(680,191)	(331,328)	(1,145,545)
Other Financing Sources (Uses):				
Transfers In	0	0	305,000	305,000
Transfers (Out)	(305,000)	0	0	(305,000)
Total Other Financing Sources (Uses)	(305,000)	0	305,000	0
Net Change in Fund Balance	(439,026)	(680,191)	(26,328)	(1,145,545)
Fund Balance - Beginning of Year	1,136,096	5,969,203	3,617,263	10,722,562
Change in Nonspendable Inventory	(237)	0	6,127	5,890
Fund Balance - End of Year	\$696,833	\$5,289,012	\$3,597,062	\$9,582,907

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2012

Net Change in Fund Balance - Total Governmental Funds (\$1,145,545)

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	\$1,536,532	
Depreciation Expense	(761,884)	
		774,648

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues in
 the funds.

Income Taxes	\$11,572	
Delinquent Property Taxes	6,770	
Interest	3,253	
Intergovernmental	(91,673)	
Other	(1,812)	
		(71,890)

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net position. 297,932

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. 9,250

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Compensated Absences	(\$22,891)	
Amortization of Bond Issuance Cost	(9,482)	
Amortization of Bond Premium	6,168	
Change in Inventory	5,890	
		(20,315)

The internal service fund used by management to charge back costs
 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.

Change in Net Position - Internal Service Funds	(\$13,364)	
Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities	(75,056)	
		(88,420)

Change in Net Position of Governmental Activities (\$244,340)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$3,040,679	\$3,058,877	\$2,970,281	(\$88,596)
Fines, Licenses and Permits	253,291	254,807	247,427	(7,380)
Intergovernmental	518,000	521,100	506,007	(15,093)
Charges for Services	428,419	430,983	418,500	(12,483)
Investment Earnings	30,064	30,244	29,368	(876)
Other Revenues	6,898	6,939	6,738	(201)
Total Revenues	4,277,351	4,302,950	4,178,321	(124,629)
Expenditures:				
Current:				
General Government	943,828	961,538	910,652	50,886
Public Safety	3,023,448	3,080,181	2,917,173	163,008
Community Development	82,349	83,894	79,454	4,440
Transportation and Street Repair	57,513	58,592	55,491	3,101
Total Expenditures	4,107,138	4,184,205	3,962,770	221,435
Excess of Revenues Over (Under) Expenditures	170,213	118,745	215,551	96,806
Other Financing Sources (Uses):				
Transfers (Out)	(316,111)	(322,043)	(305,000)	17,043
Total Other Financing Sources (Uses)	(316,111)	(322,043)	(305,000)	17,043
Net Change in Fund Balance	(145,898)	(203,298)	(89,449)	113,849
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	302,792	302,792	302,792	0
Fund Balance End of Year	\$156,894	\$99,494	\$213,343	\$113,849

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Current Assets:					
Equity in Pooled Cash and Investments	\$921,556	\$629,801	\$5,104,476	\$6,655,833	\$0
Restricted Cash and Investments	0	3,567	0	3,567	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	527,834
Receivables:					
Accounts	116,842	250,376	1,301,955	1,669,173	0
Interest	0	0	3,614	3,614	0
Prepays	14,622	27,103	96,461	138,186	0
Inventory	39,190	152,959	774,142	966,291	0
Total Current Assets	1,092,210	1,063,806	7,280,648	9,436,664	527,834
Noncurrent Assets:					
Investment in Joint Venture	0	0	495,228	495,228	0
Capital Assets:					
Nondepreciable Capital Assets	0	190,054	49,370	239,424	0
Depreciable Capital Assets, Net	7,273,497	9,795,894	10,115,724	27,185,115	0
Total Noncurrent Assets	7,273,497	9,985,948	10,660,322	27,919,767	0
Total Assets	8,365,707	11,049,754	17,940,970	37,356,431	527,834
Liabilities:					
Current Liabilities:					
Accounts Payable	12,882	19,289	520,726	552,897	0
Accrued Wages and Benefits	38,666	47,009	78,817	164,492	0
Compensated Absences	28,473	14,938	37,943	81,354	0
Retainage Payable	0	3,567	0	3,567	0
Accrued Interest Payable	2,363	29,809	2,602	34,774	0
Contracts Payable	0	980	0	980	0
Claims Payable	0	0	0	0	68,628
Long-Term Liabilities Due Within One Year	187,634	229,712	450,000	867,346	0
Total Current Liabilities	270,018	345,304	1,090,088	1,705,410	68,628
Long-Term Liabilities:					
Compensated Absences	20,178	36,862	107,822	164,862	0
Bonds, Notes & Loans Payable	284,985	1,938,218	1,350,000	3,573,203	0
Total Long-Term Liabilities	305,163	1,975,080	1,457,822	3,738,065	0
Total Liabilities	575,181	2,320,384	2,547,910	5,443,475	68,628
Net Position:					
Net Investment in Capital Assets	6,800,878	7,818,018	8,365,094	22,983,990	0
Unrestricted	989,648	911,352	7,027,966	8,928,966	459,206
Total Net Position	\$7,790,526	\$8,729,370	\$15,393,060	\$31,912,956	\$459,206
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(5,831)	
Net Position of Business-Type Activities				\$31,907,125	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Operating Revenues:					
Charges for Services	\$1,540,667	\$1,900,676	\$10,086,024	\$13,527,367	\$1,717,786
Other Revenues	913	5,416	456,214	462,543	0
Total Operating Revenues	1,541,580	1,906,092	10,542,238	13,989,910	1,717,786
Operating Expenses:					
Personal Services	699,413	912,083	1,580,119	3,191,615	0
Contractual Services	164,167	160,023	396,824	721,014	0
Materials and Supplies	60,888	311,363	6,312,939	6,685,190	0
Depreciation	339,077	333,941	589,189	1,262,207	0
Utilities	141,073	122,446	46,417	309,936	0
Claims	0	0	0	0	1,737,494
Other Expenses	2,323	6,872	67,242	76,437	0
Total Operating Expenses	1,406,941	1,846,728	8,992,730	12,246,399	1,737,494
Operating Income	134,639	59,364	1,549,508	1,743,511	(19,708)
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	9,113	9,113	6,344
Interest (Expense)	(5,192)	(61,166)	(42,936)	(109,294)	0
Gain (Loss) in Investment in Joint Venture	0	0	(57,036)	(57,036)	0
Operating Grants	7,381	0	0	7,381	0
Excise Tax (Expense)	0	0	(46,916)	(46,916)	0
Total Non-Operating Revenues (Expenses)	2,189	(61,166)	(137,775)	(196,752)	6,344
Change in Net Position	136,828	(1,802)	1,411,733	1,546,759	(13,364)
Net Position - Beginning of Year	7,653,698	8,731,172	13,981,327	30,366,197	472,570
Net Position - End of Year	<u>\$7,790,526</u>	<u>\$8,729,370</u>	<u>\$15,393,060</u>	<u>\$31,912,956</u>	<u>\$459,206</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				75,056	
Change in Net Position - Total Business-Type Activities				<u>\$31,988,012</u>	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,522,030	\$1,864,198	\$10,324,385	\$13,710,613	\$1,717,786
Cash Payments to Employees	(685,696)	(912,663)	(1,622,421)	(3,220,780)	0
Cash Payments to Suppliers	(394,379)	(690,248)	(7,007,961)	(8,092,588)	0
Cash Payments for Claims	0	0	0	0	(1,892,082)
Net Cash Provided (Used) by Operating Activities	441,955	261,287	1,694,003	2,397,245	(174,296)
Cash Flows from Noncapital Financing Activities:					
Operating Grants Received	7,381	0	0	7,381	0
Cash Payments for Excise Taxes	0	0	(46,916)	(46,916)	0
Net Cash Provided (Used) by Noncapital Financing Activities	7,381	0	(46,916)	(39,535)	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(250,409)	(179,372)	(284,123)	(713,904)	0
Debt Principal Payments	(214,344)	(223,522)	(450,000)	(887,866)	0
Debt Interest Payments	(6,121)	(64,239)	(42,168)	(112,528)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(470,874)	(467,133)	(776,291)	(1,714,298)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	5,499	5,499	6,344
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	5,499	5,499	6,344
Net Increase (Decrease) in Cash and Cash Equivalents	(21,538)	(205,846)	876,295	648,911	(167,952)
Cash and Cash Equivalents - Beginning of Year	943,094	839,214	4,228,181	6,010,489	695,786
Cash and Cash Equivalents - End of Year	921,556	633,368	5,104,476	\$6,659,400	527,834
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	134,639	59,364	1,549,508	\$1,743,511	(19,708)
Adjustments:					
Depreciation	339,077	333,941	589,189	1,262,207	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	(19,550)	(41,894)	(217,853)	(279,297)	0
(Increase) Decrease in Inventory	(11,521)	(10,509)	6,044	(15,986)	0
(Increase) Decrease in Prepaids	(1,370)	(1,016)	(5,092)	(7,478)	0
Increase (Decrease) in Payables	(13,037)	(75,947)	(188,587)	(277,571)	(154,588)
Increase (Decrease) in Accrued Liabilities	13,717	(2,652)	(39,206)	(28,141)	0
Net Cash Provided (Used) by Operating Activities	\$441,955	\$261,287	\$1,694,003	\$2,397,245	(\$174,296)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
December 31, 2012

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$204,338
Restricted Cash and Investments	5,138
Receivables:	
Interest	<u>361</u>
Total Assets	<u><u>209,837</u></u>
Liabilities:	
Other Liabilities	5,138
Intergovernmental Payable	<u>204,699</u>
Total Liabilities	<u><u>\$209,837</u></u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 1 - Description of the City

The City of Shelby (the "City") is a home rule municipal corporation incorporated as a City in 1921 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 August 9, 1921.

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 vice-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 authorizes bids for materials and services and other municipal purposes.

The Finance Director, elected by the voters for a four-year term is the chief accountant of the municipal government and is responsible for all accounting functions and responsibilities per the charter of the City. The Finance Director is custodian of all public funds collected by the City and invests and disburses those funds. All contracts and agreements or obligations receiving or disbursing City moneys are all certified by the Finance Director before being entered into.

The Law Director, a practicing attorney-at-law is elected by the voters for a four-year term and is the chief legal representative and adviser for the City. The Law Director prepares all contracts, bonds, and other legal instruments as well as endorses each with his approval. The Law Director also acts as the prosecuting attorney for the City's municipal court system.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

Reporting Entity

For financial reporting purposes, the City's basic financial statements 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 basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of two insurance purchasing pools, which are described in Note 11.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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, sewer, water and electric.

The following organization is described due to its relationship with the City:

Joint Venture

The City of Shelby is a Non-Financing Participant and an Owner Participant with an ownership percentage of 1.89% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2012, the outstanding debt was \$20,030,648. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$495,228 at December 31, 2012. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2012 are:

<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>	<u>Municipality</u>	<u>Percent Ownership</u>	<u>Kw Entitlement</u>
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program,

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

Fund Accounting

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

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Police and Court Construction Fund – To account for the construction of the City's Justice Center.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) grants and other resources whose use is restricted to a particular purpose.

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

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

Sewer Fund -This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Electric Fund - This fund accounts for the operations providing electric services to the residents and commercial users located within the City.

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The City's agency funds account for customer deposits, utility sharing and municipal court. The customer deposit fund is deposits made by utility customers which are refunded if customers have fulfilled their obligations when they cancel their account. The utility sharing fund accounts for donations made by utility customers which are intended to help pay the utility bills of those who are unable to do so. The municipal court fund represents cash that is collected by the City's municipal court and disbursed to government agencies, including the City.

Measurement Focus and Basis of Accounting

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 City are included on the statement of net position.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred revenue in the governmental funds.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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.

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 item level within each fund. Budgetary modifications may only be made by resolution of the City Council at the legal level of budgetary control.

Tax Budget - During the first Council meeting in July, the Finance Director presents the following 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. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing 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 unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2012.

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 item 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 at the legal level of budgetary control may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all 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 investments" on the basic financial statements.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2012, interest revenue credited to the general fund amounted to \$29,337 and \$2,044 from other governmental funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the basic financial statements as "restricted cash and investments" since it is not required to be deposited into the City treasury. The City maintains segregated depository accounts for municipal court deposits and retainage due to contractors.

The City is self-insured through a fiscal agent, Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA). The money held by the fiscal agent is presented as "cash and cash equivalents with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OME-RESA is described in Note 11.

For purposes of the statement of cash flows and for presentation on the statement of net position/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year end is provided in Note 3.

Inventories of Materials and Supplies

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the governmental fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance, which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

reported in the governmental activities column of the government-wide statement of net position, but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, electric distribution systems, and water and sewer lines. 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. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	3 - 50 years	3 - 50 years
Equipment	2 - 30 years	2 - 30 years
Infrastructure	5 - 65 years	5 - 65 years

Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the 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 (severance) payments and by those employees for whom it is probable they will become eligible to receive termination (severance) benefits in the future.

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.

The entire compensated absence liability is reported on the government-wide financial statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

For governmental funds, 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 in the governmental funds; however, they are reported in the government-wide financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, notes, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Interfund Activity

Interfund balances are eliminated on the statement of net position, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "internal balances".

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

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

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Nonspendable – resources that are not in spendable form (prepaids) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the City Council.

Assigned – resources that are intended to be used for specific purposes as approved through the City's formal purchasing procedure by the Finance Director.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned.

The City considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Contributed Capital

Contributions of capital arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. Capital contributions are reported as a program revenue in the statement of activities.

Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes consist primarily of net position restricted for income tax operations, City administrative operations and trust fund resources. Of the City's \$3,844,752 in restricted net position, none was restricted by enabling legislation.

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

Unamortized Issuance Costs/Bond Premium and Discount

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accrued over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and electric enterprise funds and charges for services to other departments for the self-insurance internal service fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Note 3 - Equity in Pooled Cash and Investments

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

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

Inactive deposits are public deposits that the City Council 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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 items (1) or (2) above 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 State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 Finance Director 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 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 Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash in Segregated Accounts

At December 31, 2012, the City had \$5,138 in segregated accounts for municipal court deposits. These accounts were covered by the FDIC or pooled collateral held by the depository institution. These amounts are not included in the City's depository balance below.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Cash with Fiscal Agent

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2012 was \$527,834. This amount is not included in the City's depository balance below.

Deposits

At December 31, 2012, \$11,205,014 of the City's bank balance of \$16,887,950 was exposed to custodial risk as discussed below, while \$5,682,936 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

As of December 31, 2012, the City had no investments.

Interest Rate Risk - In accordance with the investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years, unless matched to a specified obligation or debt of the City.

Credit Risk – It is the City's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk – The City's investment policy allows investments in Federal Government Securities or Instrumentalities.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's securities are either insured and registered in the name of the City or at least registered in the name of the City.

Note 4 - Interfund Transactions

Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported on the fund statements:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Transfers from the general fund to:

Other governmental funds \$305,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide statements.

Note 5 - Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2012 were levied after October 1, 2011 on assessed values as of January 1, 2011, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

Tangible personal property tax revenues received in 2012 (other than public utility property) represent the collection of 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2011 on values as of December 31, 2011. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. House Bill No. 66 was to hold governments harmless by replacing a portion of the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2012, the City will be fully reimbursed for the lost revenue. In calendar years 2013-2017, the reimbursements will be phased out.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

The assessed values of real and tangible personal property upon which current year property tax receipts were based are as follows:

Real Property	\$123,846,730
Public Utility	<u>1,267,620</u>
Total Valuation	<u><u>\$125,114,350</u></u>

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.30% 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 1% for general use and .3% for police court financing 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 are required to pay their estimated tax quarterly and file a declaration annually. Income tax receipts are recorded by the City as determined by the City ordinance.

Note 7 - Receivables

Receivables at year end, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts receivable.

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

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 8 – Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$215,712	\$190,159	\$0	\$405,871
Construction in Progress	260,500	98,421	0	358,921
Capital Assets, being depreciated:				
Buildings and Improvements	4,167,398	828,622	0	4,996,020
Equipment	3,824,993	406,446	0	4,231,439
Infrastructure	20,168,422	12,884	0	20,181,306
Totals at Historical Cost	<u>\$28,637,025</u>	<u>\$1,536,532</u>	<u>\$0</u>	<u>\$30,173,557</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$1,861,425	\$120,812	\$0	\$1,982,237
Equipment	2,822,976	183,219	0	3,006,195
Infrastructure	7,054,451	457,853	0	7,512,304
Total Accumulated Depreciation	<u>\$11,738,852</u>	<u>\$761,884</u>	<u>\$0</u>	<u>\$12,500,736</u>
Governmental Activities Capital Assets, Net	<u>\$16,898,173</u>	<u>\$774,648</u>	<u>\$0</u>	<u>\$17,672,821</u>
Business-Type Activities				
Capital Assets, not being depreciated:				
Land	\$233,440	\$0	\$0	\$233,440
Construction in Progress	407,823	139,591	541,430	5,984
Capital Assets, being depreciated:				
Buildings and Improvements	13,836,733	26,750	0	13,863,483
Equipment	28,526,276	298,812	0	28,825,088
Infrastructure	23,228,230	790,181	0	24,018,411
Totals at Historical Cost	<u>\$66,232,502</u>	<u>\$1,255,334</u>	<u>\$541,430</u>	<u>\$66,946,406</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$6,272,165	\$285,576	\$0	\$6,557,741
Equipment	24,711,525	695,214	0	25,406,739
Infrastructure	7,275,970	281,417	0	7,557,387
Total Accumulated Depreciation	<u>\$38,259,660</u>	<u>\$1,262,207</u>	<u>\$0</u>	<u>\$39,521,867</u>
Business-Type Activities Capital Assets, Net	<u>\$27,972,842</u>	<u>(\$6,873)</u>	<u>\$541,430</u>	<u>\$27,424,539</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Depreciation expense was charged to functions/programs of the governmental activities and funds of the business-type activities as follows:

General Government	\$31,586
Public Safety	107,000
Leisure Time Activities	9,419
Community Development	67,476
Public Health and Welfare	2,048
Transportation and Street Repair	544,355
Total Depreciation Expense	<u>\$761,884</u>

Note 9 – 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.

Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2012:

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds</u>						
Street Improvement - Series 2007	4.25%	\$141,040	\$0	(\$141,040)	\$0	\$0
Fire Truck - Series 2008	4.75%	155,000	0	(20,000)	135,000	20,000
Municipal Justice Center Improvements	2.00%	6,385,000	0	(100,000)	6,285,000	135,000
Premium on General Obligations Bonds		150,295	0	(6,168)	144,127	0
Total General Obligation Bonds		<u>6,831,335</u>	<u>0</u>	<u>(267,208)</u>	<u>6,564,127</u>	<u>155,000</u>
<u>Special Assessment Bonds</u>						
Street Improvement - Fox Run 7	4.24%	144,531	0	(20,647)	123,884	20,647
Total Special Assessment Bonds		<u>144,531</u>	<u>0</u>	<u>(20,647)</u>	<u>123,884</u>	<u>20,647</u>
<u>OPWC Loan Payable:</u>						
Wareham Road	0.00%	89,348	0	(16,245)	73,103	16,245
Total Bonds and Loans Payable		<u>7,065,214</u>	<u>0</u>	<u>(304,100)</u>	<u>6,761,114</u>	<u>191,892</u>
Compensated Absences		<u>428,637</u>	<u>76,896</u>	<u>(54,005)</u>	<u>451,528</u>	<u>52,454</u>
Total Governmental Activities		<u>\$7,493,851</u>	<u>\$76,896</u>	<u>(\$358,105)</u>	<u>\$7,212,642</u>	<u>\$244,346</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities						
<u>OPWC Loan Payable:</u>						
Wastewater Treatment Plant Expansion	0.00%	\$28,571	\$0	(\$28,571)	\$0	\$0
<u>OWDA Loans Payable:</u>						
EQ Basin	1.00%	658,392	0	(185,773)	472,619	187,634
WTP Upgrade	2.75%	2,391,452	0	(223,522)	2,167,930	229,712
<u>Revenue Bond:</u>						
Electric System Revenue Bonds	1.00%	2,250,000	0	(450,000)	1,800,000	450,000
Total Loans Payable		5,328,415	0	(887,866)	4,440,549	867,346
Compensated Absences		273,751	53,333	(80,868)	246,216	81,354
Total Business-Type Activities		\$5,602,166	\$53,333	(\$968,734)	\$4,686,765	\$948,700

Special assessment bonds - Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. 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.

General obligation bonds payable - General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. In September, 2012, the City issued \$6,385,000 in General Obligation Bonds to finance improvements to the Municipal Justice Center. The bonds were issued at an interest rate of 4.11% and will mature on December 1, 2036.

OPWC loans payable - The City has entered into debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund construction projects. These loans are retired through the general bond retirement fund (a nonmajor governmental fund) and the sewer fund. The OPWC notes are interest free.

OWDA loans payable - The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable from water and sewer operating revenues. The loan agreements function similar to a line-of-credit agreement. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

Revenue bonds payable - In 2012, the City issued \$2,250,000 in Electric system Revenue Bonds. The bonds were issued at an interest rate of 1.88% and will mature on December 1, 2016.

Compensated absences - Compensated absences will be paid from the fund from which the employee is paid. The City will pay compensated absences from the general fund, sewer fund, water fund, electric fund and the following nonmajor governmental funds: street maintenance and repair fund and income tax fund.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2012, are as follows:

Year Ending December 31	Governmental Activities					
	General Obligation Bonds		Special Assessment Bonds		OPWC Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$155,000	\$251,650	\$20,647	\$5,066	\$16,245	\$0
2014	155,000	247,850	20,648	4,159	16,245	0
2015	160,000	244,225	20,647	3,291	16,245	0
2016	175,000	239,125	20,647	2,414	16,245	0
2017	180,000	233,500	20,647	1,427	8,123	0
2018-2022	985,000	1,053,250	20,648	759	0	0
2023-2027	1,315,000	832,400	0	0	0	0
2028-2032	1,660,000	542,800	0	0	0	0
2033-2036	1,635,000	171,175	0	0	0	0
Total	\$6,420,000	\$3,815,975	\$123,884	\$17,116	\$73,103	\$0

Year Ending December 31	Business-Type Activities			
	ODWA Loans		Revenue Bonds	
	Principal	Interest	Principal	Interest
2013	\$417,346	\$62,308	\$450,000	\$31,219
2014	425,588	54,067	450,000	23,414
2015	338,078	45,630	450,000	15,610
2016	249,327	38,435	450,000	7,805
2017	256,230	31,531	0	0
2018-2022	953,980	53,186	0	0
Total	\$2,640,549	\$285,157	\$1,800,000	\$78,048

Note 11 - 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 2012, 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 coverage at December 31, 2012, follows:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>	
EMC Insurance Co.	Property	\$1,000	
	General Liability	1,000	
	Inland Marine	1,000	
	Errors & Omission	1,000	
	Law Enforcement	5,000	
	Excess Liability	1,000	
Shelby Mutual Insurance Company	Public Employee		
	Dishonest bond Finance	1,000 5,000	
EMC Insurance Co.	Automobile	1,000	Comprehensive
		1,000	Collision
EMC Insurance Co.	Steam Boiler	5,000	Water Plant
		1,000	All Other

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing 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, Employee Benefit Management Corp, located in Dublin, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is \$737.09 for single coverage and \$1,624.99 for family coverage.

The claims liability of \$68,628 reported in the internal service fund at December 31, 2012, 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, 2012 and 2011 were as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2012	\$223,216	\$1,737,494	(\$1,892,082)	\$68,628
2011	64,012	1,613,305	(1,454,101)	223,216

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from 2011 to 2012.

Note 12 – Pension Plans

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the TP and CO Plans. Members of the MD Plan do not qualify for the ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 800-222-7377, or by visiting the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members and employer contributions rates were consistent across all three plans. Plan members are required to contribute 10% of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 14% of covered payroll. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2012, 2011 and 2010 were \$432,309, \$488,322, and \$480,474, respectively. The full amount has been contributed for 2011 and 2010 and 87% has been contributed for 2012.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers (the City) are required to contribute 19.5% for police officers and 24.0% for firefighters. The City's contributions to OP&F for the years ending December 31, 2012, 2011 and 2010 were \$367,018, \$371,771, and \$352,312, respectively. The full amount has been contributed for 2011 and 2010 and 69% has been contributed for 2012.

Note 13 – Post Employment Benefits

Ohio Public Employees Retirement System

Plan Description

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

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

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

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

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the City contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determined the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to the health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. The OPERS

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's required contributions for the current year, which were used to fund postemployment benefits, were \$123,511 for 2012, \$139,514 for 2011, and \$36,255 for the period January 1 through February 28, 2010, and \$138,626 for the period March 1 through December 31, 2010. The full amount (actual) has been contributed for 2010 and 2011 and 87% has been contributed for 2012.

OPERS Board of Trustees Adopt Changes to the Health Care Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

Plan Description

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164, or by visiting the OP&F website at www.op-f.org.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Funding Policy

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's required contributions to OP&F were \$62,473 for police and \$52,395 for fire for the year ending December 31, 2012; \$63,308 for police and \$53,055 for fire for the year ending December 31, 2011; and \$61,296 for police and \$49,219 for fire for the year ending December 31, 2010, respectively, was allocated to the healthcare plan. The actual contributions for 2010 and 2011 were 100% and 69% has been contributed for 2012.

Note 14 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance 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 balances - budget and actual (non-GAAP budgetary basis) 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 are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the General fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$439,026)
Revenue Accruals	(1,198,160)
Expenditure Accruals	2,605,159
Transfer In	2,386,081
Transfer Out	(3,301,369)
Encumbrances	(141,006)
Funds Budgeted Elsewhere	<u>(1,128)</u>
Budget Basis	<u><u>(\$89,449)</u></u>

Note 15 - Contingencies

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material 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, 2012.

Contracts

In the year 2001, the City entered into contracts with AMP-Ohio and is committed to provide and sell power (electricity) at a marginal profit through 2012.

Litigation

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Contingent Liability

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2012, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2012 AMP has a regulatory asset of \$96,544,650 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the City has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Shelby of 5,000 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2012 the City of Shelby had a potential

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

stranded cost obligation of \$853,994 for the AMPGS Project, while the minimum exposure is \$0. The City of Shelby has nothing on deposit with AMP at December 31, 2012. Based on information provided by AMP, Inc. and the City's law director's assessment of the lawsuit against the EPC contractor, the City believes that, although it is probable that a liability has been incurred as of December 31, 2012, the amount of the loss can not be reasonably estimated. Therefore, there is no accrual reflected on the balance sheet as of December 31, 2012 for any amount that may be required to be paid in the future to cover any AMPGS stranded costs.

If the City is required to pay the entire potential liability of \$853,994, it would not create a hardship for the City, as the Electric Fund has unrestricted net position of over \$7,000,000 and equity in pooled cash and investments at year end of over \$5,100,000. The City does not, at this time, intend to recover the amount through rate increases.

Note 16 – Change in Accounting Principles

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and net position.

Note 17 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Fund Balances	General	Police and Court Construction	Other Governmental Funds	Total
Nonspendable:				
Inventory	\$31,151	\$0	\$118,217	\$149,368
Prepays	24,586	0	15,725	40,311
Unclaimed Monies	2,840	0	0	2,840
Muni Park Trust	0	0	20,000	20,000
Total Nonspendable	58,577	0	153,942	212,519
Restricted for:				
Police Court and Construction	0	5,289,012	0	5,289,012
Street	0	0	212,826	212,826
State Highway	0	0	5,881	5,881
Street Sales Tax	0	0	70,374	70,374
Health	0	0	261,596	261,596
Park	0	0	559,911	559,911
Rehab Escrow CDBG	0	0	16,966	16,966
Court Probation	0	0	26,689	26,689
Law Enforcement Trust	0	0	3,657	3,657
Court IDAT	0	0	68,204	68,204
Court Enforcement and Education	0	0	15,115	15,115
DARE	0	0	1,914	1,914
Police Computer	0	0	2,037	2,037
Court IDAM	0	0	18,132	18,132
CDBG General	0	0	3,549	3,549
Police Pension	0	0	56,813	56,813
Fire Pension	0	0	50,330	50,330
Shade Tree Trust	0	0	1,836	1,836
FEMA	0	0	52,797	52,797
Debt Service	0	0	821,436	821,436
Capital Projects	0	0	1,186,769	1,186,769
Muni Park Trust	0	0	5,007	5,007
Total Restricted	0	5,289,012	3,441,839	8,730,851
Assigned to:				
Encumbrances	135,909	0	0	135,909
Budgetary Variance	188,155	0	0	188,155
Police Equipment	0	0	1,281	1,281
Total Assigned	324,064	0	1,281	325,345
Unassigned (Deficit)	314,192	0	0	314,192
Total Fund Balance	\$696,833	\$5,289,012	\$3,597,062	\$9,582,907

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 18 – Subsequent Events

In 2013, the Digester roof collapsed at the wastewater treatment plant. The City estimated the cost to repair the damage would be approximately \$400,000. These repairs will be paid out of the Sewer Fund.

CITY OF SHELBY, OHIO



Single Audit Reports

December 31, 2012

**CITY OF SHELBY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/Pass - Through Grantor, Program Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA</u>	<u>Disbursements</u>
<u>United States Department of Housing Urban Development</u>			
Passed Through Ohio Housing and Community Partnerships:			
Community Development Block Grant-States Program	A-C-11-2DQ-1	14.228	\$153,750
Home Investment Partnerships Program	A-C-11-2DQ-2	14.239	<u>204,696</u>
			<u>358,446</u>
<u>United States Department of Justice- Office of Justice Program</u>			
Passed through Ohio Department of Public Safety			
Bullet Proof Vest Grant		16.607	<u>675</u>
<u>United States Department of Homeland Security</u>			
Passed through FEMA			
Assistance to Firefighters Grant	EMW-2011-FV-01228	97.044	226,865
Assistance to Firefighters Grant	EMW-2011-FO-07761	97.044	60,502
Passed Through Department of Public Safety, Ohio Emergency Management Agency:			
Hazard Mitigation Grant	FEMA-DR-1720-10-R-OH	97.039	26,001
Public Assistance Program	FEMA-1729-0-DR-139-72102 PW393	97.036	60,756
			<u>374,124</u>
TOTALS			<u><u>\$733,245</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

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

Mayor and Members of Council
City of Shelby
43 West Main Street
Shelby, Ohio 44875

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2013, wherein we noted the City adopted GASB Statement No. 62 and 63 as disclosed in Note 16.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
June 14, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Mayor and Members of Council
City of Shelby
43 West Main Street
Shelby, Ohio 44875

Report on Compliance for Each Major Federal Program

We have audited the City of Shelby, Ohio's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 14, 2013, which contained unmodified opinions on those financial statements, wherein we noted the City adopted GASB Statement No. 62 and 63 as disclosed in Note 16. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
June 14, 2013

CITY OF SHELBY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2012

Section I – Summary of Auditor’s Results

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any material reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were the any other significant control deficiencies reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under Section .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (list):</i>	Assistance to Firefighters Grant CFDA# 97.044
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

Section II – Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

**CITY OF SHELBY
DECEMBER 31, 2012**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
*OMB CIRCULAR A-133***

The City of Shelby had no prior audit findings or questioned costs.

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Dave Yost • Auditor of State

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.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 23, 2013