

**CITY OF SHELBY**

***Basic Financial Statements***  
(Audited)

For The Year Ended  
December 31, 2001

**MR. LARRY PAXTON, FINANCE DIRECTOR**





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P. O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We have reviewed the Independent Auditor's Report of the City of Shelby, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

September 19, 2002

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**CITY OF SHELBY  
RICHLAND COUNTY, OHIO**

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**CITY OF SHELBY  
RICHLAND COUNTY, OHIO**

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## Independent Auditor-s Report

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

We have audited the accompanying basic financial statements of the City of Shelby, Richland County, Ohio, (the “City”), as of and for the year ended December 31, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the City-s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Shelby, Richland County, as of December 31, 2001, and the results of its operations and its cash flows for its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2001, the City adopted Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Members of Council and Mayor  
City of Shelby

We performed our audit to form an opinion on the basic financial statements of the City, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Trimble, Julian & Grube, Inc.  
July 30, 2002

**CITY OF SHELBY, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**  
**UNAUDITED**

The discussion and analysis of the City of Shelby's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2001. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2001 are as follows:

- The total net assets of the City increased \$2,386,400. Net assets of governmental activities increased \$645,478 or 3.17% over fiscal year 2000.
- General revenues accounted for \$4,371,888 or 61.98% of total governmental activities revenue. Program specific revenues accounted for \$2,682,189 or 38.02% of total governmental activities revenue.
- Governmental activities capital assets, net-increased \$1,783,544, primarily due to \$1,837,675 in additions to infrastructure.
- The City had \$5,898,599 in expenses related to governmental activities; \$2,682,189 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,216,410 was offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,371,888.
- The general fund, the City's only major fund, had revenues of \$3,010,956 in 2001. This represents a decrease of \$137,600 or 4.37% from 2000 revenues. The expenditures of the general fund, which totaled \$2,743,802 in 2001, increased \$37,876 from 2000. Also, the general fund's operating transfers out increased by \$134,191 in 2001. The fund balance in the general fund decreased from \$1,185,651 in 2000 to \$964,200 in 2001.
- Net assets for the business-type activities, which are made up of the Water, Sewer and Electric enterprise funds, increased in 2001 by \$1,740,922 or 7.31%. This increase in net assets was due primarily to the City's investment in the Ohio Municipal Electric Generation Agency Joint Venture and the addition of capital assets.
- In the general fund, the actual revenues came in \$160,647 higher than they were originally budgeted and actual expenditures were \$275,234 less than the amount in the original budget. The general fund also maintained a positive variance of \$38,476 in revenues and \$475,234 in expenditures versus the final budgeted amounts. These positive variances are the result of the City's conservative budgeting.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. 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 what remains 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. The general fund is the City's only major fund.

**CITY OF SHELBY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

**Reporting the City as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2001?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

**Governmental Activities** - Most of the City's programs and services are reported here including general government, security of persons and property, public health and welfare, transportation, community environment, and leisure time activity. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The City's only major governmental fund is the general fund. The analysis of the City's major governmental and proprietary funds begins on page 7.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 UNAUDITED

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 14-17 of this report.

#### ***Proprietary Funds***

The City maintains three 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 water, sewer 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. The basic proprietary fund financial statements can be found on pages 19-22 of this report.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 23 of this report.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-53 of this report.

#### **Government-Wide Financial Analysis**

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

The table below provides a summary of the City's net assets for 2001:

	<b>Net Assets</b>		
	Governmental Activities <u>2001</u>	Business-Type Activities <u>2001</u>	Total <u>2001</u>
<u>Assets</u>			
Current and other assets	\$ 8,267,581	\$ 6,868,156	\$15,135,737
Capital assets	<u>15,032,436</u>	<u>24,409,526</u>	<u>39,441,962</u>
<b>Total Assets</b>	<u><b>23,300,017</b></u>	<u><b>31,277,682</b></u>	<u><b>54,577,699</b></u>
<u>Liabilities</u>			
Long-term liabilities outstanding	869,463	351,395	1,220,858
Other liabilities	<u>1,425,259</u>	<u>5,378,339</u>	<u>6,803,598</u>
<b>Total liabilities</b>	<u><b>2,294,722</b></u>	<u><b>5,729,734</b></u>	<u><b>8,024,456</b></u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	14,449,621	24,409,526	38,859,147
Restricted	5,252,571	-	5,252,571
Unrestricted	<u>1,303,103</u>	<u>1,138,422</u>	<u>2,441,525</u>
<b>Total net assets</b>	<u><b>\$21,005,295</b></u>	<u><b>\$25,547,948</b></u>	<u><b>\$46,553,243</b></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2001, the City's assets exceeded liabilities by \$46,553,243. At year-end, net assets were \$21,005,295 and \$25,547,948 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 72.26% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2001, was \$14,449,621 and \$24,409,526 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2001, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$5,252,571 or 25.01%, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,303,103 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2001. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2000 are not available. A comparative analysis will be provided in future years when prior year information is available.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

**Change in Net Assets**

	<u>Governmental-type Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Revenues</b>			
Program revenues:			
Charges for services and sales	\$ 730,422	\$10,486,703	\$11,217,125
Operating grants and contributions	654,416	-	654,416
Capital grants and contributions	1,297,351	-	1,297,351
General revenues:			
Property taxes	405,074	-	405,074
Income taxes	2,597,892	-	2,597,892
Excise taxes	-	280,174	280,174
Unrestricted grants	1,065,647	-	1,065,647
Capital contributions	-	683,548	683,548
Interest	151,582	147,153	298,735
Other	<u>151,693</u>	<u>448,948</u>	<u>600,641</u>
Total revenues	<u>7,054,077</u>	<u>12,046,526</u>	<u>19,100,603</u>
Expenses:			
General government	1,247,942	-	1,247,942
Security of persons and property	2,516,016	-	2,516,016
Public health and welfare	261,171	-	261,171
Transportation	1,217,891	-	1,217,891
Community environment	548,795	-	548,795
Leisure time activity	78,296	-	78,296
Other	797	-	797
Interest and fiscal charges	27,691	-	27,691
Sewer	-	830,628	830,628
Water	-	1,282,883	1,282,883
Electric	<u>-</u>	<u>8,702,093</u>	<u>8,702,093</u>
Total expenses	<u>5,898,599</u>	<u>10,815,604</u>	<u>16,714,203</u>
Increase in net assets before transfers	1,155,478	1,230,922	2,386,400
Transfers	<u>(510,000)</u>	<u>510,000</u>	<u>-</u>
Increase in net assets	<u>\$ 645,478</u>	<u>\$ 1,740,922</u>	<u>\$ 2,386,400</u>

**Governmental Activities**

Governmental activities net assets increased \$645,478 or 3.17% in 2001 over 2000. This increase is a result of slightly increasing expenses offset by an increase in tax revenue and unrestricted grants and entitlements versus amounts reported in the prior year.

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 UNAUDITED

Security of persons and property, which supports the operations of the police and fire department accounts for \$2,516,016 or 42.65% of total expenses of the City. These expenses were partially funded by \$460,413 in direct charges to users of the services. General government expenses, which includes city council, the mayor's office, the finance department, civil service and building and zoning programs, totaled \$1,247,942 or 21.16% of total expenses. General government expenses were partially funded by \$195,359 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$654,416 in operating grants and contributions and \$1,297,351 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$669,977 or 51.64%, subsidized transportation programs and \$612,298 or 47.20% subsidized community environment programs.

General revenues totaled \$4,371,888, and amounted to 61.98% of total revenues. These revenues primarily consist of property and income tax revenue of \$3,002,966, or 68.69% of total general revenues. Property taxes decreased during 2001 due to a \$341,843 decline in delinquent property taxes. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$489,173 or 11.19% of the total. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2000 have not been presented since they are not available.

#### Governmental Activities

	Total Cost of Services 2001	Net Cost of Services 2001
Program Expenses:		
General government	\$1,247,942	\$1,052,583
Security of persons and property	2,516,016	2,006,175
Public health and welfare	261,171	230,991
Transportation	1,217,891	214,691
Community environment	548,795	(369,315)
Leisure time activity	78,296	62,991
Other	797	(450)
Interest and fiscal charges	<u>27,691</u>	<u>18,744</u>
Total Expenses	<u>\$5,898,599</u>	<u>\$3,216,410</u>

The dependence upon general revenues for governmental activities is apparent, with 54.52% of expenses supported through taxes and other general revenues.

#### Business-Type Activities

Business-type activities include the Water, Sewer and Electric enterprise funds. These programs had program revenues of \$10,486,703, general revenues of \$2,069,823 and expenses of \$10,815,604 for fiscal year 2001. The Electric fund received a \$500,000 operating transfer in from the Light Reserve fund and \$10,000 from the general fund. The Sewer and Water fund received \$514,420 and \$169,128, respectively, in capital contributions from other funds.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds***

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$5,529,649 which is \$1,287,731 below last year's total of \$6,817,380. The December 31, 2000 fund balances have been restated as described on pages 36-37 of the notes to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2001 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> <u>December 31, 2000</u>	<u>Fund Balances</u> <u>December 31, 2001</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$1,185,651	\$ 964,200	\$ (221,451)
Other Nonmajor Governmental Funds	<u>5,631,729</u>	<u>4,565,449</u>	<u>(1,066,280)</u>
Total	<u>\$6,817,380</u>	<u>\$5,529,649</u>	<u>\$(1,287,731)</u>

***General Fund***

The City's general fund balance decreased \$221,451, due to a 4.37% decrease in revenues and a 1.40% increase in expenditures. The decrease in fund balance can be attributed primarily to the overall increase in salaries, wages and fringe benefits offset by a decrease in revenues. The table that follows assists in illustrating the financial activities and fund balances of the general fund.

	<u>2001</u> <u>Amount</u>	<u>2000</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$1,702,277	\$1,514,465	12.40%
Charges for Services	328,000	335,000	(2.10)
Licenses and permits	14,515	13,348	0.87
Fines and forfeitures	222,768	162,395	37.18
Investment Income	139,165	249,184	(44.15)
Intergovernmental	545,877	807,519	(32.40)
Other Revenues	<u>58,354</u>	<u>66,645</u>	(12.44)
Total	<u>\$3,010,956</u>	<u>\$3,148,556</u>	(4.37)
<b><u>Expenditures</u></b>			
General Government	\$ 906,376	\$ 835,577	8.47
Security of Persons and Property	1,834,114	1,867,037	(1.76)
Principal Retirement and Interest	<u>3,312</u>	<u>3,312</u>	0.00
Total	<u>\$2,743,802</u>	<u>\$2,705,926</u>	1.40%

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

***Budgeting Highlights - General Fund***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, the City's only major governmental fund. In the general fund one of the most significant changes was between the original and final budgeted amount in the area of revenues, which increased \$122,171 or 7.0% from \$1,753,765 to \$1,875,936. Actual revenues of \$1,914,412 exceeded final budgeted revenues by \$38,476. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$475,234 lower than the final budgeted amounts.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2001, the City had \$39,441,962 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles, infrastructure and construction in progress. Of this total, \$15,032,436 was reported in governmental activities and \$24,409,526 was reported in business-type activities. The following table shows fiscal 2001 balances compared to 2000:

**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Land	\$ 211,404	\$ 211,404	\$ 155,800	\$ 143,800	\$ 367,204	\$ 355,204
Land improvements	249,831	203,244	546,309	134,690	796,140	337,934
Buildings and improvements	454,941	400,829	11,139,126	8,941,502	11,594,067	9,342,331
Furniture, fixtures and equipment	407,669	331,342	4,576,310	5,023,023	4,983,979	5,354,365
Vehicles	897,617	780,575	408,358	409,555	1,305,975	1,190,130
Infrastructure	12,810,974	11,321,498	4,395,577	4,006,821	17,206,551	15,328,319
Construction in progress	-	-	<u>3,188,046</u>	<u>3,888,606</u>	<u>3,188,046</u>	<u>3,888,606</u>
Totals	<u>\$15,032,436</u>	<u>\$13,248,892</u>	<u>\$24,409,526</u>	<u>\$22,547,997</u>	<u>\$39,441,962</u>	<u>\$35,796,889</u>

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001  
UNAUDITED

***Debt Administration***

At December 31, 2001 the City had \$285,000 in special assessment bonds and OPWC notes of \$291,712 outstanding. Of this total, \$175,852 is due within one year and \$400,860 is due within greater than one year. The following table summarizes the bonds and note outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2001</u>	Governmental Activities <u>2000</u>
Long-Term Obligations:		
<u>Special Assessment Bonds:</u>		
Shelby Avenue	\$ -	\$ 31,100
Riverview Estates	265,000	385,000
Fox Run 5	<u>20,000</u>	<u>40,000</u>
Total Special Assessment Bonds	<u>\$285,000</u>	<u>\$456,100</u>
<u>OPWC Notes:</u>		
Wareham Road	\$243,675	\$259,920
Auburn Street	<u>48,037</u>	<u>57,644</u>
Total OPWC Notes	<u>\$291,712</u>	<u>\$317,564</u>
Total	<u>\$576,712</u>	<u>\$ 773,664</u>

The City has two special assessment bonds outstanding at December 31, 2001 in the amount of \$285,000. The City issued \$95,200 in special assessment bonds on August 27, 1997, for the Fox Run project. These bonds bear an annual interest rate of 5.60% and mature on December 1, 2002. Special assessment bonds in the amount of \$610,000 were issued on August 19, 1998 for the Riverview Estates project and bear an annual interest rate of 4.50%. These bonds are scheduled to mature on December 1, 2003. The bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefitted from the projects. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The City has two Ohio Public Works Commission (OPWC) notes outstanding at December 31, 2001 in the amount of \$291,712. On July 1, 1997, the City issued \$96,073 in OPWC notes to finance the Auburn Street Storm Sewer Replacement Project. These notes are scheduled to retire on January 1, 2007. The City issued \$394,200 in OPWC notes on July 7, 1997 to finance the Wareham Road Area Storm Sewer Replacement Project. These notes are scheduled to mature on July 1, 2016. The OPWC notes are interest free.

**For the Future**

Since the 1800's the greater Shelby industry has long been known as innovative, productive, and stable, a tradition which continues today within the community. Even though the City's industrial base has not been immune to national trends for takeovers, mergers, and closures, it has been very aggressive and successful in being able to fill these voids created with other opportunities.

The unemployment rate for the City is currently 3.9%, as compared to the state's average unemployment rate of 5.6% and the national average of 5.9%.

## **CITY OF SHELBY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 UNAUDITED**

Overall, the City's finances are stable. As the preceding information shows, the City relies heavily upon grants and entitlements and property and income taxes. The City does not expect a significant growth in overall revenues in the next fiscal year, while expenditures will increase steadily with inflation. It will be a challenge to the City to manage its resources effectively and sufficiently in order to meet operating expenses.

The City's system of budgeting and internal controls are well regarded. All of the City's financial abilities will be needed to meet the financial challenges of the future.

In 2001, the City issued \$4,750,000 of bond anticipation notes for refinancing of renovations of the Electric Generation Plant and \$50,075 of construction debt for park improvements. In fiscal year 2002, the City plans to reissue \$4,250,000 of bond anticipation notes for the Electric Generation Plant improvements.

#### **Contacting the City's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and 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 Larry Paxton, Finance Director, 23 W. Main Street, Shelby, Ohio, 44875.

**CITY OF SHELBY, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2001**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$5,437,560	\$3,889,199	\$9,326,759
Receivables:			
Income taxes . . . . .	644,209	-	644,209
Real and other taxes . . . . .	868,023	43,385	911,408
Accounts . . . . .	3,482	1,014,866	1,018,348
Special assessments . . . . .	284,155	-	284,155
Due from other governments . . . . .	957,808	-	957,808
Prepayments . . . . .	16,478	40,609	57,087
Materials and supplies inventory. . . . .	55,866	840,939	896,805
Investment in joint venture. . . . .	-	1,039,158	1,039,158
Capital assets:			
Land and construction in progress . . . . .	211,404	3,343,846	3,555,250
Depreciable capital assets, net . . . . .	14,821,032	21,065,680	35,886,712
Total capital assets . . . . .	<u>15,032,436</u>	<u>24,409,526</u>	<u>39,441,962</u>
Total assets. . . . .	<u>23,300,017</u>	<u>31,277,682</u>	<u>54,577,699</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	96,701	392,706	489,407
Contracts payable . . . . .	124,589	14,152	138,741
Retainage payable . . . . .	13,828	-	13,828
Accrued wages and benefits . . . . .	79,804	90,172	169,976
Due to other governments . . . . .	154,681	122,330	277,011
Deferred revenue . . . . .	792,727	-	792,727
Accrued interest payable . . . . .	2,085	8,979	11,064
Claims payable . . . . .	110,769	-	110,769
Notes payable. . . . .	50,075	4,750,000	4,800,075
Long-term liabilities:			
Due within one year. . . . .	234,151	54,914	289,065
Due within more than one year . . . . .	635,312	296,481	931,793
Total liabilities . . . . .	<u>2,294,722</u>	<u>5,729,734</u>	<u>8,024,456</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	14,449,621	24,409,526	38,859,147
Restricted for:			
Capital projects . . . . .	2,936,435	-	2,936,435
Debt service. . . . .	989,456	-	989,456
Other purposes . . . . .	1,326,680	-	1,326,680
Unrestricted . . . . .	<u>1,303,103</u>	<u>1,138,422</u>	<u>2,441,525</u>
Total net assets . . . . .	<u>\$21,005,295</u>	<u>\$25,547,948</u>	<u>\$46,553,243</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental Activities:</b>				
General government . . . . .	\$1,247,942	\$195,359	\$ -	\$ -
Security of persons and property . . . . .	2,516,016	460,413	34,352	15,076
Public health and welfare. . . . .	261,171	21,088	9,092	-
Transportation . . . . .	1,217,891	410	332,813	669,977
Community environment . . . . .	548,795	30,060	275,752	612,298
Leisure time activity . . . . .	78,296	14,145	1,160	-
Other . . . . .	797	-	1,247	-
Interest and fiscal charges . . . . .	27,691	8,947	-	-
Total governmental activities . . . . .	<u>5,898,599</u>	<u>730,422</u>	<u>654,416</u>	<u>1,297,351</u>
<b>Business-Type Activities:</b>				
Sewer. . . . .	830,628	605,473	-	-
Water. . . . .	1,282,883	1,370,660	-	-
Electric . . . . .	8,702,093	8,510,570	-	-
Total business-type activities . . . . .	<u>10,815,604</u>	<u>10,486,703</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$16,714,203</u>	<u>\$11,217,125</u>	<u>\$654,416</u>	<u>\$1,297,351</u>

**General Revenues:**

Property taxes levied for:
General purposes . . . . .
Special revenue . . . . .
Income taxes levied for:
General purposes . . . . .
Special revenue . . . . .
Capital projects . . . . .
Other local taxes. . . . .
Grants and entitlements not restricted to specific programs . . . . .
Capital contributions . . . . .
Investment earnings . . . . .
Miscellaneous . . . . .
Transfers . . . . .
Total general revenues and transfers . . . . .
Change in net assets . . . . .
Net assets at beginning of year. . . . .
Net assets at end of year . . . . .

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**Net (Expense) Revenue  
and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
(\$1,052,583)	\$ -	(\$1,052,583)
(2,006,175)	-	(2,006,175)
(230,991)	-	(230,991)
(214,691)	-	(214,691)
369,315	-	369,315
(62,991)	-	(62,991)
450	-	450
(18,744)	-	(18,744)
<u>(3,216,410)</u>	<u>-</u>	<u>(3,216,410)</u>
-	(225,155)	(225,155)
-	87,777	87,777
-	(191,523)	(191,523)
<u>-</u>	<u>(328,901)</u>	<u>(328,901)</u>
<u>(3,216,410)</u>	<u>(328,901)</u>	<u>(3,545,311)</u>
275,536	-	275,536
129,538	-	129,538
1,279,808	-	1,279,808
209,124	-	209,124
1,108,960	-	1,108,960
-	280,174	280,174
1,065,647	-	1,065,647
-	683,548	683,548
151,582	147,153	298,735
151,693	448,948	600,641
(510,000)	510,000	-
<u>3,861,888</u>	<u>2,069,823</u>	<u>5,931,711</u>
645,478	1,740,922	2,386,400
<u>20,359,817</u>	<u>23,807,026</u>	<u>44,166,843</u>
<u>\$21,005,295</u>	<u>\$25,547,948</u>	<u>\$46,553,243</u>

**CITY OF SHELBY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2001

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$680,940	\$4,457,725	\$5,138,665
Receivables:			
Income taxes. . . . .	322,105	322,104	644,209
Real and other taxes . . . . .	346,431	521,592	868,023
Accounts . . . . .	721	2,761	3,482
Special assessments . . . . .	-	284,155	284,155
Due from other governments. . . . .	342,224	615,584	957,808
Prepayments. . . . .	11,484	4,994	16,478
Materials and supplies inventory . . . . .	20,530	35,336	55,866
	<hr/>	<hr/>	<hr/>
Total assets . . . . .	\$1,724,435	\$6,244,251	\$7,968,686
	<hr/>	<hr/>	<hr/>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$9,107	\$87,594	\$96,701
Contracts payable . . . . .	-	124,589	124,589
Retainage payable . . . . .	-	13,828	13,828
Accrued wages and benefits . . . . .	63,887	15,917	79,804
Due to other governments . . . . .	53,347	101,334	154,681
Deferred revenue. . . . .	633,894	1,284,398	1,918,292
Note payable. . . . .	-	50,075	50,075
Accrued interest payable. . . . .	-	1,067	1,067
	<hr/>	<hr/>	<hr/>
Total liabilities. . . . .	760,235	1,678,802	2,439,037
	<hr/>	<hr/>	<hr/>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	133,613	951,667	1,085,280
Reserved for prepayments . . . . .	11,484	4,994	16,478
Reserved for materials and supplies inventory. . . . .	20,530	35,336	55,866
Reserved for principal endowment. . . . .	-	23,987	23,987
Unreserved, undesignated, reported in:			
General fund . . . . .	798,573	-	798,573
Special revenue funds. . . . .	-	551,285	551,285
Debt service funds. . . . .	-	990,474	990,474
Capital projects funds. . . . .	-	2,007,706	2,007,706
	<hr/>	<hr/>	<hr/>
Total fund balances . . . . .	964,200	4,565,449	5,529,649
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances . . . . .	\$1,724,435	\$6,244,251	\$7,968,686
	<hr/>	<hr/>	<hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2001

<b>Total governmental fund balances</b>		\$5,529,649
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,032,436
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes	\$48,617	
Income tax	143,244	
Special assessments	284,155	
Intergovernmental revenues	<u>649,549</u>	
Total		1,125,565
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		188,126
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest	(1,018)	
Special assessment bonds	(285,000)	
OPWC notes	(291,712)	
Compensated absences	(286,648)	
Capital lease payable	<u>(6,103)</u>	
Total		<u>(870,481)</u>
<b>Net assets of governmental activities</b>		<u><u>\$21,005,295</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Municipal income taxes . . . . .	\$1,208,186	\$1,327,696	\$2,535,882
Property and other taxes . . . . .	494,091	342,966	837,057
Charges for services . . . . .	328,000	101,715	429,715
Licenses and permits. . . . .	14,515	21,088	35,603
Fines and forfeitures. . . . .	222,768	37,265	260,033
Intergovernmental . . . . .	545,877	1,965,842	2,511,719
Special assessments . . . . .	-	197,768	197,768
Investment income. . . . .	139,165	71,561	210,726
Rental income . . . . .	-	10,890	10,890
Other. . . . .	58,354	94,869	153,223
Total revenue . . . . .	<u>3,010,956</u>	<u>4,171,660</u>	<u>7,182,616</u>
<b>Expenditures:</b>			
Current:			
General government . . . . .	906,376	131,545	1,037,921
Security of persons and property . . . . .	1,834,114	274,105	2,108,219
Public health and welfare. . . . .	-	254,927	254,927
Transportation . . . . .	-	1,354,977	1,354,977
Community environment . . . . .	-	412,089	412,089
Leisure time activity . . . . .	-	59,937	59,937
Other. . . . .	-	797	797
Capital outlay . . . . .	-	2,482,163	2,482,163
Debt service:			
Principal retirement . . . . .	2,705	196,952	199,657
Interest and fiscal charges . . . . .	607	27,595	28,202
Total expenditures. . . . .	<u>2,743,802</u>	<u>5,195,087</u>	<u>7,938,889</u>
Excess of revenues over (under) expenditures. . . . .	<u>267,154</u>	<u>(1,023,427)</u>	<u>(756,273)</u>
<b>Other financing sources (uses):</b>			
Operating transfers in. . . . .	2,734	483,608	486,342
Operating transfers out. . . . .	<u>(493,608)</u>	<u>(502,734)</u>	<u>(996,342)</u>
Total other financing sources (uses). . . . .	<u>(490,874)</u>	<u>(19,126)</u>	<u>(510,000)</u>
Net change in fund balances. . . . .	(223,720)	(1,042,553)	(1,266,273)
<b>Fund balances at beginning of year (restated).</b>	1,185,651	5,631,729	6,817,380
<b>Increase (decrease) in reserve for inventory .</b>	<u>2,269</u>	<u>(23,727)</u>	<u>(21,458)</u>
<b>Fund balances at end of year. . . . .</b>	<u><u>\$964,200</u></u>	<u><u>\$4,565,449</u></u>	<u><u>\$5,529,649</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

**Net change in fund balances - total governmental funds** (\$1,266,273)

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

Governmental funds report capital outlays 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 by which capital outlays (\$2,481,285) exceeded depreciation expense (\$690,334) in the current period.	1,790,951
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(7,407)
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.	(21,458)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(139,453)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	199,657
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	511
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	5,363
The internal service fund used by management to charge the costs of insurance 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 of the internal service fund is allocated among the governmental activities.	83,587

**Change in net assets of governmental activities** \$645,478

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

	<u>Budgeted Amounts</u>			<b>Variance with</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Final Budget</b> <b>Over</b> <b>(Under)</b>
<b>Revenues:</b>				
Property and other taxes . . . . .	\$244,202	\$261,214	\$266,571	\$5,357
Charges for services . . . . .	300,476	321,408	328,000	6,592
Licenses and permits. . . . .	13,297	14,223	14,515	292
Fines and forfeitures . . . . .	203,414	217,584	222,047	4,463
Intergovernmental . . . . .	575,575	615,671	628,299	12,628
Investment income . . . . .	127,487	136,368	139,165	2,797
Other. . . . .	289,314	309,468	315,815	6,347
Total revenues . . . . .	<u>1,753,765</u>	<u>1,875,936</u>	<u>1,914,412</u>	<u>38,476</u>
<b>Expenditures:</b>				
Current operations:				
General government. . . . .	1,029,719	1,215,131	976,610	238,521
Security of persons and property . . . . .	2,179,951	2,194,539	1,957,826	236,713
Total expenditures . . . . .	<u>3,209,670</u>	<u>3,409,670</u>	<u>2,934,436</u>	<u>475,234</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(1,455,905)</u>	<u>(1,533,734)</u>	<u>(1,020,024)</u>	<u>513,710</u>
<b>Other financing sources (uses):</b>				
Operating transfers in . . . . .	1,117,220	1,195,049	1,219,559	24,510
Operating transfers out. . . . .	<u>(493,608)</u>	<u>(493,608)</u>	<u>(493,608)</u>	<u>0</u>
Total other financing sources (uses) . . . . .	<u>623,612</u>	<u>701,441</u>	<u>725,951</u>	<u>24,510</u>
Net change in fund balance. . . . .	(832,293)	(832,293)	(294,073)	538,220
<b>Fund balance at beginning of year . . . . .</b>	687,010	687,010	687,010	0
<b>Prior year encumbrances appropriated . . . . .</b>	<u>145,283</u>	<u>145,283</u>	<u>145,283</u>	<u>0</u>
<b>Fund balance at end of year . . . . .</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$538,220</u></u>	<u><u>\$538,220</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2001**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities - Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Total</b>	
<b>Assets:</b>					
Current assets:					
Equity in pooled cash and cash equivalents . . . . .	\$488,655	\$823,732	\$2,576,812	\$3,889,199	\$298,895
Receivables:					
Real and other taxes . . . . .	-	-	43,385	43,385	-
Accounts . . . . .	71,041	152,230	791,595	1,014,866	-
Prepayments . . . . .	4,077	4,408	32,124	40,609	-
Materials and supplies inventory. . .	8,172	86,958	745,809	840,939	-
Total current assets . . . . .	<u>571,945</u>	<u>1,067,328</u>	<u>4,189,725</u>	<u>5,828,998</u>	<u>298,895</u>
Noncurrent assets:					
Investment in joint venture . . . . .	-	-	1,039,158	1,039,158	-
Capital assets:					
Land and construction in progress. .	40,270	77,130	3,226,446	3,343,846	-
Depreciable capital assets. . . . .	4,415,921	7,483,558	9,166,201	21,065,680	-
Total capital assets . . . . .	<u>4,456,191</u>	<u>7,560,688</u>	<u>12,392,647</u>	<u>24,409,526</u>	<u>-</u>
Total noncurrent assets. . . . .	<u>4,456,191</u>	<u>7,560,688</u>	<u>13,431,805</u>	<u>25,448,684</u>	<u>-</u>
Total assets . . . . .	<u>5,028,136</u>	<u>8,628,016</u>	<u>17,621,530</u>	<u>31,277,682</u>	<u>298,895</u>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable . . . . .	-	35,802	356,904	392,706	-
Contracts payable . . . . .	14,152	-	-	14,152	-
Accrued wages and benefits . . . . .	10,727	18,072	61,373	90,172	-
Due to other governments . . . . .	15,281	25,608	81,441	122,330	-
Accrued interest payable. . . . .	-	-	8,979	8,979	-
Notes payable . . . . .	-	-	4,750,000	4,750,000	-
Claims payable. . . . .	-	-	-	-	110,769
Total current liabilities . . . . .	<u>40,160</u>	<u>79,482</u>	<u>5,258,697</u>	<u>5,378,339</u>	<u>110,769</u>
Long-term liabilities:					
Capital lease obligation . . . . .	-	-	1,431	1,431	-
Compensated absences. . . . .	72,612	88,313	189,039	349,964	-
Total long-term liabilities . . . . .	<u>72,612</u>	<u>88,313</u>	<u>190,470</u>	<u>351,395</u>	<u>-</u>
Total liabilities. . . . .	<u>112,772</u>	<u>167,795</u>	<u>5,449,167</u>	<u>5,729,734</u>	<u>110,769</u>
<b>Net assets:</b>					
Invested in capital assets. . . . .	4,456,191	7,560,688	12,392,647	24,409,526	-
Unrestricted . . . . .	459,173	899,533	(220,284)	1,138,422	188,126
Total net assets. . . . .	<u>\$4,915,364</u>	<u>\$8,460,221</u>	<u>\$12,172,363</u>	<u>\$25,547,948</u>	<u>\$188,126</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities -</u> <u>Internal Service</u> <u>Fund</u>
<b>Operating revenues:</b>					
Charges for services. . . . .	\$605,473	\$1,370,660	\$8,510,570	\$10,486,703	\$608,746
Other . . . . .	6,480	15,896	426,572	448,948	537
Total operating revenues. . . . .	<u>611,953</u>	<u>1,386,556</u>	<u>8,937,142</u>	<u>10,935,651</u>	<u>609,283</u>
<b>Operating expenses:</b>					
Personal services . . . . .	288,704	529,244	1,632,517	2,450,465	-
Contractual services. . . . .	95,773	153,588	340,817	590,178	-
Materials and supplies. . . . .	36,824	112,581	4,701,070	4,850,475	-
Utilities . . . . .	69,976	73,822	143,073	286,871	-
Depreciation . . . . .	250,064	300,633	750,807	1,301,504	-
Claims. . . . .	-	-	-	-	536,610
Other . . . . .	84,494	107,281	569,848	761,623	-
Total operating expenses. . . . .	<u>825,835</u>	<u>1,277,149</u>	<u>8,138,132</u>	<u>10,241,116</u>	<u>536,610</u>
Operating income (loss) . . . . .	<u>(213,882)</u>	<u>109,407</u>	<u>799,010</u>	<u>694,535</u>	<u>72,673</u>
<b>Nonoperating revenues (expenses):</b>					
Interest expense and fiscal charges . .	-	-	(212,862)	(212,862)	-
Interest revenue . . . . .	11,653	12,222	123,278	147,153	10,914
Other nonoperating expenses . . . . .	(4,793)	(5,734)	(70,925)	(81,452)	-
Other local tax revenue . . . . .	-	-	280,174	280,174	-
Excise tax expense . . . . .	-	-	(280,174)	(280,174)	-
Total nonoperating revenues (expenses) . . . . .	<u>6,860</u>	<u>6,488</u>	<u>(160,509)</u>	<u>(147,161)</u>	<u>10,914</u>
Income (loss) before contributions and operating transfers . . . . .	<u>(207,022)</u>	<u>115,895</u>	<u>638,501</u>	<u>547,374</u>	<u>83,587</u>
Capital contributions . . . . .	514,420	169,128	-	683,548	-
Operating transfer in . . . . .	-	-	510,000	510,000	-
Change in net assets . . . . .	<u>307,398</u>	<u>285,023</u>	<u>1,148,501</u>	<u>1,740,922</u>	<u>83,587</u>
<b>Net assets at beginning of year (restated) . . . . .</b>	<u>4,607,966</u>	<u>8,175,198</u>	<u>11,023,862</u>	<u>23,807,026</u>	<u>104,539</u>
<b>Net assets at end of year . . . . .</b>	<u>\$4,915,364</u>	<u>\$8,460,221</u>	<u>\$12,172,363</u>	<u>\$25,547,948</u>	<u>\$188,126</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, 2001**

	<u>Business-Type Activities - Enterprise Funds</u>				<b>Governmental</b>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<b>Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>					
Cash received from customers . . . . .	\$601,093	\$1,361,274	\$8,468,749	\$10,431,116	\$608,746
Cash received from other operations . . . . .	6,480	15,896	663,361	685,737	537
Cash payments for personal services . . . . .	(273,543)	(519,232)	(1,699,193)	(2,491,968)	-
Cash payments for contract services . . . . .	(83,126)	(155,672)	(612,181)	(850,979)	-
Cash payments for materials and supplies . . . . .	(31,507)	(122,985)	(4,906,480)	(5,060,972)	-
Cash payments for utilities . . . . .	(69,976)	(73,822)	(143,073)	(286,871)	-
Cash payments for claims . . . . .	-	-	-	-	(530,198)
Cash payments for other expenses . . . . .	(84,494)	(107,281)	(850,022)	(1,041,797)	-
Net cash provided by operating activities . . . . .	<u>64,927</u>	<u>398,178</u>	<u>921,161</u>	<u>1,384,266</u>	<u>79,085</u>
<b>Cash flows from noncapital financing activities:</b>					
Transfers in from other funds . . . . .	-	-	510,000	510,000	-
Cash received from other local taxes . . . . .	-	-	280,174	280,174	-
Cash payments for excise taxes . . . . .	-	-	(280,174)	(280,174)	-
Cash used for nonoperating expenses . . . . .	(4,793)	(5,734)	(70,925)	(81,452)	-
Net cash provided by (used in) noncapital financing activities . . . . .	<u>(4,793)</u>	<u>(5,734)</u>	<u>439,075</u>	<u>428,548</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>					
Contributions of capital assets . . . . .	514,420	169,128	-	683,548	-
Acquisition of capital assets . . . . .	(543,860)	(253,855)	(2,389,620)	(3,187,335)	-
Proceeds from the sale of notes . . . . .	-	-	4,750,000	4,750,000	-
Principal retirement . . . . .	-	-	(3,600,000)	(3,600,000)	-
Interest and fiscal charges . . . . .	-	-	(218,249)	(218,249)	-
Net cash used in capital and related financing activities . . . . .	<u>(29,440)</u>	<u>(84,727)</u>	<u>(1,457,869)</u>	<u>(1,572,036)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>					
Interest received . . . . .	11,653	12,222	123,278	147,153	10,914
Investment in joint venture . . . . .	-	-	(1,039,158)	(1,039,158)	-
Net cash provided by (used in) investing activities . . . . .	<u>11,653</u>	<u>12,222</u>	<u>(915,880)</u>	<u>(892,005)</u>	<u>10,914</u>
Net increase (decrease) in cash and cash equivalents . . . . .	42,347	319,939	(1,013,513)	(651,227)	89,999
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>446,308</u>	<u>503,793</u>	<u>3,590,325</u>	<u>4,540,426</u>	<u>208,896</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$488,655</u>	<u>\$823,732</u>	<u>\$2,576,812</u>	<u>\$3,889,199</u>	<u>\$298,895</u>

**CITY OF SHELBY, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss) . . . . .	(\$213,882)	\$109,407	\$799,010	\$694,535	\$72,673
Adjustments:					
Depreciation. . . . .	250,064	300,633	750,807	1,301,504	-
Changes in assets and liabilities:					
(Increase) decrease in materials and supplies inventory.	6,501	(20,194)	(115,224)	(128,917)	-
Increase in accounts receivable . . . . .	(4,380)	(9,386)	(41,821)	(55,587)	-
Decrease in prepayments . . . . .	1,014	110	22,268	23,392	-
Increase (decrease) in accounts payable . . . . .	(3,703)	7,596	(427,203)	(423,310)	-
Increase in contracts payable . . . . .	14,152	-	-	14,152	-
Increase (decrease) in accrued wages and benefits . . . . .	3,041	580	(20,627)	(17,006)	-
Decrease in due to other governments . . . . .	(853)	(2,971)	(13,819)	(17,643)	-
Increase (decrease) in compensated absences payable . . . . .	12,973	12,403	(32,230)	(6,854)	-
Increase in claims payable . . . . .	-	-	-	-	6,412
Net cash provided by operating activities . . . . .	<u>\$64,927</u>	<u>\$398,178</u>	<u>\$921,161</u>	<u>\$1,384,266</u>	<u>\$79,085</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF SHELBY, OHIO**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2001**

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$127,823
Cash in segregated accounts . . . . .	<u>10,913</u>
Total assets . . . . .	<u><u>\$138,736</u></u>
<b>Liabilities:</b>	
Due to other governments . . . . .	\$10,913
Restricted/refundable deposits. . . . .	<u>127,823</u>
Total liabilities. . . . .	<u><u>\$138,736</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

#### **NOTE 1 - DESCRIPTION OF THE CITY**

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

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

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

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **A. Reporting Entity**

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of one insurance purchasing pool which is described in Note 14.

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, wastewater, water and electric.

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

***JOINT VENTURE WITH EQUITY INTEREST***

Ohio Municipal Electric Generation Agency Joint Venture

The City's Electric Enterprise Fund participates in a joint venture agreement with 36 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2) for the purpose of providing electric power and energy to its participants on a cooperative basis. OMEGA JV2 is organized, existing and authorized by Article XVIII, Section 3 and 4 of the Ohio Constitution in the manner contemplated by Section 715.02 of the Ohio Revised Code and other applicable provisions of Ohio law. OMEGA JV2 was formed on November 21, 2000, and its existence was ratified on December 7, 2000.

OMEGA JV2 is a 138.650 MW project that includes two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine, and thirty-four 1.825 MW new and one 1.6 MW used oil-fired diesel generator units. Title to this project was transferred to the 36 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$38,800 in annual fees to the joint venture for 2001.

The following is a summary of audited financial information of OMEGA JV2 for the year ended December 31, 2001:

	<u>OMEGA JV2</u>
Total Assets	\$55,534,206
Total Liabilities	552,314
Members Equity	54,981,892
Total Revenues	2,095,967
Total Expenses	5,884,673
Excess Income over/(under) Expenses	(3,788,706)

The City is an owner participant in the joint venture, meaning it owns an undivided ownership interest in OMEGA JV2. The City's undivided ownership of OMEGA JV2 is 1.89 percent.

The City reports an equity interest equal to their undivided ownership percentage of the joint venture members equity. Since the City has an explicit and measurable interest in OMEGA JV2, the City has reported \$1,039,158 in equity interest for this joint venture on the Statement of Net Assets at December 31, 2001. Separate financial statement for the joint venture is available through either the City or AMP-Ohio.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

The following tables show the major participants and percentage of ownership for OMEGA JV2 project:

<u>OMEGA JV2</u>	
<u>Participants</u>	<u>Percentage of Ownership</u>
Hamilton	23.87
Bowling Green	14.32
Niles	11.49
Cuyahoga Falls	7.46
Wadsworth	5.81
Dover	5.22
Painesville	5.22
Galion	4.29
Amherst	3.73
St. Marys	2.98
Montpelier	2.98
Shelby	1.89
Other	<u>10.74</u>
Total	<u>100.00</u>

**B. Basis of Presentation - Fund Accounting**

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

***Government-wide Financial Statements*** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

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

#### C. Fund Accounting

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

**Governmental Funds** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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) for grants and other resources whose use is restricted to a particular purpose.

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

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.

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 with the City.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

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

*Fiduciary Funds* - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

**D. Measurement Focus and Basis of Accounting**

*Government-wide Financial Statements* - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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

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

**E. Basis of Accounting**

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

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

**Revenues - Exchange and Non-exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 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 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance year 2002 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

**F. Budgetary Data**

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

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

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2001.

***Appropriations*** - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the 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 carried forward and are not reappropriated as part of the subsequent year appropriations.

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

##### **G. Health Care**

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

##### **H. Cash and Cash Equivalents**

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

During fiscal year 2001, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal 2001, interest revenue credited to the general fund amounted to \$139,165 which includes \$112,666 assigned from other City funds.

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

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

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

##### **I. Inventories of Materials and Supplies**

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, electric distribution systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	20 years	20 years
Buildings	30 - 50 years	30 - 50 years
Furniture, Fixtures and Equipment	5 - 30 years	5 - 30 years
Vehicles	6 - 8 years	6 - 8 years
Infrastructure	10 - 65 years	10 - 65 years

**K. Compensated Absences**

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

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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 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.

#### **L. Prepayments**

Payments made to vendors for services that will benefit beyond December 31, 2001, 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.

#### **M. 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

#### **N. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." On fund financial statements, long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. The City had no short-term or long-term interfund balances at year-end.

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

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

**O. Interfund Activity**

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

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

**P. Fund Balance Reserves**

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

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

**Q. 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.

**R. Contributed Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed 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.

**S. Net Assets**

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

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

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

##### T. 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 programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

##### U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2001.

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2001, the City has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions"; GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2000, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2000, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

***Governmental Activities - Fund Reclassification and Restatement of Fund Balance*** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the standards of GASB No. 34. Certain funds previously reported as non-expendable trust funds are now reported as special revenue funds. It was also determined that GASB Interpretation No. 6 and GASB No. 33 and 36 had an effect on fund balances as previously reported at December 31, 2000. The City has also reported a prior period adjustment to properly record income tax refunds payable at December 31, 2000.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The fund reclassifications, the prior period adjustment, and the implementation of GASB Interpretation No. 6 and GASB No. 33 and 36 had the following effect on the City's governmental fund balances as previously reported follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Balance			
December 31, 2000	\$1,095,669	\$5,671,027	\$6,766,696
Fund reclassifications	-	23,537	23,537
Adjustment to properly record income tax refunds payable	-	(111,951)	(111,951)
GASB Interpretation No. 6 Adjustments	6,374	2,515	8,889
GASB No. 33 and No. 36 Adjustments	<u>83,608</u>	<u>46,601</u>	<u>130,209</u>
Restated Fund Balance, December 31, 2000	<u>\$1,185,651</u>	<u>\$5,631,729</u>	<u>\$6,817,380</u>

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated Fund Balance, December 31, 2000	\$ 6,817,380
GASB 34 Adjustments:	
Capital Assets	13,248,892
Internal Service Fund	104,539
Long-Term Liabilities	(1,074,483)
Accrued Interest	(1,529)
Long-Term (Deferred Assets)	<u>1,265,018</u>
Governmental Activities Net Assets, December 31, 2000	<u>\$20,359,817</u>

***Business-Type Activities - Restatement of Fund Balance*** - The capital assets of the business-type activities have been restated at December 31, 2000, to properly state the capital assets due to errors and omissions reported in prior years.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The adjustment in capital assets had the following effect on fund equity of the business-type activities as previously reported:

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Fund equity as previously reported	\$4,365,074	\$7,736,897	\$ 8,649,723	\$20,751,694
Adjustment for capital assets	<u>242,892</u>	<u>438,301</u>	<u>2,374,139</u>	<u>3,055,332</u>
Restated net assets as of January 1, 2001	<u>\$4,607,966</u>	<u>\$8,175,198</u>	<u>\$11,023,862</u>	<u>\$23,807,026</u>

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

Monies held by the City are classified by State statute 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 Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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 in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

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

*Deposits:* At year-end, the carrying amount of the City's deposits, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$1,722,337 and the bank balance was \$1,777,130. Of the bank balance:

1. \$372,562 was covered by federal depository insurance; and
2. \$1,404,568 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

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

	Category			Fair Value
	1	2	3	
Repurchase Agreements	<u>\$ -</u>	<u>\$7,743,158</u>	<u>\$ -</u>	<u>\$7,743,158</u>

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 9,465,495	\$ -
Investments of the Cash Management Pool:		
Repurchase Agreements	<u>(7,743,158)</u>	<u>7,743,158</u>
GASB Statement No. 3	<u>\$ 1,722,337</u>	<u>\$7,743,158</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2001, consisted of the following, as reported on the fund statements:

Transfers to General fund from:	
Nonmajor Governmental Funds	\$ 2,734
Transfers to Nonmajor Governmental funds from:	
General fund	483,608
Transfers to Electric fund from:	
General fund	10,000
Nonmajor Governmental Funds	<u>500,000</u>
Total Electric fund	<u>510,000</u>
Total	<u>\$996,342</u>

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

All transfers were legal and in compliance with Ohio Revised Code. The most significant transfer that occurred during the year was a \$500,000 transfer from the nonmajor governmental funds to the Electric enterprise fund. This transfer was used to make capital improvements in the electric operations.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied on January 1 in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the City Auditor at 35% of appraised market value. All property is required to be revalued every six years with a triennial update. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20, with the remainder payable June 20. In certain instances, State statute permits earlier or later payment dates to be established.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1<sup>st</sup> of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-City taxpayers are due September 20. Single City taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law personal property taxes do not attach as a lien on the personal property. Public utility real and tangible personal property taxes collected in one calendar year are levied on January 1 in the preceding calendar year on assessed values determined as of January 1 of the preceding year, the lien date.

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

The full tax rate for all City operations for the year ended December 31, 2001, was \$5.60 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property for tax year 2001 are as follows:

Real Property	\$114,949,050
Public Utility Property	2,294,070
Tangible Personal Property	<u>44,847,055</u>
Total Assessed Valuation	<u>\$162,090,175</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2001. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2001 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

**NOTE 7 - LOCAL INCOME TAX**

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

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2001, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2001, as well as intended to finance fiscal 2001 operations.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Income taxes	\$ 644,209
Real and other taxes	868,023
Accounts	3,482
Special assessments	284,155
Due from other governments	957,808

**Business-Type Activities:**

Real and other taxes	43,385
Accounts	1,014,866

Receivables have been disaggregated on the face of the basic financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 9 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of infrastructure in governmental activities and due to the reporting of errors and omissions in the prior year in governmental activities and business-type activities.

<b><u>Governmental Activities:</u></b>	<u>Balance</u> <u>12/31/00</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/00</u>
Land	\$ 228,944	\$ (17,540)	\$ 211,404
Land improvements	439,379	-	439,379
Buildings and improvements	1,074,374	(162,021)	912,353
Furniture, fixtures and equipment	946,623	(68,721)	877,902
Vehicles	1,885,703	(222,014)	1,663,689
Infrastructure	<u>-</u>	<u>13,856,119</u>	<u>13,856,119</u>
Total	<u>\$ 4,575,023</u>	<u>\$13,385,823</u>	<u>\$ 17,960,846</u>
<b><u>Business-Type Activities:</u></b>	<u>Balance</u> <u>12/31/00</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/00</u>
Land	\$ 126,260	\$ 17,540	\$ 143,800
Land improvements	266,429	-	266,429
Buildings and improvements	12,657,916	1,575,927	14,233,843
Furniture, fixtures and equipment	14,911,755	1,762,888	16,674,643
Vehicles	505,252	222,014	727,266
Infrastructure	5,034,130	196,173	5,230,303
Construction in progress	3,888,606	-	3,888,606
Less: Accumulated depreciation	<u>(17,897,683)</u>	<u>(719,210)</u>	<u>(18,616,893)</u>
Total	<u>\$ 19,492,665</u>	<u>\$ 3,055,332</u>	<u>\$ 22,547,997</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 9 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the fiscal year ended December 31, 2001, was as follows:

	Restated Balance <u>12/31/00</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/01</u>
<b><u>Governmental Activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 211,404	\$ -	\$ -	\$ 211,404
Total capital assets, not being depreciated	<u>211,404</u>	<u>-</u>	<u>-</u>	<u>211,404</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	439,379	68,811	-	508,190
Buildings and improvements	912,353	65,988	-	978,341
Furniture, fixtures and equipment	877,902	211,623	(24,507)	1,065,018
Vehicles	1,663,689	297,188	(108,968)	1,851,909
Infrastructure	<u>13,856,119</u>	<u>1,837,675</u>	<u>-</u>	<u>15,693,794</u>
Total capital assets, being depreciated	<u>17,749,442</u>	<u>2,481,285</u>	<u>(133,475)</u>	<u>20,097,252</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(236,135)	(22,224)	-	(258,359)
Buildings and improvements	(511,524)	(11,876)	-	(523,400)
Furniture, fixtures and equipment	(546,560)	(130,551)	19,762	(657,349)
Vehicles	(883,114)	(177,484)	106,306	(954,292)
Infrastructure	<u>(2,534,621)</u>	<u>(348,199)</u>	<u>-</u>	<u>(2,882,820)</u>
Total accumulated depreciation	<u>(4,711,954)</u>	<u>(690,334)</u>	<u>126,068</u>	<u>(5,276,220)</u>
Total capital assets, being depreciated, net	<u>13,037,488</u>	<u>1,790,951</u>	<u>(7,407)</u>	<u>14,821,032</u>
Governmental activities capital assets, net	<u>\$13,248,892</u>	<u>\$1,790,951</u>	<u>\$ (7,407)</u>	<u>\$15,032,436</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 9 - CAPITAL ASSETS - (Continued)**

	Restated Balance <u>12/31/00</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/01</u>
<b><u>Business-Type Activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 143,800	\$ 12,000	\$ -	\$ 155,800
Construction in progress	<u>3,888,606</u>	<u>1,807,088</u>	<u>(2,507,648)</u>	<u>3,188,046</u>
Total capital assets, not being depreciated	<u>4,032,406</u>	<u>1,819,088</u>	<u>(2,507,648)</u>	<u>3,343,846</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	266,429	433,100	-	699,529
Buildings and improvements	14,233,843	2,507,354	-	16,741,197
Furniture, fixtures and equipment	16,674,643	325,438	-	17,000,081
Vehicles	727,266	27,140	-	754,406
Infrastructure	<u>5,230,303</u>	<u>558,561</u>	<u>-</u>	<u>5,788,864</u>
Total capital assets, being depreciated	<u>37,132,484</u>	<u>3,851,593</u>	<u>-</u>	<u>40,984,077</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(131,739)	(21,481)	-	(153,220)
Buildings and improvements	(5,292,341)	(309,730)	-	(5,602,071)
Furniture, fixtures and equipment	(11,651,620)	(772,151)	-	(12,423,771)
Vehicles	(317,711)	(28,337)	-	(346,048)
Infrastructure	<u>(1,223,482)</u>	<u>(169,805)</u>	<u>-</u>	<u>(1,393,287)</u>
Total accumulated depreciation	<u>(18,616,893)</u>	<u>(1,301,504)</u>	<u>-</u>	<u>(19,918,397)</u>
Total capital assets, being depreciated, net	<u>18,515,591</u>	<u>2,550,089</u>	<u>-</u>	<u>21,065,680</u>
Business-type activities capital assets, net	<u>\$ 22,547,997</u>	<u>\$ 4,369,177</u>	<u>\$(2,507,648)</u>	<u>\$24,409,526</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 22,486
Security of persons and property	150,900
Public health and welfare	32
Transportation	430,849
Community environment	76,385
Leisure time activity	<u>9,682</u>
Total Depreciation Expense - Governmental Activities	<u>\$690,334</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

**A. Governmental Lease**

Capital fixed assets consisting of police phone equipment have been capitalized in the amount of \$8,808. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2001 totaled \$2,705 paid by the general fund.

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 as of December 31, 2001:

<u>Fiscal Year Ending December 31</u>	<u>Amount</u>
2002	\$3,312
2003	<u>3,312</u>
Total	6,624
Less: amount representing interest	<u>(521)</u>
Present value of net minimum lease payments	<u><u>\$6,103</u></u>

**B. Proprietary Lease**

Fixed assets consisting of copier equipment have been capitalized in the Electric enterprise fund in the amount of \$4,750. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Electric enterprise fund. Principal payments in fiscal year 2001 totaled \$1,596.

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 as of December 31, 2001:

<u>Fiscal Year Ending December 31</u>	<u>Amount</u>
2002	<u>\$1,484</u>
Total	1,484
Less: amount representing interest	<u>(53)</u>
Present value of net minimum lease payments	<u><u>\$1,431</u></u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 11 - COMPENSATED ABSENCES**

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

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

**NOTE 12 - LONG-TERM OBLIGATIONS**

A. The City's governmental activities long-term compensated absences liability increased \$8,889 from \$283,122 to \$292,011 due to the implementation of GASB Interpretation No. 6 described in Note 3.A. The effect on the total governmental activities long-term obligations at January 1, 2001 was an increase from \$1,065,594 to \$1,074,483. The City's long-term obligations at year-end and a schedule of current year activity is as follows:

	Interest Rate	Restated Balance Outstanding 12/31/00	Additions	Reductions	Balance Outstanding 12/31/01	Amounts Due in One Year
<b>Governmental Activities:</b>						
<u>Special Assessment Bonds:</u>						
Shelby Avenue	5.45%	\$ 31,100	\$ -	\$ (31,100)	\$ -	\$ -
Riverview Estates	4.50%	385,000	-	(120,000)	265,000	130,000
Fox Run 5	5.60%	<u>40,000</u>	<u>-</u>	<u>(20,000)</u>	<u>20,000</u>	<u>20,000</u>
Total Special Assessment Bonds Payable		<u>\$ 456,100</u>	<u>\$ -</u>	<u>\$(171,100)</u>	<u>\$285,000</u>	<u>\$150,000</u>
<u>OPWC Notes Payable:</u>						
Wareham Road	0.0%	\$ 259,920	\$ -	\$ (16,245)	\$243,675	\$ 16,245
Auburn Street	0.0%	<u>57,644</u>	<u>-</u>	<u>(9,607)</u>	<u>48,037</u>	<u>9,607</u>
Total OPWC Notes Payable		<u>\$ 317,564</u>	<u>\$ -</u>	<u>\$(25,852)</u>	<u>\$291,712</u>	<u>\$ 25,852</u>
<u>Other Long-Term Obligations:</u>						
Capital Lease Obligation		\$ 8,808	\$ -	\$ (2,705)	\$ 6,103	\$ 2,930
Compensated Absences		<u>292,011</u>	<u>-</u>	<u>(5,363)</u>	<u>286,648</u>	<u>55,369</u>
Total Other Long-Term Obligations		<u>\$ 300,819</u>	<u>\$ -</u>	<u>\$(8,068)</u>	<u>\$292,751</u>	<u>\$ 58,299</u>
Total Governmental Activities		<u>\$ 1,074,483</u>	<u>\$ -</u>	<u>\$(205,020)</u>	<u>\$869,463</u>	<u>\$234,151</u>
<b>Business-Type Activities:</b>						
Compensated Absences		\$ 330,426	\$19,538	\$ -	\$349,964	\$ 53,483
Capital Lease Obligation		<u>3,027</u>	<u>-</u>	<u>(1,596)</u>	<u>1,431</u>	<u>1,431</u>
Total Business-Type		<u>\$ 333,453</u>	<u>\$19,538</u>	<u>\$(1,596)</u>	<u>\$351,395</u>	<u>\$ 54,914</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

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

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

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

- B.** Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2001, are as follows:

Year Ended	Special Assessment Bonds			OPWC Notes		
	Principal	Interest	Total	Principal	Interest	Total
2002	\$150,000	\$13,045	\$163,045	\$ 25,852	\$ -	\$ 25,852
2003	135,000	6,075	141,075	25,852	-	25,852
2004	-	-	-	25,852	-	25,852
2005	-	-	-	25,852	-	25,852
2006	-	-	-	25,852	-	25,852
2007 - 2011	-	-	-	81,226	-	81,226
2012 - 2016	-	-	-	81,226	-	81,226
Total	<u>\$285,000</u>	<u>\$19,120</u>	<u>\$304,120</u>	<u>\$291,712</u>	<u>\$ -</u>	<u>\$291,712</u>

**NOTE 13 - GENERAL OBLIGATION NOTES PAYABLE**

- A.** The City had the following general obligation note activity during fiscal year 2001 for Electric enterprise fund. These notes are reported as a liability in the Electric enterprise fund, the fund that received the proceeds.

	Issue Date	Maturity Date	Balance Outstanding 12/31/00	Additions	Reductions	Balance Outstanding 12/31/01
Electric System Improvements - 4.85%	12/03/00	12/03/01	\$3,600,000	\$ -	\$(3,600,000)	\$ -
Electric System Improvements - 2.3%	11/26/01	11/30/02	-	4,750,000	-	4,750,000
Total			<u>\$3,600,000</u>	<u>\$4,750,000</u>	<u>\$(3,600,000)</u>	<u>\$4,750,000</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 13 - GENERAL OBLIGATION NOTES PAYABLE - (Continued)**

**B.** On August 29, 2001, the City received proceeds of a \$50,075 general obligation note to finance various improvements throughout the City's Park. The note will be recorded as a fund liability in the Park special revenue fund, the fund receiving the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/00</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/01</u>
Park Fund						
Improvements - 6.6%	8/29/00	8/29/01	\$100,000	\$ -	\$(100,000)	\$ -
Park Fund						
Improvements - 6.27%	8/29/01	8/29/02	<u>-</u>	<u>50,075</u>	<u>-</u>	<u>50,075</u>
Total			<u>\$100,000</u>	<u>\$50,075</u>	<u>\$(100,000)</u>	<u>\$50,075</u>

**NOTE 14 - 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 2001, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits. A summary of the City's insurance coverages at December 31, 2001, follows:

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 14 - RISK MANAGEMENT - (Continued)**

The City has elected to provide a comprehensive medical benefits package through a self-insured program providing either Fee for Service (FFS) or Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Benefit Services, Inc., located in Akron, Ohio, reviews all claims for the plan which are then paid by the City. The total monthly premium paid into the internal service fund for the FFS plan is \$270.00 for single coverage and \$700.00 for family coverage and for the PPO plan is \$256.50 for single coverage and \$665.00 for family coverage. The employee's share for the FFS plan is \$13.50 for single coverage and \$35 per month for family coverage

The claims liability of \$110,769 reported in the Hospitalization internal service fund at December 31, 2001, 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, 2001 and 2000 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2001	\$104,357	\$536,610	\$(530,198)	\$110,769
2000	209,675	408,657	(513,975)	104,357

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 fiscal year 2000.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Public Employees Retirement System**

All City full-time employees, other than uniformed employees, participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system created by the State of Ohio. The PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

#### **NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2001 was 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer contribution rate for employees other than law enforcement was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations for 2001. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll; 12.40% was the portion used to fund pension obligations for 2001. The City's contributions for pension obligations to the PERS for the years ended December 31, 2001, 2000, and 1999 were \$418,376, \$309,915, and \$349,490, respectively; 71.17% has been contributed for 2001 and 100% for 2000 and 1999. \$120,633, representing the unpaid contribution for 2001, is recorded as a liability within the general fund.

#### **B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to the OP&F for the years ended December 31, 2001, 2000, and 1999 were \$261,160, \$254,895, and \$232,890, respectively; 69.73 percent has been contributed for 2001 and 100 percent for the years 2000 and 1999. \$79,052, representing the unpaid contributions for 2001, is recorded as a liability within the Police Pension and Fire Improvement special revenue funds.

#### **NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

#### **A. Public Employees Retirement System**

The PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. Health care funding is on a pay-as-you-go basis. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate for local government employers was 13.55% of covered payroll; 4.30% was the portion that was used to fund health care for the year. The law enforcement employer rate for 2001 was 16.70% of covered payroll; 4.30% was the portion used to fund health care for the year.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - (Continued)**

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to the PERS. The City's contribution actually made to fund postemployment benefits was \$135,163.

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

As of December 31, 2000 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively, at December 31, 2000 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2000 (the latest information available), was 411,076.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9.0%. The employer contribution rate for both the law enforcement and public safety divisions is 16.70%.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula than that for PERS members not covered under this division.

Additional information on the PERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2001, Comprehensive Annual Financial Report.

**B. Ohio Police and Fire Pension Fund**

The OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.0% and 7.25% of covered payroll in 2000 and 2001, respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

**NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - (Continued)**

The number of participants eligible to receive health care benefits as of December 31, 2000 (the latest information available), is 12,853 for police officers and 10,037 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$50,699 and \$40,527, respectively. OP&F's total health care expenses for the year ending December 31, 2000 (the latest information available), was \$106,160,054, which was net of member contributions of \$5,657,431.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses 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 a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

	General
Budget basis	\$ (294,073)
Net adjustment for revenue accruals	1,096,544
Net adjustment for expenditure accruals	47,914
Net adjustment for other sources/uses	(1,216,825)
Adjustment for encumbrances	142,720
GAAP basis	\$ (223,720)

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2001.

**B. Contracts**

In the year 2001, the City entered into contracts with AMP-Ohio and is committed to provide and sell power (electricity) at a marginal profit through 2010. If the City would not be able to generate the required power, it may be forced to actually buy power at a higher cost and forced to sell it at a lesser amount.

**C. Litigation**

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

**NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS**

- A. In 2002, the City was unable to obtain general liability or building and contents insurance coverage for the electric operations (both plant and distribution). As of the date of these basic financial statements, the City does not have general liability or building and contents insurance coverage for its electric operations. The City is currently taking steps to obtain insurance.
- B. In 2002, the City was notified by the Ohio Environmental Protection Agency (EPA) that, due to new rulings, the City will have to make improvements to their current sewer and water operations.

*Sewer operations:* The EPA is requesting that within forty-two months of notification, the City must attain compliance with the final effluent limitations effectively eliminating raw influent bypasses. In order to meet this EPA requirement, the City estimates that it will have to construct a retention pond at a cost of approximately \$2,000,000.

*Water operations:* The City must comply with the newly enacted Disinfectant/Disinfection Byproducts Rule. This rule deals with water treatment and effects all community public water systems that add chemicals for the purpose of disinfection and/or oxidation. In order to meet the requirements of this new rule, the City estimates that it will need to construct a new clear-well and a new water treatment plant at a cost of approximately \$6,000,000.

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**SUPPLEMENTAL DATA**

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**CITY OF SHELBY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

<b>FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>PASS-THROUGH GRANT NUMBER</b>	<b>(A) CASH FEDERAL DISBURSEMENTS</b>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT</b>			
Community Development Block Grants/State's Program	14.228	A-F-00-176-1	\$ 53,000
Community Development Block Grants/State's Program	14.228	A-C-00-176-1	79,735
Total Community Development Block Grants/State's Program			<u>132,735</u>
HOME Investment Partnership Program	14.239	A-C-00-176-2	<u>186,198</u>
<b>Total Department of Housing and Urban Development</b>			<u>318,933</u>
<b>FEDERAL HIGHWAY ADMINISTRATION PASSED THROUGH THE OHIO DEPARTMENT OF TRANSPORTATION</b>			
Highway Planning and Construction	20.205	RIC-St. Rt. 39	669,977
Highway Planning and Construction	20.205	RIC-Weber Alley	<u>21,367</u>
<b>Total Federal Highway Administration</b>			<u>691,344</u>
<b>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION PASSED THROUGH THE OHIO DEPARTMENT OF PUBLIC SAFETY</b>			
State and Community Highway Safety - Mixed Enforcement Programs	20.600	2002-PTM-N/1 1797.0	7,912
<b>PASSED THROUGH THE RICHLAND COUNTY</b>			
Safe and Community Highway Safety - Richland County Safe Communities	20.600	N/A	<u>4,992</u>
<b>Total National Highway Traffic Safety Administration</b>			<u>12,904</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,023,181</u>

(A) This schedule was prepared on a cash basis.

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# TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## **Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the basic financial statements of the City of Shelby as of and for the year ended December 31, 2001, and have issued our report thereon dated July 30, 2002. During the year ended December 31, 2001, the City of Shelby implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33, GASB 37, Basic Financial Statements for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Shelby's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2001-COS-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the City of Shelby in a separate letter dated July 30, 2002.

Members of Council and Mayor  
City of Shelby

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shelby's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City of Shelby in a separate letter dated July 30, 2002.

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

Trimble, Julian & Grube, Inc.  
July 30, 2002

# TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## **Report on Compliance With Requirements Applicable To Its Major Federal Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133***

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

### Compliance

We have audited the compliance of the City of Shelby with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. During the year ended December 31, 2001, the City of Shelby implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures. The City of Shelby's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

Members of Council and Mayor  
City of Shelby

In our opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

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

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

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

Trimble, Julian & Grube, Inc.  
July 30, 2002

**CITY OF SHELBY  
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2001**

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

**CITY OF SHELBY  
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2001**

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

Finding Number	2001-COS-001
----------------	--------------

Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that expenditures by the City were not certified in a timely manner for thirty-three percent of the expenditures tested due to purchases being made by the City's departments prior to obtaining a valid purchase order from the Finance Office.

Without timely certification, the City may expend more funds than available in the treasury and/or in the process of collection, or than funds appropriated. By not properly completing purchase orders prior to purchases being made, the City is approving the purchase after the fact. This may result in the City not being able to cancel the purchase if it was deemed unnecessary.

We recommend that all orders or contracts involving the expenditure of monies be expedited in a timely manner to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The City should consider using "Then" and "Now" certificates where applicable. Guidance on the use of these certificates is found in this code section and the Ohio Compliance Supplement published by Auditor of State. In addition, we recommend the City enforce its policy and procedures of obtaining purchase orders prior to purchasing items/services.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**CITY OF SHELBY  
RICHLAND COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315(b)  
DECEMBER 31, 2001**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2000-COS-001	Ohio Revised Code Section 5705.41(D)	No.	The City is attempting to use “Then” and “Now” certificates and receive purchase orders prior to orders being placed by City employees.

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STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF SHELBY**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 1, 2002**