



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF SHELBY
RICHLAND COUNTY**

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RICHLAND COUNTY

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

Report on the Audit of the Financial Statements

Opinions

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 of Shelby, Richland County, Ohio (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, required budgetary comparison schedule, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 November 30, 2022 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 solely 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 the effectiveness of the City's 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.



Keith Faber
Auditor of State
Columbus, Ohio

November 30, 2022

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City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2021
(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, 2021. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the 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 \$2,059,925. Net position of governmental activities increased \$1,582,595, net position of business-type activities increased by \$477,330.
- The General Fund reported a fund balance of \$2,168,727.
- Business-type operations reflected an operating income of \$561,626.

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 deferred outflows and liabilities and deferred inflows 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 net position. 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 well being. 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, 2021
(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, public health and welfare, transportation and street repair, public safety, community development, 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 focus on the City's most significant funds. The City's major funds are the General, Sewer, Water and Electric 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.

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

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

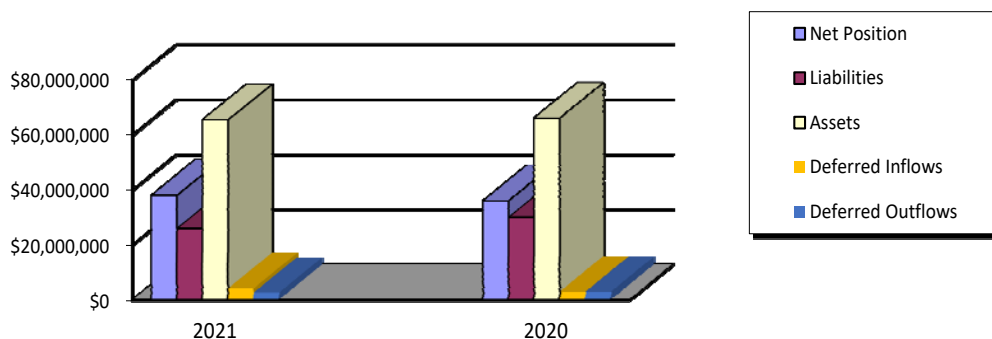
the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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 2021 compared to 2020.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and Other Assets	\$10,155,558	\$8,524,938	\$11,087,633	\$11,825,863	\$21,243,191	\$20,350,801
Capital Assets	20,857,780	21,650,769	22,940,310	24,026,996	43,798,090	45,677,765
Net OPEB Asset	140,771	0	231,722	0	372,493	0
Total Assets	31,154,109	30,175,707	34,259,665	35,852,859	65,413,774	66,028,566
Deferred Outflows of Resources:						
Deferred Charge on Refunding	252,878	269,736	0	0	252,878	269,736
OPEB	691,037	791,363	160,261	279,894	851,298	1,071,257
Pension	1,078,947	1,105,623	340,322	394,098	1,419,269	1,499,721
Total Deferred Outflows of Resources	2,022,862	2,166,722	500,583	673,992	2,523,445	2,840,714
Liabilities:						
Long-Term Liabilities	13,253,434	14,973,908	10,548,804	13,576,400	23,802,238	28,550,308
Other Liabilities	908,530	346,446	1,168,184	1,087,616	2,076,714	1,434,062
Total Liabilities	14,161,964	15,320,354	11,716,988	14,664,016	25,878,952	29,984,370
Deferred Inflows of Resources:						
Property Taxes	583,849	570,308	0	0	583,849	570,308
OPEB	757,658	466,187	708,583	268,688	1,466,241	734,875
Pension	1,178,774	1,073,449	814,957	551,757	1,993,731	1,625,206
Total Deferred Inflows of Resources	2,520,281	2,109,944	1,523,540	820,445	4,043,821	2,930,389
Net Position:						
Net Investment In Capital Assets	15,854,115	16,365,932	14,603,105	15,053,266	30,457,220	31,419,198
Restricted	5,189,117	4,758,981	0	0	5,189,117	4,758,981
Unrestricted	(4,548,506)	(6,212,782)	6,916,615	5,989,124	2,368,109	(223,658)
Total Net Position	\$16,494,726	\$14,912,131	\$21,519,720	\$21,042,390	\$38,014,446	\$35,954,521



Total net position of the City as a whole increased \$2,059,925. Net position of the City's governmental activities increased \$1,582,595, while the net position of the City's business-type activities increased

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

\$477,330 from 2020. The City had an unrestricted net position balance of \$2,368,109 that may be used to meet the government's ongoing obligations to citizens and creditors.

Long-Term liabilities decreased mainly due to a decrease in net pension and OPEB liabilities.

Table 2 shows the changes in net position for the year ended December 31, 2021 and revenue and expense comparisons to 2020.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Program Revenues:						
Charges for Services	\$1,438,005	\$1,399,495	\$14,774,962	\$14,345,480	\$16,212,967	\$15,744,975
Operating Grants and Contributions	980,852	2,230,260	91,374	0	1,072,226	2,230,260
Capital Grants and Contributions	4,049	60,285	0	0	4,049	60,285
Total Program Revenues	2,422,906	3,690,040	14,866,336	14,345,480	17,289,242	18,035,520
General Revenues:						
Income Taxes	4,993,730	3,897,304	0	0	4,993,730	3,897,304
Property Taxes	781,708	626,626	0	0	781,708	626,626
Grants and Entitlements	528,426	356,307	0	0	528,426	356,307
Investment Earnings	13,187	45,368	943	47,063	14,130	92,431
Other Revenues	648,349	987,171	175,697	424,543	824,046	1,411,714
Total General Revenues	6,965,400	5,912,776	176,640	471,606	7,142,040	6,384,382
Total Revenues	9,388,306	9,602,816	15,042,976	14,817,086	24,431,282	24,419,902
Program Expenses:						
General Government	1,667,179	1,465,066	0	0	1,667,179	1,465,066
Public Safety	3,022,036	4,349,076	0	0	3,022,036	4,349,076
Leisure Time Activities	83,079	86,615	0	0	83,079	86,615
Community Development	340,966	534,268	0	0	340,966	534,268
Transportation and Street Repair	2,001,166	2,141,304	0	0	2,001,166	2,141,304
Public Health and Welfare	427,531	600,540	0	0	427,531	600,540
Other	152,777	20,094	0	0	152,777	20,094
Interest and Other Charges	110,977	284,056	0	0	110,977	284,056
Sewer	0	0	2,039,622	1,925,649	2,039,622	1,925,649
Water	0	0	1,907,271	2,282,895	1,907,271	2,282,895
Electric	0	0	10,618,753	11,457,040	10,618,753	11,457,040
Total Program Expenses	7,805,711	9,481,019	14,565,646	15,665,584	22,371,357	25,146,603
Change in Net Position	1,582,595	121,797	477,330	(848,498)	2,059,925	(726,701)
Net Position - Beginning of Year	14,912,131	14,790,334	21,042,390	21,890,888	35,954,521	36,681,222
Net Position - End of Year	\$16,494,726	\$14,912,131	\$21,519,720	\$21,042,390	\$38,014,446	\$35,954,521

Governmental Activities

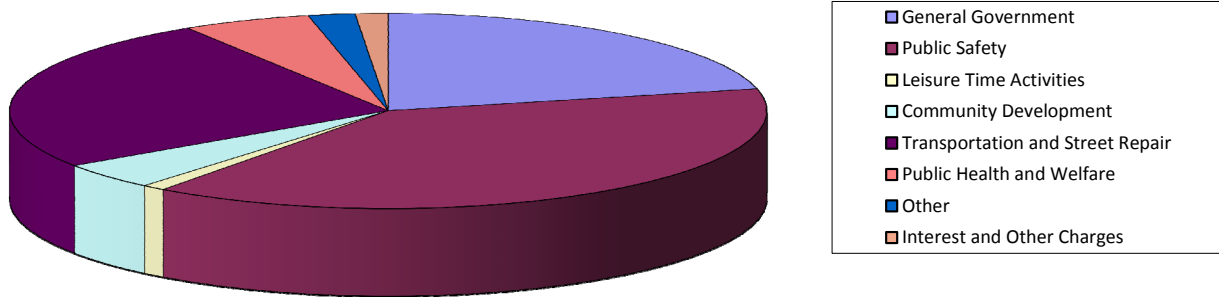
The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 83% of the City's governmental activities total general revenue.

City of Shelby, Ohio
Management’s Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

The decrease in operating grants and contributions program revenue from 2020 to 2021 was due to the City receiving less grant monies when compared to 2020.

Governmental Activities
Program Expenses for 2021

<u>Program Expenses</u>	<u>Percentage</u>
General Government	21.4%
Public Safety	38.7%
Leisure Time Activities	1.0%
Community Development	4.4%
Transportation and Street Repair	25.6%
Public Health and Welfare	5.5%
Other	2.0%
Interest and Other Charges	1.4%
Total	100.0%



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 \$14,948,731 and operating expenses of \$14,387,105 for fiscal year 2021. Business activities receive no support from tax revenues. The business activities (on the fund level) net position at the end of the year was \$21,589,371, which increased \$626,014 from 2020 which is primarily due to decreases in net pension and OPEB liabilities.

The City’s Funds

The City has one major governmental fund: the General Fund. Assets of the major governmental fund comprise \$3,285,026 (35%), of the total \$9,498,612 governmental funds’ assets.

General Fund: Fund balance at December 31, 2021 was \$2,168,727.

City of Shelby, Ohio
Management’s Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

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 \$1,262,832, on a Non-GAAP Budgetary Basis.

There were no significant variations from the original budget amounts to the final budget amounts.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$43,798,090 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2021 balances compared to 2020:

Table 3
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$406,004	\$406,004	\$256,299	\$245,327	\$662,303	\$651,331
Construction in Progress	5,493	76,662	32,756	156,335	38,249	232,997
Buildings and Improvements	12,565,694	12,370,503	24,810,600	24,716,738	37,376,294	37,087,241
Equipment	6,904,412	6,839,635	15,957,929	15,899,273	22,862,341	22,738,908
Infrastructure	22,876,330	22,876,330	19,819,866	19,692,830	42,696,196	42,569,160
Accumulated Depreciation	(21,900,153)	(20,918,365)	(37,937,140)	(36,683,507)	(59,837,293)	(57,601,872)
Total Net Capital Assets	<u>\$20,857,780</u>	<u>\$21,650,769</u>	<u>\$22,940,310</u>	<u>\$24,026,996</u>	<u>\$43,798,090</u>	<u>\$45,677,765</u>

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

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City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

Debt

The City had \$5,256,543 in capital leases, bonds and loans outstanding for Governmental Activities and \$8,337,205 in loans outstanding for Business-Type Activities.

Table 4
Outstanding Debt at Year End

		2021	2020
Governmental Activities:			
Capital Leases:			
2019 Ambulance		\$146,543	\$173,621
Total Capital Leases		<u>146,543</u>	<u>173,621</u>
General Obligation Bonds:			
2011 Municipal Justice Center Improvements	4.10%	0	200,000
Premium on Bonds		0	5,952
Refunded Municipal Justice Center Improvement	3.50%	5,110,000	5,175,000
Total General Obligation Bonds		<u>5,110,000</u>	<u>5,380,952</u>
Total Governmental Activities Debt		<u><u>5,256,543</u></u>	<u><u>5,554,573</u></u>
Business-Type Activities:			
OWDA and OPWC Loans from Direct Borrowings:			
2018 WWTP Improvements	1.00%	7,928,855	8,374,718
OPWC - CP425	0.00%	100,624	118,919
WTP upgrade	2.75%	0	141,929
West Main Street Sanitary Improvements	2.41%	307,726	338,164
Total OWDA and OPWC Loans from Direct Borrowings		<u>8,337,205</u>	<u>8,973,730</u>
Total Business-Type Activities Debt		<u>8,337,205</u>	<u>8,973,730</u>
Total Debt		<u><u>\$13,593,748</u></u>	<u><u>\$14,528,303</u></u>

See Notes 10 and 11 to the basic financial statements for further details on the City's long-term debt.

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.

The City has proved to be forward thinking with an eye to preserving the past in 2021. Working in public/private partnership with the CIC, Shelby Foundation, Richland Community Development Group, The Richland Area Chamber of Commerce, and the Village of Plymouth, they signed an MOU to bring a full time Economic Development Liaison to work on behalf of the City and northern Richland

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2021
(Unaudited)

County. Additionally the Historic Preservation Commission sought and received grant funding to retain Prospectus Architecture to work with the City to create a comprehensive historic preservation plan that will serve the historic downtown district as it is redeveloped. Additionally, again in a public/private partnership, Edge was retained to complete a Downtown corridor redevelopment plan that will likely be presented at the same time as the historic preservation plan will be completed. These strong moves will set the stage for new development on the Main St corridor. The City will continue to look for ways to partner with the private sector to move economic development forward.

The City continues to market properties and vacant buildings to site selectors through Jobs Ohio and follows up on all leads that fit the RFI. Technology Parkway remains a strong opportunity for business relocation or expansion opportunities. It now boasts its first tenant, a local manufacturer that has grown his business right here in Shelby and serves a statewide market. Workforce remains strong and North Central State College Center for Advanced Learning located in the Kehoe Center continues to be a great community partner in adapting programming to fit industry needs in addition to offering a 4 year engineering degree. This 163,000 square foot state of the art facility houses a nationally recognized Integrated Systems Technology laboratory and the regional Advanced Manufacturing Tool & Die Center, as well as an EnterpriseOhio Network's Skillsmax Center. Having this higher education entity within our city limits as well as Pioneer Joint Vocational School help insure we will have a strong and skilled workforce into the future.

Shelby is well positioned to continue to serve the taxpayers providing infrastructure and planning for future growth while preserving the history that makes Shelby unique.

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 Brian Crum, Finance Director, 43 W. Main Street, Shelby, Ohio, 44875.

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City of Shelby, Ohio
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$6,584,256	\$8,049,966	\$14,634,222
Cash and Cash Equivalents with Fiscal Agent	587,295	0	587,295
Receivables (Net):			
Taxes	2,094,972	0	2,094,972
Accounts	72,928	1,823,709	1,896,637
Interest	0	97	97
Intergovernmental	611,639	0	611,639
Special Assessments	0	18,209	18,209
Internal Balances	69,651	(69,651)	0
Inventory	63,664	1,159,796	1,223,460
Prepaid Items	71,153	105,507	176,660
Nondepreciable Capital Assets	411,497	289,055	700,552
Depreciable Capital Assets, Net	20,446,283	22,651,255	43,097,538
Net OPEB Asset	140,771	231,722	372,493
Total Assets	31,154,109	34,259,665	65,413,774
Deferred Outflows of Resources:			
Deferred Charge on Refunding	252,878	0	252,878
Pension	1,078,947	340,322	1,419,269
OPEB	691,037	160,261	851,298
Total Deferred Outflows of Resources	2,022,862	500,583	2,523,445
Liabilities:			
Accounts Payable	27,435	821,199	848,634
Accrued Wages and Benefits	191,402	104,631	296,033
Accrued Interest Payable	9,307	8,002	17,309
Claims Payable	207,383	0	207,383
Deposits Held and Due to Others	0	224,430	224,430
Payable to Joint Venture	0	9,922	9,922
Unearned Revenue	473,003	0	473,003
Long-Term Liabilities:			
Due Within One Year	400,035	571,840	971,875
Due In More Than One Year			
Net Pension Liability	6,626,840	1,888,215	8,515,055
Net OPEB Liability	851,666	0	851,666
Other Amounts	5,374,893	8,088,749	13,463,642
Total Liabilities	14,161,964	11,716,988	25,878,952
Deferred Inflows of Resources:			
Property Taxes	583,849	0	583,849
Pension	1,178,774	814,957	1,993,731
OPEB	757,658	708,583	1,466,241
Total Deferred Inflows of Resources	2,520,281	1,523,540	4,043,821
Net Position:			
Net Investment in Capital Assets	15,854,115	14,603,105	30,457,220
Restricted for:			
Debt Service	430,338	0	430,338
Capital Projects	3,069,338	0	3,069,338
Street Maintenance, Construction and Repair	479,530	0	479,530
Community Development Projects	224,944	0	224,944
Mini Park Trust Expendable	26,332	0	26,332
Human Services Programs	488,727	0	488,727
Other Purposes	469,908	0	469,908
Unrestricted	(4,548,506)	6,916,615	2,368,109
Total Net Position	\$16,494,726	\$21,519,720	\$38,014,446

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2021

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,667,179	\$1,149,605	\$0	\$0
Public Safety	3,022,036	185,754	10,890	4,049
Leisure Time Activities	83,079	19,129	7,108	0
Community Development	340,966	40,635	60,828	0
Transportation and Street Repair	2,001,166	0	812,061	0
Public Health and Welfare	427,531	42,882	89,965	0
Other	152,777	0	0	0
Interest and Other Charges	110,977	0	0	0
Total Governmental Activities	7,805,711	1,438,005	980,852	4,049
Business-Type Activities:				
Sewer	2,039,622	2,064,394	91,374	0
Water	1,907,271	2,332,186	0	0
Electric	10,618,753	10,378,382	0	0
Total Business-Type Activities	14,565,646	14,774,962	91,374	0
Totals	\$22,371,357	\$16,212,967	\$1,072,226	\$4,049

General Revenues:
Income Taxes
Property Taxes Levied for:
 General Purposes
 Special Revenue Purposes
Grants and Entitlements, Not Restricted
Investment Earnings
Other Taxes: Excise Taxes
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
(\$517,574)	\$0	(\$517,574)
(2,821,343)	0	(2,821,343)
(56,842)	0	(56,842)
(239,503)	0	(239,503)
(1,189,105)	0	(1,189,105)
(294,684)	0	(294,684)
(152,777)	0	(152,777)
(110,977)	0	(110,977)
<u>(5,382,805)</u>	<u>0</u>	<u>(5,382,805)</u>
0	116,146	116,146
0	424,915	424,915
0	(240,371)	(240,371)
<u>0</u>	<u>300,690</u>	<u>300,690</u>
<u>(5,382,805)</u>	<u>300,690</u>	<u>(5,082,115)</u>
4,993,730	0	4,993,730
284,749	0	284,749
496,959	0	496,959
528,426	0	528,426
13,187	943	14,130
355,913	0	355,913
292,436	175,697	468,133
<u>6,965,400</u>	<u>176,640</u>	<u>7,142,040</u>
1,582,595	477,330	2,059,925
<u>14,912,131</u>	<u>21,042,390</u>	<u>35,954,521</u>
<u>\$16,494,726</u>	<u>\$21,519,720</u>	<u>\$38,014,446</u>

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2021

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$1,763,543	\$4,820,713	\$6,584,256
Receivables (Net):			
Taxes	1,112,042	982,930	2,094,972
Accounts	63,481	9,447	72,928
Intergovernmental	265,629	346,010	611,639
Inventory	34,452	29,212	63,664
Prepaid Items	45,879	25,274	71,153
Total Assets	<u>3,285,026</u>	<u>6,213,586</u>	<u>9,498,612</u>
Liabilities:			
Accounts Payable	19,212	8,223	27,435
Accrued Wages and Benefits	167,105	24,297	191,402
Unearned Revenue	0	473,003	473,003
Total Liabilities	<u>186,317</u>	<u>505,523</u>	<u>691,840</u>
Deferred Inflows of Resources:			
Property Taxes	249,813	481,100	730,913
Income Taxes	586,251	334,803	921,054
Grants and Other Taxes	93,918	239,588	333,506
Total Deferred Inflows of Resources	<u>929,982</u>	<u>1,055,491</u>	<u>1,985,473</u>
Fund Balances:			
Nonspendable	83,187	74,486	157,673
Restricted	0	4,523,520	4,523,520
Assigned	275,985	54,566	330,551
Unassigned	1,809,555	0	1,809,555
Total Fund Balances	<u>2,168,727</u>	<u>4,652,572</u>	<u>6,821,299</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$3,285,026</u>	<u>\$6,213,586</u>	<u>\$9,498,612</u>

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, 2021

Total Governmental Fund Balances \$6,821,299

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.

Capital assets used in the operation of Governmental Funds 20,857,780

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Income Taxes	921,054	
Delinquent Property Taxes	147,064	
Intergovernmental	<u>333,506</u>	
		1,401,624

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	379,912	
Allocation to Business-Type Activities	<u>69,651</u>	
		449,563

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.

(9,307)

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 (518,385)

Deferred outflow of resources associated with long-term liabilities are not reported in the funds.

252,878

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	1,078,947	
Deferred inflows of resources related to pensions	(1,178,774)	
Deferred outflows of resources related to OPEB	691,037	
Deferred inflows of resources related to OPEB	<u>(757,658)</u>	
		(166,448)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Net OPEB Asset	140,771	
Net Pension Liability	(6,626,840)	
Net OPEB Liability	(851,666)	
Bonds and Loans Payable	<u>(5,256,543)</u>	
		<u>(12,594,278)</u>

Net Position of Governmental Activities \$16,494,726

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, 2021

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property and Other Taxes	\$606,178	\$432,299	\$1,038,477
Income Taxes	3,374,158	1,528,038	4,902,196
Charges for Services	996,000	182,396	1,178,396
Investment Earnings	13,144	43	13,187
Intergovernmental	511,036	953,340	1,464,376
Fines, Licenses & Permits	177,080	83,754	260,834
Other Revenues	139,807	152,629	292,436
Total Revenues	5,817,403	3,332,499	9,149,902
Expenditures:			
Current:			
General Government	1,551,480	64,299	1,615,779
Public Safety	3,257,095	496,681	3,753,776
Leisure Time Activities	0	68,840	68,840
Community Development	43,612	153,286	196,898
Transportation and Street Repair	57,259	768,147	825,406
Public Health and Welfare	0	422,112	422,112
Other	0	152,777	152,777
Capital Outlay	0	828,534	828,534
Debt Service:			
Principal	0	292,078	292,078
Interest and Other Charges	0	101,135	101,135
Total Expenditures	4,909,446	3,347,889	8,257,335
Excess of Revenues Over (Under) Expenditures	907,957	(15,390)	892,567
Other Financing Sources (Uses):			
Transfers In	0	390,000	390,000
Transfers (Out)	(390,000)	0	(390,000)
Total Other Financing Sources (Uses)	(390,000)	390,000	0
Net Change in Fund Balance	517,957	374,610	892,567
Fund Balance - Beginning of Year	1,649,346	4,338,914	5,988,260
Change in Reserve for Inventory	1,424	(60,952)	(59,528)
Fund Balance - End of Year	\$2,168,727	\$4,652,572	\$6,821,299

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, 2021

Net Change in Fund Balance - Total Governmental Funds		\$892,567
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	207,085	
Depreciation Expense	<u>(1,000,056)</u>	(792,971)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.		
		(16)
Governmental funds report pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Pension Contributions	613,830	
Pension Expense	(386,928)	
OPEB Contributions	10,800	
OPEB Expense	<u>733,082</u>	970,784
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income Taxes	91,534	
Delinquent Property Taxes	99,144	
Intergovernmental	48,951	
Other	<u>(1,225)</u>	238,404
Repayment of bond and loans principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		292,078
In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.		
		1,064
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	68,631	
Amortization of Bond Premium	5,952	
Amortization of Deferred Charge on Refunding	(16,858)	
Change in Inventory	<u>(59,528)</u>	(1,803)

(Continued)

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, 2020

The internal service fund used by management to charge back costs to individual funds is not reported in the entity-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	(166,196)	
Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities	<u>148,684</u>	
		<u>(17,512)</u>
Change in Net Position of Governmental Activities		<u>\$1,582,595</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2021

	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	\$2,055,685	\$763,441	\$5,230,840	\$8,049,966	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	587,295
Receivables (Net):					
Accounts	248,025	273,556	1,302,128	1,823,709	0
Interest	0	0	97	97	0
Special Assessments	18,209	0	0	18,209	0
Inventory	117,456	392,514	649,826	1,159,796	0
Prepaid Items	27,906	21,207	56,394	105,507	0
Total Current Assets	2,467,281	1,450,718	7,239,285	11,157,284	587,295
Noncurrent Assets:					
Capital Assets:					
Nondepreciable Capital Assets	10,683	203,043	75,329	289,055	0
Depreciable Capital Assets, Net	11,947,096	6,637,989	4,066,170	22,651,255	0
Net OPEB Asset	62,853	80,160	88,709	231,722	0
Total Noncurrent Assets	12,020,632	6,921,192	4,230,208	23,172,032	0
Total Assets	14,487,913	8,371,910	11,469,493	34,329,316	587,295
Deferred Outflows of Resources:					
Pension	92,310	117,728	130,284	340,322	0
OPEB	43,470	55,439	61,352	160,261	0
Total Deferred Outflows of Resources	135,780	173,167	191,636	500,583	0
Liabilities:					
Current Liabilities:					
Accounts Payable	47,603	73,614	699,982	821,199	0
Accrued Wages and Benefits	26,448	41,018	37,165	104,631	0
Compensated Absences	19,654	29,194	25,358	74,206	0
Accrued Interest Payable	8,002	0	0	8,002	0
Claims Payable	0	0	0	0	207,383
Deposits Held and Due to Others	0	0	224,430	224,430	0
Payable to Joint Venture	0	0	9,922	9,922	0
Long-Term Liabilities Due Within One Year	479,339	18,295	0	497,634	0
Total Current Liabilities	581,046	162,121	996,857	1,740,024	207,383
Long-Term Liabilities:					
Compensated Absences	65,850	71,740	111,588	249,178	0
Bonds, Notes & Loans Payable	7,757,242	82,329	0	7,839,571	0
Net Pension Liability	512,165	653,192	722,858	1,888,215	0
Total Noncurrent Liabilities	8,335,257	807,261	834,446	9,976,964	0
Total Liabilities	8,916,303	969,382	1,831,303	11,716,988	207,383
Deferred Inflows of Resources:					
Pension	221,051	281,919	311,987	814,957	0
OPEB	192,198	245,121	271,264	708,583	0
Total Deferred Inflows of Resources	413,249	527,040	583,251	1,523,540	0
Net Position:					
Net Investment in Capital Assets	3,721,198	6,740,408	4,141,499	14,603,105	0
Unrestricted	1,572,943	308,247	5,105,076	6,986,266	379,912
Total Net Position	\$5,294,141	\$7,048,655	\$9,246,575	21,589,371	\$379,912
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(69,651)	
Net Position of Business-Type Activities				\$21,519,720	

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, 2021

	Business-Type Activities-Enterprise Funds				Governmental
	Sewer	Water	Electric	Total Business-Type Activities	Activities-Internal Service Fund
Operating Revenues:					
Charges for Services	\$2,064,394	\$2,332,186	\$10,378,382	\$14,774,962	\$1,611,021
Other Revenues	84,072	5,243	84,454	173,769	0
Total Operating Revenues	<u>2,148,466</u>	<u>2,337,429</u>	<u>10,462,836</u>	<u>14,948,731</u>	<u>1,611,021</u>
Operating Expenses:					
Personal Services	424,337	483,556	455,749	1,363,642	0
Contractual Services	391,666	435,705	775,220	1,602,591	0
Materials and Supplies	315,890	404,368	8,948,853	9,669,111	0
Depreciation	587,861	385,025	289,363	1,262,249	0
Utilities	147,739	146,428	20,025	314,192	0
Claims	0	0	0	0	1,782,649
Other Expense	2,907	52,189	120,224	175,320	0
Total Operating Expenses	<u>1,870,400</u>	<u>1,907,271</u>	<u>10,609,434</u>	<u>14,387,105</u>	<u>1,782,649</u>
Operating Income (Loss)	<u>278,066</u>	<u>430,158</u>	<u>(146,598)</u>	<u>561,626</u>	<u>(171,628)</u>
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	943	943	5,432
Interest (Expense)	(20,538)	0	0	(20,538)	0
(Loss) in Investment in Joint Venture	0	0	(9,319)	(9,319)	0
Non-Operating Grants	91,374	0	0	91,374	0
Other Non Operating Revenue	0	1,928	0	1,928	0
Total Non-Operating Revenues (Expenses)	<u>70,836</u>	<u>1,928</u>	<u>(8,376)</u>	<u>64,388</u>	<u>5,432</u>
Change in Net Position	348,902	432,086	(154,974)	626,014	(166,196)
Net Position - Beginning of Year	<u>4,945,239</u>	<u>6,616,569</u>	<u>9,401,549</u>	<u>20,963,357</u>	<u>546,108</u>
Net Position - End of Year	<u>\$5,294,141</u>	<u>\$7,048,655</u>	<u>\$9,246,575</u>	<u>21,589,371</u>	<u>\$379,912</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				<u>(148,684)</u>	
Change in Net Position - Total Business-Type Activities				<u>\$477,330</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, 2021

	Business-Type Activities -Enterprise Funds				Governmental
	Sewer	Water	Electric	Total Business-Type Activities	Activities- Internal Service Fund
Cash Flows from Operating Activities:					
Cash Received from Customers	\$2,121,211	\$2,325,142	\$10,418,923	\$14,865,276	\$1,611,021
Cash Payments to Employees	(872,053)	(1,033,999)	(1,198,690)	(3,104,742)	0
Cash Payments to Suppliers	(799,044)	(933,372)	(9,837,852)	(11,570,268)	0
Cash Payments for Claims	0	0	0	0	(1,669,959)
Other Cash Payments	(2,907)	(52,189)	(120,224)	(175,320)	0
Net Cash Provided (Used) by Operating Activities	447,207	305,582	(737,843)	14,946	(58,938)
Cash Flows from Noncapital Financing Activities:					
Non-Operating Grants Received	91,374	0	0	91,374	0
Net Cash Provided (Used) by Noncapital Financing Activities	91,374	0	0	91,374	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(81,367)	(25,956)	(68,240)	(175,563)	0
Debt Principal Payments	(478,111)	(160,224)	0	(638,335)	0
Debt Interest Payments	(15,111)	(1,949)	0	(17,060)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(574,589)	(188,129)	(68,240)	(830,958)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	1,425	1,425	5,432
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	1,425	1,425	5,432
Net Increase (Decrease) in Cash and Cash Equivalents	(36,008)	117,453	(804,658)	(723,213)	(53,506)
Cash and Cash Equivalents - Beginning of Year	2,091,693	645,988	6,035,498	8,773,179	640,801
Cash and Cash Equivalents - End of Year	2,055,685	763,441	5,230,840	8,049,966	587,295
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	278,066	430,158	(146,598)	561,626	(171,628)
Adjustments:					
Depreciation	587,861	385,025	289,363	1,262,249	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	(27,255)	(12,287)	(57,381)	(96,923)	0
(Increase) Decrease in Inventory	26,251	1,820	(61,837)	(33,766)	0
(Increase) Decrease in Prepaid Items	(781)	(1,032)	(1,647)	(3,460)	0
(Increase) Decrease in Deferred Outflows of Resources	51,057	60,785	61,567	173,409	0
(Increase) Decrease in Net OPEB Asset	(62,853)	(80,160)	(88,709)	(231,722)	0
Increase (Decrease) in Deposits Held and Due to Others	0	0	13,468	13,468	0
Increase (Decrease) in Payables	28,971	52,341	(30,270)	51,042	112,690
Increase (Decrease) in Accrued Liabilities	23,391	20,350	(147,770)	(104,029)	0
Increase (Decrease) in Deferred Inflows of Resources	185,814	242,252	275,029	703,095	0
Increase (Decrease) in Net Pension Liability	(161,943)	(190,909)	(190,699)	(543,551)	0
Increase (Decrease) in Net OPEB Liability	(481,372)	(602,761)	(652,359)	(1,736,492)	0
Net Cash Provided (Used) by Operating Activities	\$447,207	\$305,582	(\$737,843)	\$14,946	(\$58,938)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2021

	Private Purpose Trust	Custodial Fund
Assets:		
Equity in Pooled Cash and Investments	<u>\$199,890</u>	<u>\$19,202</u>
Total Assets	<u>199,890</u>	<u>19,202</u>
Liabilities:		
Accounts Payable	<u>0</u>	<u>0</u>
Total Liabilities	<u>0</u>	<u>0</u>
Net Position:		
Held in Trust	199,890	0
Individuals, Organizations, and Other Governments	<u>0</u>	<u>19,202</u>
Total Net Position	<u><u>\$199,890</u></u>	<u><u>\$19,202</u></u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended December 31, 2021

	Private Purpose Trust	Custodial Fund
Additions:		
Investment Earnings and Other Revenues	\$12,957	\$0
Municipal Court Receipts	0	256,835
Total Additions	12,957	256,835
Deductions:		
General Government	419	0
Municipal Court Disbursements	0	237,633
Total Deductions	419	237,633
Change in Net Position	12,538	19,202
Net Position - Beginning of Year	187,352	0
Net Position - End of Year	\$199,890	\$19,202

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 material component units, but is a member of two insurance purchasing pools, which are described in Note 12.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 138.65MW 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 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, 2021, the City's outstanding debt was \$0. 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 a negative \$9,922 at December 31, 2021. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2021 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and 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 deferred outflows of resources and liabilities, and deferred inflows of resources is reported as fund balance. The following is the City's major governmental fund:

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

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, 2021

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.

Additionally, the City reports the following fund types:

Private Purpose Trust Fund - This fund is used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City currently has one private purpose trust fund. The private purpose trust fund is used for the maintenance and upkeep of the Sutter Mausoleum and to provide an assembly hall for meetings at the Sutter Roush Room

Custodial Fund - This fund is used to account for the collection and disbursement of monies by the City on behalf of other individuals, organizations or other governmental entities. The following is the City's custodial fiduciary fund, the Municipal Court Fund. The Municipal Court Fund accounts for activity relating to the City's Municipal Court.

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 deferred outflows and all liabilities and deferred inflows 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 deferred outflows and all liabilities and deferred inflows 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, 2021

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 inflows of resources 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: property taxes available for advance, income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), interest, grants, and special assessments.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources including a deferred charge on refunding, pension and OPEB on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB are explained in Notes 13 and 14.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include income and property taxes, grants and other taxes, OPEB and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2021, but which were levied to finance year 2022 operations. These amounts have been recorded as

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide state of net position. (See Notes 13 and 14)

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

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

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 department level, and then personnel and other 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 schedule reflect the amounts in the original and final amended official certificate of estimated resources issued during 2021.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

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 included in the following 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 2021, interest revenue credited to the general fund amounted to \$13,144 and \$43 to other governmental funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. The City maintains segregated depository accounts for municipal court deposits.

The City is part of the Ohio Municipal League (OML) Joint Self-Insurance Pool. 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 OML is described in Note 12.

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.

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 reported in the governmental activities column of the government-wide statement of net position, but

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 should be reported at acquisition value rather than fair value. The City maintains a capitalization threshold of \$5,000. 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.

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.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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, 2021, 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.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. As of December 31, 2021, the City had \$0 in restricted cash.

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:

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 applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Net Position

Net position represents the difference between assets, and deferred outflows of resources and liabilities, and deferred inflows of resources. 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 is reported as restricted when there are limitations imposed on its 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 \$5,189,117 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 is available.

Bond Premium and Discount

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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 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, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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, 2021 was \$587,295. This amount is not included in the City's depository balance below.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2021, \$9,419,544 of the City's bank balance of \$13,757,131 was exposed to custodial credit risk because it was uninsured and collateralized.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of December 31, 2021:

Investment Type	Fair Value Measurements Using			Weighted Average Maturity (Years)
	Fair Value	Quoted Prices in		
		Level 1	Level 2	
Negotiable Certificate of Deposits	\$498,749		\$498,749	1.86
U.S. Treasury Bills	749,025	\$749,025		0.79
Municipal Bonds	49,973		49,973	0.92
	<u>\$1,297,747</u>	<u>\$749,025</u>	<u>\$548,722</u>	
Portfolio Weighted Average Maturity				1.21

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the City's recurring fair value measurements as of December 31, 2021, in which, the U.S. Agencies are valued using a matrix pricing model (Level 2 inputs).

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 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. The City’s investments in Municipal Bonds were rated between Aaa, and Aa3, by Moody’s Investors service and between AAA, and A+ by Standard and Poor’s and Fitch ratings. U.S. Treasury Bills and Negotiable Certificates of Deposits were not rated.

Concentration of Credit Risk – The City’s investment policy allows investments in Federal Government Securities or Instrumentalities. The City has invested 38.4% in Negotiable Certificates of Deposit, 57.7% in U.S. Treasury Bills, and 3.9% in Municipal Bonds.

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, 2021, consisted of the following, as reported on the fund statements:

	Transfers	
	In	Out
General Fund	\$0	\$390,000
Other Governmental Funds	390,000	0
Total All Funds	<u>\$390,000</u>	<u>\$390,000</u>

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 2021 were levied after October 1, 2020 on assessed values as of January 1, 2020, 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Public utility real 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.

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

Real Property	\$139,245,390
Public Utility	<u>3,468,300</u>
Total Valuation	<u><u>\$142,713,690</u></u>

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

The City receives property taxes from Richland County. The County Treasurer collects property taxes on behalf of all taxing districts in the counties. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2021, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2021 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is a deferred inflow.

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.50% 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 0.75% for general use 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 taxes collected are used for general fund purposes (1%), police and court facility construction (.3%), and street and sidewalk improvements and repairs (.2%) as approved by the voters.

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, and accounts receivable.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 8 – Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$406,004	\$0	\$0	\$406,004
Construction in Progress	76,662	74,422	145,591	5,493
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	12,370,503	195,191	0	12,565,694
Equipment	6,839,635	83,063	18,286	6,904,412
Infrastructure	22,876,330	0	0	22,876,330
Totals at Historical Cost	<u>\$42,569,134</u>	<u>\$352,676</u>	<u>\$163,877</u>	<u>\$42,757,933</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$2,931,920	\$316,836	\$0	\$3,248,756
Equipment	5,516,718	229,206	18,268	5,727,656
Infrastructure	12,469,727	454,014	0	12,923,741
Total Accumulated Depreciation	<u>\$20,918,365</u>	<u>\$1,000,056</u>	<u>\$18,268</u>	<u>\$21,900,153</u>
Governmental Activities Capital Assets, Net	<u>\$21,650,769</u>	<u>(\$647,380)</u>	<u>\$145,609</u>	<u>\$20,857,780</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

General Government	\$41,461
Public Safety	140,449
Leisure Time Activities	12,363
Community Development	88,569
Public Health and Welfare	2,688
Transportation and Street Repair	714,526
Total Depreciation Expense	<u>\$1,000,056</u>

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Business-Type Activities	Beginning			Ending
<i>Capital Assets, not being depreciated:</i>	Balance	Additions	Deletions	Balance
Land	\$245,327	\$10,972	\$0	\$256,299
Construction in Progress	156,335	178,791	302,370	32,756
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	24,716,738	93,862	0	24,810,600
Equipment	15,899,273	70,500	11,844	15,957,929
Infrastructure	19,692,830	127,036	0	19,819,866
Totals at Historical Cost	60,710,503	481,161	314,214	60,877,450
Less Accumulated Depreciation:				
Buildings and Improvements	10,140,531	610,076	0	10,750,607
Equipment	14,047,357	289,277	8,616	14,328,018
Infrastructure	12,495,619	362,896	0	12,858,515
Total Accumulated Depreciation	36,683,507	1,262,249	8,616	37,937,140
Business-Type Activities Capital Assets, Net	\$24,026,996	(\$781,088)	\$305,598	\$22,940,310

Note 9 – Compensated Absences

Employees earn vacation and sick leave at different rates which are affected by length of service. Employees may carry over 80 hours vacation for use in the following year. Sick leave accrual is continuous, without limit.

Upon retirement, an employee can be paid for a third of his/her accumulated hours of sick leave up to 720 hours, except for eligible fire department employees, who can be paid for a third of 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 2021:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds</u>						
Municipal Justice Center Improvements	4.10%	\$200,000	\$0	(\$200,000)	\$0	\$0
Premium on General Obligations Bonds		5,952	0	(5,952)	0	0
Refunding Municipal Justice Center Improvements	2.42%	5,175,000	0	(65,000)	5,110,000	290,000
Total General Obligation Bonds		5,380,952	0	(270,952)	5,110,000	290,000
<u>Capital Leases</u>						
Ambulance Lease		173,621	0	(27,078)	146,543	27,796
Total Capital Leases		173,621	0	(27,078)	146,543	27,796
Net Pension Liability:						
OPERS		1,449,027	0	(301,934)	1,147,093	0
OP&F		5,536,717	0	(56,970)	5,479,747	0
Total Net Pension Liability		6,985,744	0	(358,904)	6,626,840	0
Net OPEB Liability:						
OPERS		1,034,730	0	(1,034,730)	0	0
OP&F		811,845	39,821	0	851,666	0
Total Net OPEB Liability		1,846,575	39,821	(1,034,730)	851,666	0
Compensated Absences		587,016	22,855	(91,486)	518,385	82,239
Total Governmental Activities		\$14,973,908	\$62,676	(\$1,783,150)	\$13,253,434	\$400,035

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities						
<u>OWDA and OPWC Loans from Direct Borrowings:</u>						
West Main Street Sanitary Improvements	2.41%	\$338,164	\$1,810	(\$32,248)	\$307,726	\$33,030
WWTP Improvements - 2018	1.00%	8,374,718	0	(445,863)	7,928,855	446,309
WTP Upgrade	2.75%	141,929	0	(141,929)	0	0
OPWC	0.00%	118,919	0	(18,295)	100,624	18,295
Total Loans from Direct Borrowings		8,973,730	1,810	(638,335)	8,337,205	497,634
Net Pension Liability:						
OPERS		2,431,766	0	(543,551)	1,888,215	0
Total Net Pension Liability		2,431,766	0	(543,551)	1,888,215	0
Net OPEB Liability:						
OPERS		1,736,492	0	(1,736,492)	0	0
Total Net OPEB Liability		1,736,492	0	(1,736,492)	0	0
Compensated Absences		434,412	11,237	(122,265)	323,384	74,206
Total Business-Type Activities		\$13,576,400	\$13,047	(\$3,040,643)	\$10,548,804	\$571,840

Bond Refunding

On October 13, 2020, the City issued \$5,260,000 in Refunding Bonds with an interest rate between 0.630% and 2.420% which was used to refund \$4,830,000 of the outstanding Municipal Justice Center Improvements – Series 2011 Bonds with an interest rate of 4.10%. The net proceeds of \$5,260,000 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

to provide all future debt service payments on the bond issues. As a result, \$4,830,000 of the Municipal Justice Center Improvements – Series 2011 Bonds are considered to be defeased and the related liability for those bonds have been removed from the Statement of Net Position.

The City refunded the Municipal Justice Center Improvements – Series 2011 Bonds to reduce its total debt service payments by \$663,030 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$529,149.

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, 2011, 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 4.1% and will mature on December 1, 2036. These bonds are being paid from the Police and Court Construction capital projects fund.

OPWC loans payable

The City has entered into a debt financing arrangement through the Ohio Public Works Commission (OPWC) to fund construction projects. This loan is being paid from the water fund. The OPWC loan is interest free.

The City's outstanding OPWC notes from direct borrowings of \$100,624 contain a provision that in an event of default, the amount of such default shall bear interest thereafter at the rate of 8% per annum until the date of payment, and outstanding amounts become immediately due. Also, the Lender may direct the county treasurer to pay the outstanding amount from portion of the local government fund that would otherwise be appropriated to the City.

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 fund 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.

In 2019-2021, the City issued an OWDA Loan for a total amount of \$360,035 for the West Main Street sanitary improvements. The loan has an interest rate of 2.41% and will mature July 1, 2030.

In 2018-2020, the City issued an OWDA Loan for a total amount of \$8,993,505 for water pollution control improvements. The loan has an interest rate of 1.00% and will mature July 1, 2039.

The City's outstanding OWDA Loans from direct borrowings of \$8,236,581 contain a provision that in an event of default, the amount of such default shall bear interest thereafter at the rate equal to the Contract Interest Rate plus three percentage points annum until the date of payment, and outstanding amounts become immediately due.

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 fund and health fund.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Net Pension and OPEB liabilities

Net pension liability and Net other postemployment benefits (OPEB) liability represents the long-term portion of the accrued liability associated with OPERS and OP&F pension liability. These items will be repaid from the funds from which the employees work to whom the liability is associated with or the General Fund if no such funds are available.

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2021, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		OWDA and OPWC Loans from Direct Borrowing	
	Principal	Interest	Principal	Interest
2022	\$290,000	\$88,125	\$497,634	\$15,683
2023	285,000	86,153	498,882	14,445
2024	295,000	83,873	500,149	13,178
2025	345,000	81,011	501,436	11,891
2026	310,000	77,251	502,740	10,582
2027-2031	1,665,000	316,138	2,390,739	32,772
2032-2036	1,920,000	189,383	2,258,479	13,019
2037-2039	0	0	1,187,146	2,382
Total	<u>\$5,110,000</u>	<u>\$921,932</u>	<u>\$8,337,205</u>	<u>\$113,952</u>

Note 11 – Capital Leases

In a prior year, the City entered into a capital lease for an ambulance. The City's lease obligations meet the criteria of a capital asset and has been recorded on the government-wide statements. The leased assets have been capitalized for the amount of the present value of the minimum lease payments at the inception of the lease. The following is a schedule of the future long-term minimum lease payments required under the capital lease, and the present value of the minimum lease payments is as follows:

Fiscal Year Ending December 31,	Long-Term Debt
2022	\$31,679
2023	31,679
2024	31,680
2025	31,679
2026	31,679
Total Minimum Lease Payments	158,396
Less: Amount Representing Interest	(11,853)
Present Value of Minimum Lease Payments	<u>\$146,543</u>

Note 12 - 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 2021, the City was

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

assets; errors and omissions; injuries to employees; and natural disasters. During 2021, 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, 2021, follows:

<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	1,000	
	Finance	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 Jefferson Health Plan. The Jefferson Health Plan 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. 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, Mutual Health Services, located in Akron, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is \$785 for single coverage and \$1,729 for family coverage.

The claims liability of \$207,383 reported in the internal service fund at December 31, 2021, 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, 2021 and 2020 were as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2021	\$94,693	\$1,895,339	(\$1,782,649)	\$207,383
2020	75,133	1,445,201	(1,425,641)	94,693

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 2020 to 2021.

Note 13 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability (Asset)

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability and the net OPEB liability represent the City’s proportionate share of each pension/OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan’s fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees may pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension/OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description

City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a

City of Shelby, Ohio
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For The Year Ended December 31, 2021

defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. Participating employers are divided into state, local, law enforcement and public safety divisions. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan. While employees may elect the member-directed plan or the combined plan, substantially all employees are in the traditional plan; therefore, the following disclosure focuses on the traditional plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS Annual Comprehensive Financial Report referenced above for additional information, including requirements for reduced and unreduced benefits):

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

<u>Group A</u>	<u>Group B</u>	<u>Group C</u>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<u>State and Local</u>	<u>State and Local</u>	<u>State and Local</u>
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<u>Public Safety</u>	<u>Public Safety</u>	<u>Public Safety</u>
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
<u>Law Enforcement</u>	<u>Law Enforcement</u>	<u>Law Enforcement</u>
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>
Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The initial amount of a member's pension benefit is vested upon receipt of the initial benefit payment for calculation of an annual cost-of-living adjustment.

When a traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost of living adjustment (COLA). This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, the cost of living adjustment is 3 percent. For those retiring on or after January 7, 2013, beginning in calendar year 2019, the adjustment is based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans.

City of Shelby, Ohio
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Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of the benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options. When members choose to annuitize their defined contribution benefit, the annuitized portion of the benefit is reclassified to a defined benefit.

Beginning in 2022, the Combined Plan will be consolidated under the Traditional Pension Plan (defined benefit plan) and the Combined Plan option will no longer be available for new hires beginning in 2022.

Funding Policy

The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
2021 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee *	10.0 %	**	***
2021 Actual Contribution Rates			
Employer:			
Pension ****	14.0 %	18.1 %	18.1 %
Post-employment Health Care Benefits ****	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

- * Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.
- ** This rate is determined by OPERS' Board and has no maximum rate established by ORC.
- *** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.
- **** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2021, the City's contractually required contribution was \$422,077, of this amount \$39,264 is reported in accrued wages and benefits.

City of Shelby, Ohio
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Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description

City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OP&F Annual Comprehensive Financial Report referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

The COLA amount for members who have 15 or more years of service credit as of July 1, 2013, and members who are receiving a pension benefit that became effective before July 1, 2013, will be equal to 3.0 percent of the member's base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3.0% or the percentage increase in the consumer price index, if any, over the twelve-month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Members who retired prior to July 24, 1986, or their surviving beneficiaries under optional plans are

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

entitled to cost-of-living allowance increases. The annual increase is paid on July 1st of each year. The annual COLA increase is \$360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

Funding Policy

The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2021 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2021 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	<u>12.25 %</u>	<u>12.25 %</u>

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$454,320 for 2021, of this amount \$41,480 is reported as accrued wages and benefits.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2020, and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share of the City's defined benefit pension plans:

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
	<u>Traditional Plan</u>		
Proportionate Share of the:			
Net Pension Liability	\$3,035,308	\$5,479,747	\$8,515,055
Proportion of the Net Pension Liability:			
Current Measurement Date	0.02049800%	0.08038250%	
Prior Measurement Date	<u>0.01963400%</u>	<u>0.08218940%</u>	
Change in Proportionate Share	<u>0.00086400%</u>	<u>-0.00180690%</u>	
Pension Expense	\$87,964	\$334,955	\$422,919

City of Shelby, Ohio
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For The Year Ended December 31, 2021

At December 31 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS		Total
	Traditional Plan	OPF	
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$0	\$229,072	\$229,072
Changes in assumptions	0	91,898	91,898
Changes in employer proportionate share of net pension liability	124,990	96,912	221,902
Contributions subsequent to the measurement date	422,077	454,320	876,397
Total Deferred Outflows of Resources	<u>\$547,067</u>	<u>\$872,202</u>	<u>\$1,419,269</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$126,969	\$213,475	\$340,444
Net difference between projected and actual earnings on pension plan investments	1,183,074	265,805	1,448,879
Changes in employer proportionate share of net pension liability	0	204,408	204,408
Total Deferred Inflows of Resources	<u>\$1,310,043</u>	<u>\$683,688</u>	<u>\$1,993,731</u>

\$876,397 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS		
	Traditional Plan	OPF	Total
2022	(\$414,493)	(\$46,608)	(\$461,101)
2023	(126,946)	108,518	(18,428)
2024	(482,261)	(270,554)	(752,815)
2025	(161,353)	(55,502)	(216,855)
2026	0	(1,660)	(1,660)
Total	<u>(\$1,185,053)</u>	<u>(\$265,806)</u>	<u>(\$1,450,859)</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest

City of Shelby, Ohio
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actuarial valuation, reflecting experience study results, prepared as of December 31, 2020, are presented below.

	OPERS Traditional Plan
Wage Inflation	3.25%
Future Salary Increases, including inflation	3.25% to 10.75% including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3.00%, simple
Post-January 7, 2013 Retirees	0.50%, simple through 2021, then 2.15%, simple
Investment Rate of Return	7.20%
Actuarial Cost Method	Individual Entry Age

In October 2020, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 1.4 percent simple through 2020 then 2.15 simple to .5 percent simple through 2021 then 2.15 percent simple.

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

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Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	25.00 %	1.32 %
Domestic Equities	21.00	5.64
Real Estate	10.00	5.39
Private Equity	12.00	10.42
International Equities	23.00	7.36
Other investments	9.00	4.75
Total	100.00 %	5.43 %

Discount Rate

The discount rate used to measure the total pension liability was 7.2 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the traditional pension plan, combined plan and member-directed plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Proportionate share of the net pension liability	\$5,789,865	\$3,035,308	\$744,897

Changes from the Measurement Date to the Report Date

During 2021, the OPERS Board lowered the investment rate of return from 7.2 percent to 6.9 percent along with certain other changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual

City of Shelby, Ohio
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review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered are: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2020, are presented below.

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00%
Projected Salary Increases	3.75% to 10.50%
Payroll Growth	3.25% per annum, compounded annually, consisting of Inflation rate of 2.75% plus productivity increase rate of 0.50%
Cost of Living Adjustments	2.20% simple for increases based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A

City of Shelby, Ohio
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forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2020, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	21.00	4.10
Non-US Equity	14.00	4.80
Private Markets	8.00	6.40
Core Fixed Income*	23.00	0.90
High Yield Fixed Income	7.00	3.00
Private Credit	5.00	4.50
U.S. Inflation Linked Bonds*	17.00	0.70
Midstream Energy Infrastructure	5.00	5.60
Real Assets	8.00	5.80
Gold	5.00	1.90
Private Real Estate	12.00	5.30
Total	125.00 %	

Note: Assumptions are geometric.

*levered 2.5x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.25 times due to the application of leverage in certain fixed income asset classes.

Discount Rate

The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return of 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

City of Shelby, Ohio
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	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Proportionate share of the net pension liability	\$7,628,510	\$5,479,747	\$3,681,450

Note 14 - Defined Benefit Other Postemployment Benefits Plans

See Note 13 for a description of the net OPEB liability (asset).

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description

The 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 health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement (HRA) to qualifying benefit recipients of both the traditional pension and the combined plans. Currently, Medicare-eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Retirees and eligible dependents enrolled in Medicare Parts A and B have the option to enroll in a Medicare supplemental plan with the assistance of the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS to assist retirees, spouses and dependents with selecting a medical and pharmacy plan. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are deposited into an HRA. For non-Medicare retirees and eligible dependents, OPERS sponsors medical and prescription coverage through a professionally managed self-insured plan. An allowance to offset a portion of the monthly premium is offered to retirees and eligible dependents. The allowance is based on the retiree’s years of service and age when they first enrolled in OPERS coverage.

Medicare-eligible retirees who choose to become re-employed or survivors who become employed in an OPERS-covered position are prohibited from participating in an HRA. For this group of retirees, OPERS sponsors secondary coverage through a professionally managed self-insured program. Retirees who enroll in this plan are provided with a monthly allowance to offset a portion of the monthly premium. Medicare-eligible spouses and dependents can also enroll in this plan as long as the retiree is enrolled.

OPERS provides a monthly allowance for health care coverage for eligible retirees and their eligible dependents. The base allowance is determined by OPERS.

The health care trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or separation, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who

City of Shelby, Ohio
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meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Current retirees eligible (or who become eligible prior to January 1, 2022) to participate in the OPERS health care program will continue to be eligible after January 1, 2022. Eligibility requirements will change for those retiring after January 1, 2022, with differing eligibility requirements for Medicare retirees and non-Medicare retirees. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Annual Comprehensive Financial Report referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority allowing public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. For 2021, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and Combined Plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the member-directed plan for 2021 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2021.

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Plan Description – Ohio Police & Fire Pension Fund (OP&F)

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 health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

OP&F contracted with a vendor who assists eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

A retiree is eligible for the OP&F health care stipend unless they have access to any other group coverage including employer and retirement coverage. The eligibility of spouses and dependent children could increase the stipend amount. If the spouse or dependents have access to any other group coverage including employer or retirement coverage, they are not eligible for stipend support from OP&F. Even if an OP&F member or their dependents are not eligible for a stipend, they can use the services of the third-party administrator to select and enroll in a plan. The stipend provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

OP&F maintains funds for health care in two separate accounts: one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. IRS Code Section 401(h) account is maintained for Medicare Part B reimbursements.

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 health care coverage to eligible participants and to establish and amend benefits is 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. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

City of Shelby, Ohio
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The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2021, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care 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.

The City's contractually required contribution to OP&F was \$10,800 for 2021.

Net OPEB Liability (Asset)

The net OPEB liability (asset) and total OPEB liability (asset) for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2020, and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. The City's proportion of the net OPEB liability (asset) was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS Traditional Plan	OPF	Total
Proportionate Share of the:			
Net OPEB (Asset)	(\$372,493)		(\$372,493)
Net OPEB Liability		\$851,666	\$851,666
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.02090800%	0.08038250%	
Prior Measurement Date	0.02006300%	0.08218940%	
Change in Proportionate Share	<u>0.00084500%</u>	<u>-0.00180690%</u>	
OPEB Expense	(\$2,244,404)	\$102,636	(\$2,141,768)

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City of Shelby, Ohio
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For The Year Ended December 31, 2021

At December 31 2021, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS		Total
	Traditional Plan	OPF	
<u>Deferred Outflows of Resources</u>			
Changes in assumptions	\$183,122	\$470,499	\$653,621
Changes in employer proportionate share of net OPEB liability (asset)	74,499	112,378	186,877
Contributions subsequent to the measurement date	0	10,800	10,800
Total Deferred Outflows of Resources	<u>\$257,621</u>	<u>\$593,677</u>	<u>\$851,298</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$336,173	\$140,479	\$476,652
Changes in assumptions	603,550	135,771	739,321
Net difference between projected and actual earnings on OPEB plan investments	198,394	31,649	230,043
Changes in employer proportionate share of net OPEB liability (asset)	932	19,293	20,225
Total Deferred Inflows of Resources	<u>\$1,139,049</u>	<u>\$327,192</u>	<u>\$1,466,241</u>

\$10,800 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	OPERS		
	Traditional Plan	OPF	Total
2022	(\$452,698)	\$58,330	(\$394,368)
2023	(319,139)	65,824	(253,315)
2024	(86,214)	54,008	(32,206)
2025	(23,377)	56,254	32,877
2026	0	11,832	11,832
Thereafter	0	9,437	9,437
Total	<u>(\$881,428)</u>	<u>\$255,685</u>	<u>(\$625,743)</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB asset was determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

with the requirements of GASB 74:

Wage Inflation	3.25%
Projected Salary Increases, including inflation	3.25% to 10.75% including wage inflation
Single Discount Rate:	
Current measurement date	6.00%
Prior Measurement date	3.16%
Investment Rate of Return	6.00%
Municipal Bond Rate:	
Current measurement date	2.00%
Prior Measurement date	2.75%
Health Care Cost Trend Rate:	
Current measurement date	8.50%, initial 3.50%, ultimate in 2035
Prior Measurement date	10.50%, initial 3.50%, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Postretirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Postretirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic rates of return were provided by OPERS investment consultant. For each major asset class that is included in the Health Care's portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

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Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.07 %
Domestic Equities	25.00	5.64
Real Estate Investment Trust	7.00	6.48
International Equities	25.00	7.36
Other investments	9.00	4.02
Total	100.00 %	4.43 %

Discount Rate

A single discount rate of 6.0 percent was used to measure the OPEB liability on the measurement date of December 31, 2020. A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.00 percent (Fidelity Index’s “20-Year Municipal GO AA Index”). The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2120. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2120, the duration of the projection period through which projected health care payments are fully funded.

Sensitivity of the City’s Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net OPEB asset calculated using the single discount rate of 6.00 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Proportionate share of the net OPEB (asset)	(\$92,622)	(\$372,493)	(\$602,569)

Sensitivity of the Proportionate Share of the Net OPEB Asset to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB asset. The following table presents the net OPEB asset calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

City of Shelby, Ohio
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For The Year Ended December 31, 2021

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2021 is 8.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	Current Health Care Cost Trend Rate		
	<u>1% Decrease</u>	<u>Assumption</u>	<u>1% Increase</u>
Proportionate share of the net OPEB (asset)	(\$381,571)	(\$372,493)	(\$362,336)

Changes between Measurement Date and Reporting Date

During 2021, the OPERS Board made various changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00%
Projected Salary Increases	3.75% to 10.50%
Payroll Growth	3.25%
Blended discount rate:	
Current measurement date	2.96%
Prior measurement date	3.56%
Cost of Living Adjustments	2.20% simple

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2020, are summarized below:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	21.00	4.10
Non-US Equity	14.00	4.80
Private Markets	8.00	6.40
Core Fixed Income *	23.00	0.90
High Yield Fixed Income	7.00	3.00
Private Credit	5.00	4.50
U.S. Inflation Linked Bonds*	17.00	0.70
Midstream Energy Infrastructure	5.00	5.60
Real Assets	8.00	5.80
Gold	5.00	1.90
Private Real Estate	12.00	5.30
Total	125.00 %	

Note: Assumptions are geometric.

* levered 2.5x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate

For 2020, the total OPEB liability was calculated using the discount rate of 2.96 percent. For 2019, the total OPEB liability was calculated using the discount rate of 3.56 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.12 percent at December 31, 2020 and 2.75 percent at December 31, 2019, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 2.96 percent for 2020 and 3.56 percent for 2019. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 2.96 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.96 percent), or one percentage point higher (3.96 percent) than the current rate.

City of Shelby, Ohio
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	1% Decrease (1.96%)	Current Discount Rate (2.96%)	1% Increase (3.96%)
Proportionate share of the net OPEB liability	\$1,061,978	\$851,666	\$678,182

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

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, 2021.

Contracts

The City has entered into an ongoing contract with both AMP and AEP to purchase power. The city is committed to provide and sell power (electricity) at a marginal profit.

Litigation

The City is currently involved in litigation cases, but the potential loss for the case was not estimable and/or immaterial.

Contingent Liability

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's project share was 5,000 kilowatts (kW) of a total 771,281 kW, giving the City a 0.65 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share of the impaired costs at March 31, 2014 was \$870,487. The City received a credit of \$226,124 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated

City of Shelby, Ohio
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For The Year Ended December 31, 2021

net impaired costs balance of \$644,363. On May 31, 2017, the City repaid the full AMPGS net impaired costs liability due.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

The City does have a potential PHFU Liability of \$232,580, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the City's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

Note 16 - 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:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Fund Balances	General	Other Governmental Funds	Total
Nonspendable:			
Inventory	\$34,452	\$29,212	\$63,664
Prepays	45,879	25,274	71,153
Unclaimed funds	2,856	0	2,856
Muni Park Trust	0	20,000	20,000
Total Nonspendable	83,187	74,486	157,673
Restricted for:			
Street	0	190,189	190,189
State Highway	0	51,514	51,514
Street Sales Tax	0	54,318	54,318
Health	0	429,984	429,984
Park	0	139,388	139,388
Rehab Escrow CDBG	0	18,530	18,530
Court Probation	0	37,929	37,929
Law Enforcement Trust	0	20,267	20,267
Court IDAT	0	25,948	25,948
Court Enforcement and Education	0	17,113	17,113
DARE	0	464	464
Police Computer	0	8,597	8,597
Court IDAM	0	48,570	48,570
Home Program	0	725	725
Police Pension	0	99,905	99,905
Fire Pension	0	131,619	131,619
Shade Tree Trust	0	10,902	10,902
Fire Damage	0	57,046	57,046
Debt Service	0	399,483	399,483
Capital Projects	0	2,774,697	2,774,697
Muni Park Trust	0	6,332	6,332
Total Restricted	0	4,523,520	4,523,520
Assigned to:			
Encumbrances	16,885	0	16,885
Budgetary Variance	259,100	0	259,100
Police Equipment	0	54,566	54,566
Total Assigned	275,985	54,566	330,551
Unassigned (Deficit)	1,809,555	0	1,809,555
Total Fund Balance	\$2,168,727	\$4,652,572	\$6,821,299

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 17 – Tax Abatements

As of December 31, 2021, the City provides tax abatements through the Community Reinvestment Area (CRA) and Ohio Enterprise Zone Area (EZA) Program:

The Ohio Community Reinvestment Area program (established by Ordinance 66-98) which is an economic development tool administered by the City that provides real property tax exemptions for property owners who renovate existing or construct new buildings. Under Ohio Revised Code section 3765 to 3735.70, a city, village or county can petition the Ohio Department of Development to confirm that investment in a particular geographical area. Once the Department has confirmed the investment in the area, the community may offer real estate tax exemptions to taxpayers who are willing to invest in the area. Up to 12 years may be exempt for commercial and industrial remodeling and up to 15 years may be exempt for new construction. State law requires reimbursement agreements with school districts for tax revenue losses for CRA in place after 1994. It is the City’s policy to have reimbursement agreements with school districts for any CRA prior to 1994. Payments in lieu of taxes paid by the property owner directly to the school districts as required by the agreement are not reduced from the total amount of taxes abated.

The Ohio Enterprise Zone Areas (established by Ordinance 13-88) are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investments. EZAs are not part of the traditional zoning program, which limits the use of land, instead they allow local officials to negotiate with businesses to encourage new business investment in the zone. The EZA serves as an additional economic development tool for communities attempting to retain and expand their economic base. The EZA is a contract between the City and the company. The zone's geographic area is identified by the local communities involved in the creation of the zone. Once a zone is defined, the local legislative authority participating in the creation must petition the director of the Development Services Agency. The director must then certify the area for it to become an active Enterprise Zone. Tax incentives are negotiated at the local level, and an enterprise zone agreement must be in place before the project begins. Businesses interested in pursuing these incentives should contact the local Enterprise Zone Manager.

Tax Abatement Programs	Amount of Taxes Abated
Community Urban Redevelopment	\$703
Community Reinvestment Area	11,248
Enterprise Zone Area	61,969
	\$73,920

The abatements will be terminated if the property is deemed delinquent, behind on payments, or the terms and conditions of the CRA or EZA are not adhered to and no recapture provisions noted.

Note 18 – Asset Retirement Obligations (ARO)

Ohio Revised Code Section 6111.44 requires the City to submit any changes to their sewage system to the Ohio EPA for approval. Through this review process, the City would be responsible to address any public safety issues associated with their wastewater treatment facilities. At this time, due to limitations

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

associated with the existing plant's age and building materials within the plant, the engineer consulted would not have a reasonable estimate to calculate a liability for this year.

Note 19 – Implementation of New Accounting Principles and Restatement of Net Position

For fiscal year 2021, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Interest costs incurred before the end of a construction period are recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Note 20 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June of 2021 while the national state of emergency continues. During 2021, the City received COVID-19 funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Public Employees Retirement System - Traditional Plan
 Last Eight Fiscal Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net Pension Liability	0.02049800%	0.01963400%	0.01950600%	0.02056800%	0.02129100%
City's Proportionate Share of the Net Pension Liability	\$3,035,308	\$3,880,793	\$5,342,298	\$3,226,720	\$4,834,825
City's Covered-Employee Payroll	\$2,891,343	\$2,762,536	\$2,634,693	\$2,718,123	\$2,763,883
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	104.98%	140.48%	202.77%	118.71%	174.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.88%	82.17%	74.70%	84.66%	77.25%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

2016	2015	2014
0.02143600%	0.02328000%	0.02328000%
\$3,712,985	\$2,807,828	\$2,744,409
\$3,099,067	\$2,863,583	\$3,328,000
119.81%	98.05%	82.46%
81.08%	86.45%	86.36%

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Eight Fiscal Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net Pension Liability - 0561P	0.03952870%	0.04111990%	0.04171000%	0.03999600%	0.03908800%
Liability - 0561F	0.04085380%	0.04106950%	0.04189500%	0.04156400%	0.04025800%
City's Proportionate Share of the Net Pension Liability	\$5,479,747	\$5,536,717	\$6,824,377	\$5,005,705	\$5,025,696
City's Covered-Employee Payroll	\$1,813,450	\$1,943,829	\$2,048,942	\$1,975,663	\$1,906,684
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	302.17%	284.84%	333.07%	253.37%	263.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.65%	69.89%	63.07%	70.91%	68.36%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

2016	2015	2014
0.04074200%	0.04379640%	0.04379640%
0.04211700%	0.04418610%	0.04418610%
\$5,330,378	\$4,557,860	\$4,285,024
\$1,811,389	\$1,808,453	\$2,118,167
294.27%	252.03%	202.30%
66.77%	72.20%	73.00%

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Public Employees Retirement System- Traditional Plan
 Last Eight Fiscal Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$422,077	\$404,788	\$386,755	\$368,857	\$353,356
Contributions in Relation to the Contractually Required Contribution	<u>(422,077)</u>	<u>(404,788)</u>	<u>(386,755)</u>	<u>(368,857)</u>	<u>(353,356)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$3,014,836	\$2,891,343	\$2,762,536	\$2,634,693	\$2,718,123
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	13.00%

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>
\$331,666	\$371,888	\$343,630
<u>(331,666)</u>	<u>(371,888)</u>	<u>(343,630)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,763,883	\$3,099,067	\$2,863,583
12.00%	12.00%	12.00%

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Eight Fiscal Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$454,320	\$384,270	\$410,731	\$389,299	\$375,376
Contributions in Relation to the Contractually Required Contribution	<u>(454,320)</u>	<u>(384,270)</u>	<u>(410,731)</u>	<u>(389,299)</u>	<u>(375,376)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,142,008	\$1,813,450	\$1,943,829	\$2,048,942	\$1,975,663
Contributions as a Percentage of Covered-Employee Payroll	21.21%	21.19%	21.13%	19.00%	19.00%

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>
\$362,270	\$363,908	\$368,201
<u>(362,270)</u>	<u>(363,908)</u>	<u>(368,201)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,906,684	\$1,811,389	\$1,808,453
19.00%	20.09%	20.36%

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability (Asset)
 Ohio Public Employees Retirement System - Traditional Plan
 Last Five Fiscal Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability (Asset)	0.02090800%	0.02006300%	0.01995800%	0.02081000%	0.02172953%
City's Proportionate Share of the Net OPEB Liability (Asset)	(\$372,493)	\$2,771,222	\$2,602,051	\$2,259,813	\$2,194,756
City's Covered-Employee Payroll	\$2,891,343	\$2,762,536	\$2,634,693	\$2,718,123	\$2,763,883
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	-12.88%	100.31%	98.76%	83.14%	79.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	115.57%	47.80%	46.33%	54.14%	54.04%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 Ohio Police and Fire Pension Fund
 Last Five Fiscal Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability - 0561P	0.04085380%	0.04111990%	0.04171000%	0.03999600%	0.03908800%
Liability - 0561F	0.03952870%	0.04106950%	0.04189500%	0.04156400%	0.04025800%
City's Proportionate Share of the Net OPEB Liability	\$851,666	\$811,845	\$761,352	\$4,621,075	\$3,766,376
City's Covered-Employee Payroll	\$1,813,450	\$1,943,829	\$2,048,942	\$1,975,663	\$1,906,684
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	46.96%	41.77%	37.16%	233.90%	197.54%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	45.42%	47.10%	46.57%	14.13%	15.96%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Public Employees Retirement System - Traditional Plan
 Last Six Fiscal Years (1)

	2021	2020	2019	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	0	0	0	0	0	0
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$3,014,836	\$2,891,343	\$2,762,536	\$2,634,693	\$2,718,123	\$2,763,883
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Police and Fire Pension Fund
 Last Six Fiscal Years (1)

	2021	2020	2019	2018	2017	2016
Contractually Required Contribution to OPEB	\$10,800	\$9,161	\$9,766	\$9,270	\$31,855	\$61,958
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>(10,800)</u>	<u>(9,161)</u>	<u>(9,766)</u>	<u>(9,270)</u>	<u>(31,855)</u>	<u>(61,958)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,142,008	\$1,813,450	\$1,943,829	\$2,048,942	\$1,975,663	\$1,906,684
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.50%	0.51%	0.50%	0.45%	1.61%	3.25%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2021

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Property and Other Taxes	\$567,184	\$567,184	\$602,462	\$35,278
Charges for Services	937,677	937,677	996,000	58,323
Investment Earnings	14,294	14,294	15,183	889
Intergovernmental	357,336	357,336	379,562	22,226
Fines, Licenses & Permits	155,067	155,067	164,712	9,645
Other Revenues	129,206	129,206	137,243	8,037
Total Revenues	2,160,764	2,160,764	2,295,162	134,398
Expenditures:				
Current:				
General Government	1,387,946	1,457,534	1,233,526	224,008
Public Safety	3,681,177	3,865,740	3,271,616	594,124
Community Development	49,078	51,539	43,618	7,921
Transportation and Street Repair	67,579	70,967	60,060	10,907
Total Expenditures	5,185,780	5,445,780	4,608,820	836,960
Excess of Revenues Over (Under) Expenditures	(3,025,016)	(3,285,016)	(2,313,658)	971,358
Other Financing Sources (Uses):				
Transfers In	2,508,236	2,508,236	2,664,246	156,010
Transfers (Out)	(438,823)	(460,824)	(390,000)	70,824
Total Other Financing Sources (Uses)	2,069,413	2,047,412	2,274,246	226,834
Net Change in Fund Balance	(955,603)	(1,237,604)	(39,412)	1,198,192
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,302,244	1,302,244	1,302,244	0
Fund Balance End of Year	\$346,641	\$64,640	\$1,262,832	\$1,198,192

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2021

Note 1 – Budgetary Process

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

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

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

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 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP 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) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (GAAP).
4. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2021

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	\$517,957
Revenue Accruals	(3,522,241)
Expenditure Accruals	336,139
Transfers In	2,664,246
Encumbrances	(35,513)
Budget Basis	<u>(\$39,412)</u>

Note 2 – Net Pension Liability

Ohio Public Employees Retirement System Changes in Benefit Terms and Assumptions

Changes in assumptions:

2021: The OPERS Board lowered the investment rate of return from 7.2 percent to 6.9 percent along with certain other changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

2020: In October 2020, The OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 1.4 percent simple through 2020 then 2.15 simple to .5 simple through 221 then 2.15 percent simple.

2019: OPERS Board adopted a change in the investment return assumption, reducing it from 7.50% to 7.20%.

2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2017: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date

- Reduction in actuarial assumed rate of return from 8.00% to 7.50%
- Decrease in wage inflation from 3.75% to 3.25%
- Change in future salary increases from a range of 4.25%-10.02% to 3.25%-10.75%

2016-2014: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

Changes in benefit terms:

2021-2014: There were no changes in benefit terms for this period.

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2021

Ohio Police and Fire Pension Fund Changes in Benefit Terms and Assumptions

Changes in assumptions:

2021: COLA went from 3.00% Simple; 2.20% Simple in FY20 to 2.20% Single in FY20.

2020-2019: There have been no OP&F pension plan amendments adopted or changes in assumptions used in the calculation of actuarial determined contributions.

2018: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date.

- Reduction in actuarial assumed rate of return from 8.25% to 8.00%
- Decrease salary increases from 3.75% to 3.25%
- Change in payroll growth from 3.75% to 3.25%
- Reduce DROP interest rate from 4.5% to 4.0%
- Reduce CPI-based COLA from 2.6% to 2.2%
- Inflation component reduced from 3.25% to 2.75%

2017-2014: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

Changes in benefit terms:

2021-2014: There were no changes in benefit terms for the period.

Note 3 - Net OPEB Liability (Asset)

Ohio Public Employees Retirement System Changes in Benefit Terms and Assumptions

Changes in assumptions:

2021: The following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The single discount rate increased from 3.16 percent to 6.00 percent.
- The municipal bond rate decreased from 2.75 percent to 2.00 percent.
- The initial health care cost trend rate decreased from 10.5 percent to 8.5 percent.

2020: The following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The single discount rate decreased from 3.96 percent to 3.16 percent.
- The municipal bond rate decreased from 3.71 percent to 2.75 percent.
- The initial health care cost trend rate increased from 10.0 percent to 10.5 percent.

2019: The following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The single discount rate increased from 3.85 percent to 3.96 percent.
- The investment rate of return decreased from 6.5 percent to 6 percent.

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2021

- The municipal bond rate increased from 3.31 percent to 3.71 percent.
- The initial health care cost trend rate increased from 7.5 percent to 10 percent.

2018: The single discount rate changed from 4.23 percent to 3.85 percent.

Changes in Benefit Terms:

2021: There were no changes in benefit terms for the period.

2020: On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees.

2019-2018: There were no changes in benefit terms for the period..

Ohio Police and Fire Pension Fund Changes in Benefit Terms and Assumptions

Changes in assumptions:

2021: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions. The single discount rate changed from 3.56% to 2.96%.

2020: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions. The single discount rate changed from 4.66% to 3.56%.

2019: Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%. The single discount rate increased from 3.24% to 4.66% and the municipal bond rate from 3.16% to 4.13%.

2018: The single discount rate changed from 3.79% to 3.24%

Changes in benefit terms:

2021-2020: There were no changes in benefit terms for the period.

2019: See above regarding change to stipend-based model.

2018: There were no changes in benefit terms for the period.

OHIO AUDITOR OF STATE KEITH FABER



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

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

We have audited, 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, 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, Richland County, Ohio, (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2021-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the City's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

November 30, 2022

**CITY OF SHELBY
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2021**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2021-001

**Municipal Court – Monthly Bank Reconciliations
Significant Deficiency**

Sound accounting practices require that when designing the public office’s system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Municipal Court maintains two bank accounts separate from the City's Treasury through which the collection and disbursement of all moneys for the Municipal Court are made. The Clerk of Courts is responsible for reconciling the Municipal Court accounting ledgers to bank balances on a monthly basis, and management of the City is responsible for reviewing the reconciliations and related support.

Monthly bank to book reconciliations for the Municipal Court civil and criminal bank accounts were not prepared or reviewed each month of 2021. In January 2022, the Clerk of Courts contracted with an accounting firm to reconcile these bank accounts on behalf of the City. However, the reconciliations prepared by the accounting firm reflected an unreconciled balance of \$4,724 in the criminal bank account and an unreconciled balance of \$782 in the civil bank account as of December 31, 2021. Additionally, these civil and criminal reconciliations improperly reported several checks that cleared during 2021 as outstanding as of December 31, 2021.

Failure to accurately reconcile monthly increases the possibility that the City will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Municipal Court should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, management should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

Officials’ Response:

The City will contract services of an independent accountant or retired auditor to find the transactions that have created an unreconciled balance in the bank accounts. Additional training will be given to the Clerk of Courts to prepare bank reconciliations. If necessary the Judge will prepare bank reconciliations. The Judge will review monthly bank reconciliations. If necessary, the Director of Finance will review the statements.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2021

Finding Number	Finding Summary	Status	Additional Information
2020-001	Financial Reporting – Significant Deficiency (Finding first occurred in fiscal year 2014.)	Partially Corrected	Finding is being repeated in the current audit Management Letter.
2020-002	Municipal Court Monthly Bank Reconciliations – Significant Deficiency (Finding first occurred in fiscal year 2017.)	Not Corrected	Finding is being repeated in the current audit as Finding 2021-001. Monthly municipal court bank reconciliations were not completed during 2021. See Officials’ Response to the finding.

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF SHELBY

RICHLAND COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/27/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

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www.ohioauditor.gov