

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

*FOR THE YEAR ENDED
DECEMBER 31, 2009*

ROBERT LAFFERTY, DIRECTOR OF FINANCE



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Shelby, Richland County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 27, 2010

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Federal Emergency Management Agency Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2010

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

The management's 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 year ended December 31, 2009. 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 2009 are as follows:

- The total net assets of the City decreased \$1,623,328. Net assets of governmental activities decreased \$1,372,003 or 6.24% from 2008. Net assets of business-type activities decreased \$251,325 or 0.85% from 2008.
- General revenues accounted for \$4,115,905 or 53.50% of total governmental activities revenue. Program specific revenues accounted for \$3,534,525 or 45.94% of total governmental activities revenue. Extraordinary item revenue accounted for \$42,922 or 0.56% of total governmental activities revenue.
- Governmental activities capital assets, net of related debt decreased \$344,388.
- The City had \$9,053,550 in expenses related to governmental activities; \$3,534,525 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,115,905 were not adequate to provide for these programs.
- The general fund and the Federal Emergency Management Agency fund (FEMA) are the City's only major governmental funds. The general fund had revenues of \$3,667,373 in 2009. This represents a decrease of \$159,924 or 4.18% from 2008 revenues. The expenditures and other financing uses of the general fund, which totaled \$3,911,583 in 2009, decreased \$367,063 or 8.58% from 2008. The fund balance in the general fund decreased \$243,399 to \$686,907 in 2009.
- The FEMA fund had revenues of \$1,989,395 in 2009. This represents an increase of \$1,860,519 from 2008 revenues. The expenditures of the FEMA fund, which totaled \$1,841,516 in 2009, increased \$1,608,970 from 2008. The fund balance in the FEMA fund increased \$151,665 to \$194,511 in 2009. The increased revenue and expenditure activity during 2009 was the result of increased damage relief efforts.
- Net assets for the business-type activities, which are made up of the water, sewer and electric enterprise funds, decreased in 2009 by \$251,325 or 0.85%.
- In the general fund, actual revenues and other financing sources came in \$159,392 less than they were in the original budget and actual expenditures and other financing uses were \$538,717 less than the amount in the original budget. The general fund maintained a negative variance of \$439,392 in revenues and other financing sources and a positive variance of \$553,517 in expenditures and other financing uses versus the final budgeted amounts.

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.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

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 and the FEMA fund are the City's only major governmental funds.

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 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take 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.

The City's statement of net assets and statement of activities can be found on pages 14-16 of this report.

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 funds are the general fund and the FEMA fund. The analysis of the City's major governmental and proprietary funds begins on page 9.

CITY OF SHELBY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

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 year. Such information may be useful in evaluating a government's near-term financing requirements.

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 17-22 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 23-26 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 statement can be found on page 27 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 28-57 of this report.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets at December 31, 2009 compared to December 31, 2008.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<u>Assets</u>						
Current and other assets	\$ 6,257,772	\$ 7,455,661	\$ 8,940,927	\$ 8,474,235	\$ 15,198,699	\$ 15,929,896
Capital assets, net	<u>16,913,002</u>	<u>17,434,359</u>	<u>29,288,769</u>	<u>30,176,423</u>	<u>46,201,771</u>	<u>47,610,782</u>
Total assets	<u>23,170,774</u>	<u>24,890,020</u>	<u>38,229,696</u>	<u>38,650,658</u>	<u>61,400,470</u>	<u>63,540,678</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	1,280,548	1,456,470	4,199,441	4,584,170	5,479,989	6,040,640
Other liabilities	<u>1,260,973</u>	<u>1,432,294</u>	<u>4,729,600</u>	<u>4,514,508</u>	<u>5,990,573</u>	<u>5,946,802</u>
Total liabilities	<u>2,541,521</u>	<u>2,888,764</u>	<u>8,929,041</u>	<u>9,098,678</u>	<u>11,470,562</u>	<u>11,987,442</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	15,993,811	16,338,199	22,308,954	22,542,952	38,302,765	38,881,151
Restricted	3,976,305	4,517,597	-	-	3,976,305	4,517,597
Unrestricted	<u>659,137</u>	<u>1,145,460</u>	<u>6,991,701</u>	<u>7,009,028</u>	<u>7,650,838</u>	<u>8,154,488</u>
Total net assets	<u>\$20,629,253</u>	<u>\$22,001,256</u>	<u>\$29,300,655</u>	<u>\$29,551,980</u>	<u>\$49,929,908</u>	<u>\$51,553,236</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the City's assets exceeded liabilities by \$49,929,908. At year-end, net assets were \$20,629,253 and \$29,300,655 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 75.25% of total assets. Capital assets include land, construction in progress, 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, 2009, were \$15,993,811 and \$22,308,954 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, 2009, 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, \$3,976,305 or 7.96%, 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 \$659,137 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF SHELBY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The table below shows the comparative analysis of changes in net assets for 2009 compared to 2008.

Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services and sales	\$ 854,817	\$ 844,088	\$ 15,101,179	\$ 16,381,047	\$ 15,955,996	\$ 17,225,135
Operating grants and contributions	833,173	644,968	-	-	833,173	644,968
Capital grants and contributions	1,846,535	1,582,171	181,754	2,133,061	2,028,289	3,715,232
General revenues:						
Property taxes	683,084	765,044	-	-	683,084	765,044
Income taxes	2,181,568	2,778,618	-	-	2,181,568	2,778,618
Excise taxes	372,314	413,803	62,899	37,962	435,213	451,765
Unrestricted grants	729,547	880,722	-	-	729,547	880,722
Interest	89,560	216,990	84,303	149,152	173,863	366,142
Other	59,832	77,071	58,825	71,902	118,657	148,973
Total revenues	7,650,430	8,203,475	15,488,960	18,773,124	23,139,390	26,976,599
Expenses:						
General government	1,255,068	1,426,435	-	-	1,255,068	1,426,435
Security of persons and property	3,442,212	3,287,597	-	-	3,442,212	3,287,597
Public health and welfare	327,912	336,309	-	-	327,912	336,309
Transportation	1,803,430	1,472,326	-	-	1,803,430	1,472,326
Community environment	2,074,454	895,833	-	-	2,074,454	895,833
Leisure time activity	78,525	79,656	-	-	78,525	79,656
Other	29,725	29,001	-	-	29,725	29,001
Interest and fiscal charges	42,224	52,753	-	-	42,224	52,753
Sewer	-	-	1,340,120	1,504,592	1,340,120	1,504,592
Water	-	-	1,892,294	1,744,594	1,892,294	1,744,594
Electric	-	-	12,559,221	12,492,407	12,559,221	12,492,407
Total expenses	9,053,550	7,579,910	15,791,635	15,741,593	24,845,185	23,321,503
Change in net assets						
before transfers and extraordinary item	(1,403,120)	623,565	(302,675)	3,031,531	(1,705,795)	3,655,096
Transfers	(11,805)	-	11,805	-	-	-
Extraordinary item -						
Insurance recoveries	42,922	43,384	39,545	-	82,467	43,384
Change in net assets	(1,372,003)	666,949	(251,325)	3,031,531	(1,623,328)	3,698,480
Net assets at beginning of year	22,001,256	21,334,307	29,551,980	26,520,449	51,553,236	47,854,756
Net assets at end of year	\$ 20,629,253	\$ 22,001,256	\$ 29,300,655	\$ 29,551,980	\$ 49,929,908	\$ 51,553,236

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Governmental Activities

Governmental activities net assets decreased \$1,372,003 in 2009. This decrease is primarily related to an increase in community environment expenses that was due to FEMA fund projects during 2009.

Security of persons and property, which supports the operations of the police and fire departments, accounted for \$3,442,212 or 38.02% of total governmental activities expenses of the City. These expenses were partially funded by \$349,807 in direct charges to users of the services and \$2,328 in various grants and contributions. General government expenses, which includes city council, the mayor's office, the finance department, civil service and building and zoning programs, totaled \$1,255,068 or 13.86% of total governmental activities expenses of the City. General government expenses were partially funded by \$421,103 in direct charges to users of the services.

The State and federal government contributed to the City a total of \$833,173 in operating grants and contributions and \$1,846,535 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$566,734 or 68.02% subsidized transportation programs. Of the total capital grants and contributions, \$1,845,657 or 99.95% related to community environment programs.

General revenues totaled \$4,115,905, and amounted to 53.50% of total revenues. These revenues primarily consist of property and income tax revenue of \$2,864,652, or 69.60% of total general revenues. The other primary source of general revenues is grants and entitlements not restricted to specific programs, consisting of local government and property tax reimbursed revenue, making up \$729,547 or 17.73% of the total.

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 for 2009 compared to 2008. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	2009		2008	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Expenses:				
General government	\$ 1,255,068	\$ 833,965	\$ 1,426,435	\$ 996,423
Security of persons and property	3,442,212	3,090,077	3,287,597	2,579,340
Public health and welfare	327,912	239,840	336,309	259,892
Transportation	1,803,430	1,230,562	1,472,326	(336,422)
Community environment	2,074,454	12,697	895,833	859,791
Leisure time activity	78,525	39,935	79,656	67,905
Other	29,725	29,725	29,001	29,001
Interest and fiscal charges	42,224	42,224	52,753	52,753
Total expenses	<u>\$ 9,053,550</u>	<u>\$ 5,519,025</u>	<u>\$ 7,579,910</u>	<u>\$ 4,508,683</u>

The dependence upon general revenues for governmental activities is apparent, with 60.96% and 59.48% of expenses supported through taxes and other general revenues during 2009 and 2008, respectively.

The considerable change in net cost of services in community environment is a result of increased expenditures and FEMA grant revenue related to various community rehabilitation efforts stemming from a severe flood in 2007. The considerable change in net cost of services in transportation is a result of fewer capital contributions made to the City relating to transportation projects during 2009 compared to 2008.

CITY OF SHELBY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Business-type Activities

Business-type activities include the sewer, water and electric enterprise funds. The net assets of these funds decreased \$251,325 during 2009. These programs had program revenues of \$15,282,933, general revenues of \$206,027, transfers in of \$11,805, extraordinary item revenue of \$39,545 and expenses of \$15,791,635. The decrease in net assets can be attributed to a significant decrease in charges for services revenue.

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 17) reported a combined fund balance of \$4,411,851 which is \$348,008 less than last year's total of \$4,759,859. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2009 and December 31, 2008 for all major and nonmajor governmental funds.

	<u>Fund Balance December 31, 2009</u>	<u>Fund Balance December 31, 2008</u>	<u>Increase/ (Decrease)</u>
General	\$ 686,907	\$ 930,306	\$ (243,399)
FEMA	194,511	42,846	151,665
Other nonmajor governmental funds	<u>3,530,433</u>	<u>3,786,707</u>	<u>(256,274)</u>
Total	<u>\$ 4,411,851</u>	<u>\$ 4,759,859</u>	<u>\$ (348,008)</u>

General Fund

The City's general fund balance decreased \$243,399, due primarily to decreases in intergovernmental revenue and investment income. Intergovernmental revenue decreased \$352,084 or 35.62% due to a significant decrease in estate tax receipts during 2009. Investment income decreased \$107,680 or 60.16% due to substantially declining interest rates during 2009. Tax revenue increased due to additional transfers of income tax receipts to the general fund during 2009.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

The table that follows assists in illustrating the financial activities and fund balances of the general fund.

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Revenues:			
Taxes	\$ 2,364,055	\$ 2,059,117	14.81 %
Charges for services	346,001	348,300	(0.66) %
Licenses and permits	3,670	6,530	(43.80) %
Fines and forfeitures	220,192	203,075	8.43 %
Investment income	71,296	178,976	(60.16) %
Intergovernmental	636,251	988,335	(35.62) %
Other revenues	<u>25,908</u>	<u>42,964</u>	(39.70) %
Total	<u>\$ 3,667,373</u>	<u>\$ 3,827,297</u>	(4.18) %
	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Expenditures:			
General government	\$ 938,033	\$ 1,117,903	(16.09) %
Security of persons and property	2,733,463	2,600,910	5.10 %
Transportation	<u>34,762</u>	<u>35,408</u>	(1.82) %
Total	<u>\$ 3,706,258</u>	<u>\$ 3,754,221</u>	(1.28) %

The overall decrease of general fund expenditures of \$47,963 from 2008 can be attributed to the City's effort to remain fiscally responsible.

FEMA Fund

The FEMA fund had revenues of \$1,989,395 in 2009. This represents an increase of \$1,860,519 from 2008 revenues. The expenditures of the FEMA fund, which totaled \$1,841,516 in 2009, increased \$1,608,970 from 2008. The fund balance in the FEMA fund increased \$151,665 to \$194,511 in 2009. The increased revenue and expenditure activity during 2009 was the result of increased damage relief efforts.

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.

During 2009, total actual revenues and other financing sources of \$3,653,909 were less than final budgeted revenues and other financing sources by \$439,392. The other significant change was between the final budgeted expenditures and other financing uses and actual expenditures and other financing uses. Actual expenditures and other financing uses came in \$553,517 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. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between the various enterprise funds are reported in the proprietary fund statements.

CITY OF SHELBY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Water Fund

The water fund had operating revenues of \$1,859,677 in 2009. This represents a decrease of \$78,783 from 2008 operating revenues. The operating expenses of the water fund, which totaled \$1,872,857 in 2009, increased \$244,194 from 2008. The increase in net assets for the water fund was \$102,078 or 1.17%.

Sewer Fund

The sewer fund had operating revenues of \$1,302,685 in 2009. This represents a decrease of \$7,361 from 2008 operating revenues. The operating expenses of the sewer fund, which totaled \$1,389,035 in 2009, decreased \$61,021 from 2008. The decrease in net assets for the sewer fund was \$94,776 or 1.27%.

Electric Fund

The electric fund had operating revenues of \$11,997,642 in 2009. This represents a decrease of \$1,201,377 from 2008 operating revenues. The operating expenses of the electric fund, which totaled \$12,479,163 in 2009, increased \$361,536 from 2008. The decrease in net assets for the electric fund was \$530,474 or 3.90%.

Capital Assets and Debt Administration

Capital Assets

At the end of 2009, the City had \$46,201,771 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and infrastructure. Of this total, \$16,913,002 was reported in governmental activities and \$29,288,769 was reported in business-type activities. The following table shows December 31, 2009 balances compared to December 31, 2008:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 206,050	\$ 206,050	\$ 233,440	\$ 233,440	\$ 439,490	\$ 439,490
Land improvements	450,232	487,570	1,431,934	1,524,714	1,882,166	2,012,284
Buildings and improvements	1,590,571	1,572,730	6,590,366	6,770,255	8,180,937	8,342,985
Furniture, fixtures and equipment	587,764	712,243	4,090,992	4,532,089	4,678,756	5,244,332
Vehicles	399,210	480,306	196,725	160,067	595,935	640,373
Infrastructure	13,490,465	13,975,460	16,460,646	16,955,858	29,951,111	30,931,318
Construction in progress	188,710	-	284,666	-	473,376	-
Capital assets	<u>\$ 16,913,002</u>	<u>\$ 17,434,359</u>	<u>\$ 29,288,769</u>	<u>\$ 30,176,423</u>	<u>\$ 46,201,771</u>	<u>\$ 47,610,782</u>

See Note 9 to the basic financial statements for additional information concerning the City's capital assets.

Debt Administration

At December 31, 2009 the City had \$199,322 in special assessment bonds, \$596,106 in general obligation bonds, \$264,695 in OPWC loans and \$3,786,958 in OWDA loans outstanding. Of this total, \$624,685 is due within one year and \$4,222,396 is due in more than one year.

CITY OF SHELBY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

The following table compares the bonds and loans outstanding at December 31, 2009 and December 31, 2008.

Outstanding Debt, at Year End

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Special assessment bonds:</u>		
Street improvement - Fox Run 6	\$ 13,497	\$ 26,994
Street improvement bond - Fox Run 7	<u>185,825</u>	<u>206,472</u>
Total special assessment bonds	<u>199,322</u>	<u>233,466</u>
<u>General obligation bonds:</u>		
Street improvement bond - series 2007	406,106	530,590
Fire truck - series 2008	<u>190,000</u>	<u>205,000</u>
Total general obligation bonds	<u>596,106</u>	<u>735,590</u>
<u>OPWC loan:</u>		
Wareham Road	<u>121,838</u>	<u>129,960</u>
 Total	 <u>\$ 917,266</u>	 <u>\$ 1,099,016</u>
	Business-type Activities <u>2009</u>	Business-type Activities <u>2008</u>
<u>OPWC loan:</u>		
Wastewater treatment plant expansion	<u>\$ 142,857</u>	<u>\$ 171,428</u>
<u>OWDA loans:</u>		
EQ basin	1,024,424	1,182,064
WTP upgrade	<u>2,762,534</u>	<u>2,859,979</u>
Total OWDA loans	<u>3,786,958</u>	<u>4,042,043</u>
 Total	 <u>\$ 3,929,815</u>	 <u>\$ 4,213,471</u>

The City has two special assessment bonds outstanding at December 31, 2009 in the amount of \$199,322. The City issued \$67,485 in special assessment bonds on August 17, 2005 for water and sewer improvements in the Fox Run 6 area. These bonds bear an interest rate of 2.36% and mature on December 1, 2010. The City issued \$206,472 in special assessment bonds on June 20, 2008 for water and sewer improvements in the Fox Run 7 area. These bonds bear an interest rate of 4.24% and mature on December 20, 2018. 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 general obligation bonds outstanding at December 31, 2009 in the amount of \$596,106. The City issued \$650,000 in general obligation bonds on July 27, 2007, for water and sewer improvements for street paving. These bonds bear an interest rate of 4.25% and mature on July 27, 2012. The City issued \$205,000 in general obligation bonds on October 15, 2008 for the purchase of a fire truck. This bond has an interest rate of 4.75% and matures on December 1, 2018.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

The City has two Ohio Public Works Commission (OPWC) loans outstanding at December 31, 2009 in the amount of \$121,838 in governmental activities and \$142,857 in business-type activities. The City issued \$394,200 in OPWC loans on July 7, 1997 to finance the Wareham Road Area Storm Sewer Replacement Project. This loan is scheduled to mature on July 1, 2016. During 2003, the City received \$20,435, in OPWC loans and in 2004 the City received \$66,565 from available borrowings of \$400,000, to finance the wastewater plant expansion. The remaining \$313,000 was received in 2005. The OPWC loans are interest free.

The City has two Ohio Water Development Authority (OWDA) loans outstanding at December 31, 2009. The WTP Upgrade loan has a balance of \$2,762,534 at December 31, 2009. This loan bears an interest rate of 2.75%. The EQ Basin loan has a balance of \$1,024,424 at December 31, 2009. This loan bears an interest rate of 1.00%.

Economic Outlook

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

The Technology Parkway area is creating excitement about increased business within the City. The Kehoe Center continues to grow with North Central State University doubling its enrollment to 600 with projections of another 600 in a year. This is becoming a gem for the City and will be a driving force in the future.

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

As most communities, the City had a difficult year in income tax collections. Profit tax was off substantially, but the fourth quarter improved and the City expects an increase in the coming year. Employment dropped substantially in the second and third quarters, but started an upward swing in the fourth quarter. With cost savings measures, the City withstood the decreased general fund revenues.

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

Contacting the City's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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CITY OF SHELBY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 4,087,578	\$ 5,562,672	\$ 9,650,250
Cash with fiscal agent.	135,685	-	135,685
Cash in segregated accounts	8,583	14,711	23,294
Receivables (net of allowances for uncollectibles):			
Income taxes	512,411	-	512,411
Property and other taxes	868,936	-	868,936
Accounts	515	1,494,898	1,495,413
Special assessments	26,990	-	26,990
Due from other governments	556,910	-	556,910
Accrued interest	13,302	669	13,971
Internal balances	(57,541)	57,541	-
Prepayments	51,821	226,113	277,934
Materials and supplies inventory	48,089	932,163	980,252
Investment in joint venture	-	652,160	652,160
Unamortized bond issue costs	4,493	-	4,493
Capital assets:			
Land and construction in progress.	394,760	518,106	912,866
Depreciable capital assets, net.	16,518,242	28,770,663	45,288,905
Total capital assets	<u>16,913,002</u>	<u>29,288,769</u>	<u>46,201,771</u>
Total assets	<u>23,170,774</u>	<u>38,229,696</u>	<u>61,400,470</u>
Liabilities:			
Accounts payable.	71,478	1,431,551	1,503,029
Contracts payable.	-	4,945	4,945
Retainage payable	8,583	14,711	23,294
Accrued wages and benefits	84,284	76,975	161,259
Due to other governments	189,477	98,300	287,777
Unearned revenue	773,300	-	773,300
Accrued interest payable	9,610	53,118	62,728
Claims payable	124,241	-	124,241
Notes payable.	-	3,050,000	3,050,000
Long-term liabilities:			
Due within one year	264,235	490,474	754,709
Due in more than one year.	<u>1,016,313</u>	<u>3,708,967</u>	<u>4,725,280</u>
Total liabilities	<u>2,541,521</u>	<u>8,929,041</u>	<u>11,470,562</u>
Net assets:			
Invested in capital assets, net of related debt.	15,993,811	22,308,954	38,302,765
Restricted for:			
Capital projects	1,338,055	-	1,338,055
Debt service	895,997	-	895,997
Human services programs	256,023	-	256,023
Community development projects.	821,816	-	821,816
Security of persons and property	217,790	-	217,790
Street maintenance, construction and repair.	278,295	-	278,295
Other purposes.	168,329	-	168,329
Unrestricted	<u>659,137</u>	<u>6,991,701</u>	<u>7,650,838</u>
Total net assets.	<u>\$ 20,629,253</u>	<u>\$ 29,300,655</u>	<u>\$ 49,929,908</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,255,068	\$ 421,103	\$ -	\$ -
Security of persons and property	3,442,212	349,807	1,450	878
Public health and welfare	327,912	37,238	50,834	-
Transportation	1,803,430	6,134	566,734	-
Community environment	2,074,454	34,378	181,722	1,845,657
Leisure time activity	78,525	6,157	32,433	-
Other	29,725	-	-	-
Interest and fiscal charges	42,224	-	-	-
Total governmental activities	9,053,550	854,817	833,173	1,846,535
Business-type activities:				
Sewer	1,340,120	1,298,962	-	-
Water	1,892,294	1,858,427	-	181,754
Electric	12,559,221	11,943,790	-	-
Total business-type activities	15,791,635	15,101,179	-	181,754
Total primary government	\$ 24,845,185	\$ 15,955,996	\$ 833,173	\$ 2,028,289

General revenues:

Property taxes levied for:

 General purposes

 Special revenue

Income taxes levied for:

 General purposes

 Special revenue

 Capital projects

Other taxes:

 Excise taxes

Grants and entitlements not restricted to specific programs

Investment income

Miscellaneous

Total general revenues

Transfers

Extraordinary item:

Insurance recoveries

Total general revenues, transfers and extraordinary item

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

Governmental Activities	Business-type Activities	Total
\$ (833,965)	\$ -	\$ (833,965)
(3,090,077)	-	(3,090,077)
(239,840)	-	(239,840)
(1,230,562)	-	(1,230,562)
(12,697)	-	(12,697)
(39,935)	-	(39,935)
(29,725)	-	(29,725)
(42,224)	-	(42,224)
<u>(5,519,025)</u>	<u>-</u>	<u>(5,519,025)</u>
-	(41,158)	(41,158)
-	147,887	147,887
<u>-</u>	<u>(615,431)</u>	<u>(615,431)</u>
-	(508,702)	(508,702)
<u>(5,519,025)</u>	<u>(508,702)</u>	<u>(6,027,727)</u>
242,819	-	242,819
440,265	-	440,265
1,630,905	-	1,630,905
52,800	-	52,800
497,863	-	497,863
372,314	62,899	435,213
729,547	-	729,547
89,560	84,303	173,863
59,832	58,825	118,657
<u>4,115,905</u>	<u>206,027</u>	<u>4,321,932</u>
(11,805)	11,805	-
<u>42,922</u>	<u>39,545</u>	<u>82,467</u>
<u>4,147,022</u>	<u>257,377</u>	<u>4,404,399</u>
(1,372,003)	(251,325)	(1,623,328)
<u>22,001,256</u>	<u>29,551,980</u>	<u>51,553,236</u>
<u>\$ 20,629,253</u>	<u>\$ 29,300,655</u>	<u>\$ 49,929,908</u>

CITY OF SHELBY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	<u>General</u>	<u>Federal Emergency Management Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 410,414	\$ 194,511	\$ 3,417,625	\$ 4,022,550
Cash in segregated accounts.	-	-	8,583	8,583
Receivables (net of allowance for uncollectibles):				
Income taxes	307,445	-	204,966	512,411
Property and other taxes	304,611	-	564,325	868,936
Accounts	-	-	515	515
Special assessments.	-	-	26,990	26,990
Due from other governments	299,031	-	257,879	556,910
Accrued interest	10,908	-	2,394	13,302
Prepayments.	33,192	-	18,629	51,821
Materials and supplies inventory	20,176	-	27,913	48,089
Total assets.	<u>\$ 1,385,777</u>	<u>\$ 194,511</u>	<u>\$ 4,529,819</u>	<u>\$ 6,110,107</u>
Liabilities:				
Accounts payable	\$ 31,387	\$ -	\$ 40,091	\$ 71,478
Retainage payable	-	-	8,583	8,583
Accrued wages and benefits.	69,218	-	15,066	84,284
Due to other governments.	79,109	-	110,368	189,477
Deferred revenue	265,507	-	305,627	571,134
Unearned revenue.	253,649	-	519,651	773,300
Total liabilities	<u>698,870</u>	<u>-</u>	<u>999,386</u>	<u>1,698,256</u>
Fund balances:				
Reserved for encumbrances.	34,685	43,702	76,496	154,883
Reserved for prepayments	33,192	-	18,629	51,821
Reserved for materials and supplies inventory	20,176	-	27,913	48,089
Reserved for debt service.	-	-	868,551	868,551
Unreserved, undesignated, reported in:				
General fund.	598,854	-	-	598,854
Special revenue funds	-	150,809	1,293,316	1,444,125
Capital projects funds	-	-	1,245,528	1,245,528
Total fund balances	<u>686,907</u>	<u>194,511</u>	<u>3,530,433</u>	<u>4,411,851</u>
Total liabilities and fund balances	<u>\$ 1,385,777</u>	<u>\$ 194,511</u>	<u>\$ 4,529,819</u>	<u>\$ 6,110,107</u>

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, 2009

Total governmental fund balances		\$ 4,411,851
<i>Amounts reported for governmental activities on 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.		16,913,002
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 169,993	
Property and other taxes receivable	66,480	
Special assessments receivable	26,990	
Intergovernmental receivable	295,276	
Accrued interest receivable	12,395	
Total		571,134
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of assets. The net assets of the internal service fund, including internal balances of \$57,541, are:		18,931
Unamortized premiums on bond issuances are not recognized in the funds.		(1,925)
Unamortized bond issuance costs are not recognized in the funds.		4,493
On the statement of net assets interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is accrued when due.		(9,610)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Street improvement bonds payable	605,428	
General obligation bonds payable	190,000	
OPWC loans payable	121,838	
Compensated absences payable	361,357	
Total		(1,278,623)
Net assets of governmental activities		\$ 20,629,253

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 YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	<u>Federal Emergency Management Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 1,750,362	\$ -	\$ 630,301	\$ 2,380,663
Property and other taxes	613,693	-	434,773	1,048,466
Charges for services	346,001	-	121,210	467,211
Licenses and permits	3,670	-	37,238	40,908
Fines and forfeitures	220,192	-	66,142	286,334
Intergovernmental	636,251	1,989,395	1,127,293	3,752,939
Special assessments	-	-	44,898	44,898
Investment income	71,296	-	16,036	87,332
Rental income	-	-	2,725	2,725
Contributions and donations	300	-	1,650	1,950
Other	25,608	-	40,077	65,685
Total revenues	3,667,373	1,989,395	2,522,343	8,179,111
Expenditures:				
Current:				
General government	938,033	-	191,696	1,129,729
Security of persons and property	2,733,463	-	376,938	3,110,401
Public health and welfare	-	-	325,136	325,136
Transportation	34,762	-	677,897	712,659
Community environment	-	1,841,516	402,490	2,244,006
Leisure time activity	-	-	65,756	65,756
Other	-	-	29,725	29,725
Capital outlay	-	-	722,056	722,056
Debt service:				
Principal retirement	-	-	181,750	181,750
Interest and fiscal charges	-	-	48,823	48,823
Total expenditures	3,706,258	1,841,516	3,022,267	8,570,041
Excess (deficiency) of revenues over (under) expenditures	(38,885)	147,879	(499,924)	(390,930)
Other financing sources (uses):				
Transfers in	-	-	205,325	205,325
Transfers out	(205,325)	-	-	(205,325)
Total other financing sources (uses)	(205,325)	-	205,325	-
Extraordinary item:				
Insurance recoveries	811	3,786	38,325	42,922
Net change in fund balances	(243,399)	151,665	(256,274)	(348,008)
Fund balances at beginning of year	930,306	42,846	3,786,707	4,759,859
Fund balances at end of year	\$ 686,907	\$ 194,511	\$ 3,530,433	\$ 4,411,851

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 YEAR ENDED DECEMBER 31, 2009

Net change in fund balances - total governmental funds		\$ (348,008)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.		
Capital asset additions	\$ 377,302	
Current year depreciation	<u>(840,575)</u>	
Total		(463,273)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(58,084)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(199,095)	
Property and other taxes	6,932	
Intergovernmental	(348,732)	
Special assessments	6,588	
Investment income	<u>(262)</u>	
Total		(534,569)
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		181,750
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported on the statement of activities:		
Decrease in accrued interest payable	6,887	
Amortization of bond premium	216	
Amortization of bond issue costs	<u>(504)</u>	
Total		6,599
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.		
		(9,347)
An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balance activity of \$271,847, is allocated among the governmental activities.		
		<u>(147,071)</u>
Change in net assets of governmental activities.		<u><u>\$ (1,372,003)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 1,628,571	\$ 1,908,571	\$ 1,716,604	\$ (191,967)
Property and other taxes	674,800	674,800	624,087	(50,713)
Charges for services	348,000	348,000	346,001	(1,999)
Licenses and permits	6,900	6,900	3,670	(3,230)
Fines and forfeitures	204,430	204,430	220,192	15,762
Intergovernmental	621,800	621,800	640,823	19,023
Investment income	150,000	150,000	71,128	(78,872)
Contributions and donations	-	-	300	300
Other	43,800	43,800	26,409	(17,391)
Total revenues	3,678,301	3,958,301	3,649,214	(309,087)
Expenditures:				
Current:				
General government	1,225,828	1,220,828	984,861	235,967
Security of persons and property	2,888,756	3,055,986	2,831,735	224,251
Transportation	39,763	39,763	36,464	3,299
Total expenditures	4,154,347	4,316,577	3,853,060	463,517
Excess of expenditures over revenues	(476,046)	(358,276)	(203,846)	154,430
Other financing sources (uses):				
Other financing sources	35,000	35,000	4,695	(30,305)
Transfers in	100,000	100,000	-	(100,000)
Transfers out	(295,325)	(295,325)	(205,325)	90,000
Total other financing sources (uses)	(160,325)	(160,325)	(200,630)	(40,305)
Net change in fund balance	(636,371)	(518,601)	(404,476)	114,125
Fund balance at beginning of year	544,120	544,120	544,120	-
Prior year encumbrances appropriated	132,631	132,631	132,631	-
Fund balance (deficit) at end of year	\$ 40,380	\$ 158,150	\$ 272,275	\$ 114,125

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FEDERAL EMERGENCY MANAGEMENT AGENCY
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	3,251,918	3,367,918	1,989,395	(1,378,523)
Total revenues	<u>3,251,918</u>	<u>3,367,918</u>	<u>1,989,395</u>	<u>(1,378,523)</u>
Expenditures:				
Current:				
Community environment	3,209,590	3,321,590	1,893,093	1,428,497
Total expenditures	<u>3,209,590</u>	<u>3,321,590</u>	<u>1,893,093</u>	<u>1,428,497</u>
Excess of revenues over expenditures	<u>42,328</u>	<u>46,328</u>	<u>96,302</u>	<u>49,974</u>
Other financing sources:				
Other financing sources	-	-	3,786	3,786
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,786</u>	<u>3,786</u>
Net change in fund balance	42,328	46,328	100,088	53,760
Fund balance at beginning of year	33,770	33,770	33,770	-
Prior year encumbrances appropriated	<u>16,951</u>	<u>16,951</u>	<u>16,951</u>	<u>-</u>
Fund balance at end of year	<u>\$ 93,049</u>	<u>\$ 97,049</u>	<u>\$ 150,809</u>	<u>\$ 53,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental
	Sewer	Water	Electric	Total	Activities - Internal Service Fund
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents . . .	\$ 755,218	\$ 738,046	\$ 4,069,408	\$ 5,562,672	\$ 65,028
Cash with fiscal agent	-	-	-	-	135,685
Cash in segregated accounts.	-	14,711	-	14,711	-
Receivables (net of allowance for uncollectibles):					
Accounts	104,643	224,235	1,166,020	1,494,898	-
Accrued interest.	-	-	669	669	-
Prepayments	16,392	27,783	181,938	226,113	-
Materials and supplies inventory	25,813	156,280	750,070	932,163	-
Total current assets.	<u>902,066</u>	<u>1,161,055</u>	<u>6,168,105</u>	<u>8,231,226</u>	<u>200,713</u>
Noncurrent assets:					
Investment in joint venture	-	-	652,160	652,160	-
Capital assets:					
Land and construction in progress	-	468,736	49,370	518,106	-
Depreciable capital assets, net	7,695,185	10,144,960	10,930,518	28,770,663	-
Total capital assets	<u>7,695,185</u>	<u>10,613,696</u>	<u>10,979,888</u>	<u>29,288,769</u>	<u>-</u>
Total noncurrent assets	<u>7,695,185</u>	<u>10,613,696</u>	<u>11,632,048</u>	<u>29,940,929</u>	<u>-</u>
Total assets.	<u>8,597,251</u>	<u>11,774,751</u>	<u>17,800,153</u>	<u>38,172,155</u>	<u>200,713</u>
Liabilities:					
Current liabilities:					
Accounts payable	18,791	41,807	1,370,953	1,431,551	-
Contracts payable	-	4,945	-	4,945	-
Retainage payable.	-	14,711	-	14,711	-
Accrued wages and benefits.	12,511	18,584	45,880	76,975	-
Due to other governments.	16,659	22,171	59,470	98,300	-
Claims payable	-	-	-	-	124,241
Accrued interest payable	5,122	38,783	9,213	53,118	-
Notes payable.	-	-	3,050,000	3,050,000	-
Current portion of OWDA loans	182,103	153,581	-	335,684	-
Current portion of OPWC loans	85,714	-	-	85,714	-
Current portion of compensated absences . . .	8,388	14,424	46,264	69,076	-
Total current liabilities	<u>329,288</u>	<u>309,006</u>	<u>4,581,780</u>	<u>5,220,074</u>	<u>124,241</u>
Long-term liabilities:					
OWDA loans payable	842,321	2,608,953	-	3,451,274	-
OPWC loans payable	57,143	-	-	57,143	-
Compensated absences	21,284	36,058	143,208	200,550	-
Total long-term liabilities	<u>920,748</u>	<u>2,645,011</u>	<u>143,208</u>	<u>3,708,967</u>	<u>-</u>
Total liabilities	<u>1,250,036</u>	<u>2,954,017</u>	<u>4,724,988</u>	<u>8,929,041</u>	<u>124,241</u>
Net assets:					
Invested in capital assets, net of related debt . .	6,527,904	7,851,162	7,929,888	22,308,954	-
Unrestricted.	819,311	969,572	5,145,277	6,934,160	76,472
Total net assets	<u>\$ 7,347,215</u>	<u>\$ 8,820,734</u>	<u>\$ 13,075,165</u>	<u>29,243,114</u>	<u>\$ 76,472</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				57,541	
Net assets of business-type activities				<u>\$ 29,300,655</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 YEAR ENDED DECEMBER 31, 2009

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	Activities - Internal Service Fund
Operating revenues:					
Charges for services	\$ 1,298,962	\$ 1,858,427	\$ 11,943,790	\$ 15,101,179	\$ 1,733,776
Other	3,723	1,250	53,852	58,825	26,934
Total operating revenues	<u>1,302,685</u>	<u>1,859,677</u>	<u>11,997,642</u>	<u>15,160,004</u>	<u>1,760,710</u>
Operating expenses:					
Personal services	615,100	841,906	2,123,972	3,580,978	-
Contract services	143,086	169,105	130,965	443,156	-
Materials and supplies	125,037	356,515	9,190,399	9,671,951	-
Utilities	128,082	131,574	182,674	442,330	-
Depreciation	374,098	368,432	650,043	1,392,573	-
Claims.	-	-	-	-	1,641,822
Other	3,632	5,325	201,110	210,067	-
Total operating expenses.	<u>1,389,035</u>	<u>1,872,857</u>	<u>12,479,163</u>	<u>15,741,055</u>	<u>1,641,822</u>
Operating income (loss)	<u>(86,350)</u>	<u>(13,180)</u>	<u>(481,521)</u>	<u>(581,051)</u>	<u>118,888</u>
Nonoperating revenues (expenses):					
Interest expense and fiscal charges	(8,426)	(78,301)	(118,746)	(205,473)	-
Interest revenue.	-	-	84,303	84,303	5,888
Investment in joint venture	-	-	(45,809)	(45,809)	-
Excise tax revenue	-	-	62,899	62,899	-
Excise tax expense	-	-	(71,145)	(71,145)	-
Total nonoperating revenues (expenses)	<u>(8,426)</u>	<u>(78,301)</u>	<u>(88,498)</u>	<u>(175,225)</u>	<u>5,888</u>
Net income (loss) before capital contributions and extraordinary item.	<u>(94,776)</u>	<u>(91,481)</u>	<u>(570,019)</u>	<u>(756,276)</u>	<u>124,776</u>
Capital contributions.	-	193,559	-	193,559	-
Extraordinary item - insurance recoveries	-	-	39,545	39,545	-
Changes in net assets	<u>(94,776)</u>	<u>102,078</u>	<u>(530,474)</u>	<u>(523,172)</u>	<u>124,776</u>
Net assets (deficit) at beginning of year.	<u>7,441,991</u>	<u>8,718,656</u>	<u>13,605,639</u>		<u>(48,304)</u>
Net assets at end of year.	<u>\$ 7,347,215</u>	<u>\$ 8,820,734</u>	<u>\$ 13,075,165</u>		<u>\$ 76,472</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>271,847</u>	
Changes in net assets of business-type activities				<u>\$ (251,325)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental
	Sewer	Water	Electric	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,310,420	\$ 1,882,979	\$ 12,071,461	\$ 15,264,860	\$ 1,733,776
Cash received from other operations	3,723	1,250	53,852	58,825	26,934
Cash payments for personal services	(677,757)	(837,625)	(2,162,502)	(3,677,884)	-
Cash payments for contract services	(151,348)	(140,622)	(534,355)	(826,325)	-
Cash payments for materials and supplies	(120,842)	(346,052)	(8,103,075)	(8,569,969)	-
Cash payments for utilities	(129,248)	(133,857)	(214,685)	(477,790)	-
Cash payments for claims	-	-	-	-	(1,755,051)
Cash payments for other expenses	(3,632)	(5,325)	(201,110)	(210,067)	-
Net cash provided by operating activities	<u>231,316</u>	<u>420,748</u>	<u>909,586</u>	<u>1,561,650</u>	<u>5,659</u>
Cash flows from noncapital financing activities:					
Cash received from other local taxes	-	-	65,940	65,940	-
Cash payments for excise taxes	-	-	(70,924)	(70,924)	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>(4,984)</u>	<u>(4,984)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(24,874)	(392,784)	(75,456)	(493,114)	-
Capital contributions	-	181,754	-	181,754	-
Sale of notes	-	-	3,050,000	3,050,000	-
Principal retirement	(186,211)	(97,445)	(3,420,000)	(3,703,656)	-
Interest and fiscal charges	(9,839)	(80,092)	(124,150)	(214,081)	-
Extraordinary item - insurance recoveries	-	-	39,545	39,545	-
Net cash used in capital and related financing activities	<u>(220,924)</u>	<u>(388,567)</u>	<u>(530,061)</u>	<u>(1,139,552)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	-	-	108,852	108,852	5,888
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>108,852</u>	<u>108,852</u>	<u>5,888</u>
Net increase in cash and cash equivalents	10,392	32,181	483,393	525,966	11,547
Cash and cash equivalents at beginning of year	<u>744,826</u>	<u>720,576</u>	<u>3,586,015</u>	<u>5,051,417</u>	<u>189,166</u>
Cash and cash equivalents at end of year	<u>\$ 755,218</u>	<u>\$ 752,757</u>	<u>\$ 4,069,408</u>	<u>\$ 5,577,383</u>	<u>\$ 200,713</u>

- - continued

CITY OF SHELBY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<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>	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (86,350)	\$ (13,180)	\$ (481,521)	\$ (581,051)	\$ 118,888
Adjustments:					
Depreciation	374,098	368,432	650,043	1,392,573	-
Changes in assets and liabilities:					
Decrease in materials and supplies inventory.	3,357	11,234	88,483	103,074	-
Decrease in accounts receivable	11,458	24,552	127,671	163,681	-
(Increase) in prepayments	(437)	(1,881)	(6,715)	(9,033)	-
Increase/(decrease) in accounts payable	(8,153)	7,654	570,155	569,656	-
Increase in contracts payable	-	4,945	-	4,945	-
Increase in retainage payable.	-	14,711	-	14,711	-
Increase/(decrease) in accrued wages and benefits.	(1,335)	4,376	5,465	8,506	-
Increase/(decrease) in due to other governments.	(2,111)	930	(3,158)	(4,339)	-
(Decrease) in compensated absences payable.	(59,211)	(1,025)	(40,837)	(101,073)	-
(Decrease) in claims payable	-	-	-	-	(113,229)
Net cash provided by operating activities	<u>\$ 231,316</u>	<u>\$ 420,748</u>	<u>\$ 909,586</u>	<u>\$ 1,561,650</u>	<u>\$ 5,659</u>

The water fund received \$11,805 in capital contributions from governmental funds during 2009.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF SHELBY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 183,179
Cash in segregated accounts	4,142
Receivables:	
Accrued interest.	432
	<hr/>
Total assets	<u>\$ 187,753</u>
Liabilities:	
Due to other governments	\$ 4,142
Restricted/refundable deposits.	183,611
	<hr/>
Total liabilities	<u>\$ 187,753</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1 - DESCRIPTION OF THE CITY

The City of Shelby (the "City") is a home rule municipal corporation incorporated as a City in 1921 under the laws of the State of Ohio. The City operates under its own charter and is governed by a mayor-council form of government, which was adopted on August 9, 1921.

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) 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) guidance issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply this FASB guidance. The City's significant accounting policies are described below.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

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 two insurance purchasing pools which are described in Note 13.

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

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

JOINT VENTURE WITH EQUITY INTEREST

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

Pursuant to the OMEGA JV2 agreement, the participants jointly undertook as either financing participants or non-financing participants and as either owner participants or purchaser participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the OMEGA JV2 agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility systems. The project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the financing participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net investment and its share of operating results of OMEGA JV2 are reported as \$652,160 at December 31, 2009. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2009 are:

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

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.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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 are 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.

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

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 are the City's major governmental funds:

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

Federal Emergency Management Agency fund - The federal emergency management agency fund (FEMA) accounts for financial resources intended for disaster relief efforts.

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

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 within the City.

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

Fiduciary Funds - Fiduciary fund reporting focuses on net 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. The City's agency funds account for customer deposits, utility sharing and municipal court. The customer deposit fund is deposits made by utility customers which are refunded if customers have fulfilled their obligations when they cancel their account. The utility sharing fund accounts for donations made by utility customers which are intended to help pay the utility bills of those who are unable to do so. The municipal court fund represents cash that is collected by the City's municipal court and disbursed to government agencies, including the City.

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.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 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.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2009, are recorded as deferred revenue in the governmental funds.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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

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

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.

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2009.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the item level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations at the legal level of budgetary control may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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.

G. Cash and Cash Equivalents

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

During 2009, investments were limited to nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as 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 2009, interest revenue credited to the general fund amounted to \$71,296 which includes \$61,871 assigned from other City funds.

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

The City is self-insured through a fiscal agent, Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA). The money held by the fiscal agent is presented as "cash with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OME-RESA is described in Note 13.

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 City's investment account at year end is provided in Note 4.

H. Inventories of Materials and Supplies

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

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

Inventory consists of expendable supplies held for consumption.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

I. 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 governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net 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 capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, electric distribution systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	3 - 20 years	3 - 20 years
Buildings and improvements	5 - 50 years	5 - 50 years
Furniture, fixtures and equipment	5 - 30 years	5 - 30 years
Vehicles	2 - 8 years	2 - 8 years
Infrastructure	5 - 65 years	5 - 65 years

J. Compensated Absences

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

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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.

K. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2009, 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.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

M. Interfund Activity

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

N. 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, prepayments, materials and supplies inventory and debt service as reservations of fund balance in the governmental fund financial statements.

O. 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.

P. Contributed Capital

Contributions of capital arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. The City's water fund received \$11,805 in capital contributions from governmental activities. The water fund also received \$181,754 in grants restricted to construction projects. Capital contributions are reported as revenue in the proprietary fund financial statements. Capital contributions are reported as a program revenue in the statement of activities.

Q. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of net assets restricted for income tax operations, City administrative operations and trust fund resources.

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

R. Unamortized Issuance Costs/Bond Premium and Discount

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

S. Operating Revenues and Expenses

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

T. 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. Significant damage from a severe flood in 2007 resulted in insurance recoveries during 2009 that are presented as an extraordinary item on the financial statements. There were no special items during 2009.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", and GASB Statement No. 57 "Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employers".

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the City.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the City.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the City.

GASB Statement No. 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the City.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 4 - DEPOSITS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 4 - DEPOSITS - (Continued)

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

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

A. Cash in Segregated Accounts

At December 31, 2009, the City had \$4,142 in segregated accounts for municipal court deposits, \$8,583 in segregated accounts for retainage due from governmental funds and \$14,711 in segregated accounts for retainage due from business-type funds. These accounts were covered by the FDIC or pooled collateral held by the depository institution. These amounts are not included in the City's depository balance below.

B. Cash with Fiscal Agent

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2009 was \$135,685. This amount is not included in the City's depository balance below.

C. Deposits with Financial Institutions

At December 31, 2009, the carrying amount of all City deposits was \$9,833,429. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2009, \$7,047,635 of the City's bank balance of \$9,877,465 was exposed to custodial risk as discussed below, while \$2,829,830 was covered by the FDIC.

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

D. Investments

The City had no investments at December 31, 2009.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 4 - DEPOSITS - (Continued)

E. Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets and the Statement of Fiduciary Net Assets

The following is a reconciliation of cash and cash equivalents as reported in the note above to cash and cash equivalents as reported on the statement of net assets and the statement of fiduciary net assets as of December 31, 2009:

Cash and cash equivalents per note

Carrying amount of deposits	\$ 9,833,429
Cash in segregated accounts	27,436
Cash with fiscal agent	<u>135,685</u>
Total	<u>\$ 9,996,550</u>

Cash and cash equivalents per statement of net assets and statement of fiduciary net assets

Governmental activities	\$ 4,231,846
Business-type activities	5,577,383
Agency funds	<u>187,321</u>
Total	<u>\$ 9,996,550</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2009, consisted of the following, as reported on the fund statements:

Transfers from the general fund to:

Nonmajor governmental funds	<u>\$ 205,325</u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide statements.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Beginning in calendar year 2009 tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property tax collections in calendar year 2009 represent delinquent collections.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2009-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2009 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2009 was \$5.60 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Property

Residential/Agricultural	\$ 105,577,620
Commercial/Industrial/Mineral	30,186,070
Tangible Personal Property	8,712,427

Public Utility

Real	32,770
Personal	<u>769,680</u>

Total Assessed Value	<u><u>\$ 145,278,567</u></u>
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CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 7 - LOCAL INCOME TAX

The City levies a municipal income tax of 1.25% 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 are required to pay their estimated tax quarterly and file a declaration annually. Income tax receipts are recorded by the City as determined by the City ordinance. Income tax revenue is credited to multiple funds and totaled \$2,380,663 in 2009.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2009, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest 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.

A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Income taxes	\$ 512,411
Real and other taxes	868,936
Accounts	515
Special assessments	26,990
Due from other governments	556,910
Accrued interest	13,302

Business-type activities:

Accounts	1,494,898
Accrued interest	669

Receivables have been disaggregated on the face of the basic financial statements. All receivables, except for special assessments which are collected over the life of the assessment, are expected to be collected within the subsequent year.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 is as follows:

	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 206,050	\$ -	\$ -	\$ 206,050
Construction in progress	<u>-</u>	<u>188,710</u>	<u>-</u>	<u>188,710</u>
Total capital assets, not being depreciated	<u>206,050</u>	<u>188,710</u>	<u>-</u>	<u>394,760</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,044,729	10,619	-	1,055,348
Buildings and improvements	2,526,684	120,140	(67,843)	2,578,981
Furniture, fixtures and equipment	1,762,515	50,618	(95,116)	1,718,017
Vehicles	1,726,611	7,215	-	1,733,826
Infrastructure	<u>19,632,026</u>	<u>-</u>	<u>-</u>	<u>19,632,026</u>
Total capital assets, being depreciated	<u>26,692,565</u>	<u>188,592</u>	<u>(162,959)</u>	<u>26,718,198</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(557,159)	(47,957)	-	(605,116)
Buildings and improvements	(953,954)	(94,364)	59,908	(988,410)
Furniture, fixtures and equipment	(1,050,272)	(124,948)	44,967	(1,130,253)
Vehicles	(1,246,305)	(88,311)	-	(1,334,616)
Infrastructure	<u>(5,656,566)</u>	<u>(484,995)</u>	<u>-</u>	<u>(6,141,561)</u>
Total accumulated depreciation	<u>(9,464,256)</u>	<u>(840,575)</u>	<u>104,875</u>	<u>(10,199,956)</u>
Total capital assets, being depreciated, net	<u>17,228,309</u>	<u>(651,983)</u>	<u>(58,084)</u>	<u>16,518,242</u>
Governmental activities capital assets, net	<u>\$ 17,434,359</u>	<u>\$ (463,273)</u>	<u>\$ (58,084)</u>	<u>\$ 16,913,002</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 9 - CAPITAL ASSETS - (Continued)

	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 233,440	\$ -	\$ -	\$ 233,440
Construction in progress	<u>-</u>	<u>284,666</u>	<u>-</u>	<u>284,666</u>
Total capital assets, not being depreciated	<u>233,440</u>	<u>284,666</u>	<u>-</u>	<u>518,106</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,982,786	-	-	1,982,786
Buildings and improvements	11,569,658	79,300	-	11,648,958
Furniture, fixtures and equipment	26,592,509	70,864	-	26,663,373
Vehicles	1,246,392	68,830	-	1,315,222
Infrastructure	<u>22,810,318</u>	<u>1,259</u>	<u>-</u>	<u>22,811,577</u>
Total capital assets, being depreciated	<u>64,201,663</u>	<u>220,253</u>	<u>-</u>	<u>64,421,916</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(458,072)	(92,780)	-	(550,852)
Buildings and improvements	(4,799,403)	(259,189)	-	(5,058,592)
Furniture, fixtures and equipment	(22,060,420)	(511,961)	-	(22,572,381)
Vehicles	(1,086,325)	(32,172)	-	(1,118,497)
Infrastructure	<u>(5,854,460)</u>	<u>(496,471)</u>	<u>-</u>	<u>(6,350,931)</u>
Total accumulated depreciation	<u>(34,258,680)</u>	<u>(1,392,573)</u>	<u>-</u>	<u>(35,651,253)</u>
Total capital assets, being depreciated, net	<u>29,942,983</u>	<u>(1,172,320)</u>	<u>-</u>	<u>28,770,663</u>
Business-type activities capital assets, net	<u>\$ 30,176,423</u>	<u>\$ (887,654)</u>	<u>\$ -</u>	<u>\$ 29,288,769</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 34,849
Security of persons and property	118,051
Public health and welfare	2,259
Transportation	600,580
Community environment	74,445
Leisure time activity	<u>10,391</u>
Total depreciation expense - governmental activities	<u>\$ 840,575</u>

Business-type activities:

Sewer	\$ 374,098
Water	368,432
Electric	<u>650,043</u>
Total depreciation expense - business-type activities	<u>\$ 1,392,573</u>

NOTE 10 - COMPENSATED ABSENCES

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - LONG-TERM OBLIGATIONS

A. The following activity occurred in the City's long-term obligations during 2009:

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		12/31/08			12/31/09	One Year
Governmental activities:						
<u>Special assessment bonds payable:</u>						
Street improvement - Fox Run 6	2.36%	\$ 26,994	\$ -	\$ (13,497)	\$ 13,497	\$ 13,497
Street improvement - Fox Run 7	4.24%	206,472	-	(20,647)	185,825	20,647
Total special assessment bonds payable		233,466	-	(34,144)	199,322	34,144
<u>General obligation bonds payable:</u>						
Street improvement - series 2007	4.25%	530,590	-	(124,484)	406,106	129,775
Fire truck - series 2008	4.75%	205,000	-	(15,000)	190,000	15,000
Total general obligation bonds payable		735,590	-	(139,484)	596,106	144,775
<u>OPWC loan payable:</u>						
Wareham Road	0.00%	129,960	-	(8,122)	121,838	24,368
<u>Other long-term obligations:</u>						
Compensated absences		355,313	101,470	(95,426)	361,357	60,948
Total governmental activities		\$ 1,454,329	\$ 101,470	\$ (277,176)	1,278,623	\$ 264,235
Add: Premium on general obligation bonds					1,925	
Total on statement of net assets					\$ 1,280,548	
Business-type activities:						
<u>OPWC loan payable:</u>						
Wastewater treatment plant expansion	0.00%	\$ 171,428	\$ -	\$ (28,571)	\$ 142,857	\$ 85,714
<u>OWDA loans payable:</u>						
EQ basin	1.00%	1,182,064	-	(157,640)	1,024,424	182,103
WTP upgrade	2.75%	2,859,979	-	(97,445)	2,762,534	153,581
Total OWDA loans payable		4,042,043	-	(255,085)	3,786,958	335,684
<u>Other long-term liabilities:</u>						
Compensated absences		370,699	32,576	(133,649)	269,626	69,076
Total business-type activities		\$ 4,584,170	\$ 32,576	\$ (417,305)	\$ 4,199,441	\$ 490,474

Special assessment bonds - Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. The following are the City's special assessment bonds:

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Street improvement bond - Fox Run 6: The bond was issued on August 17, 2005, for the purpose of financing the cost of water sewer and pavement improvements in the Fox Run 6 area under authority of the Ohio Revised Code. This bond bears an interest rate of 2.36% and is being retired from the special assessment bond retirement fund, a nonmajor governmental fund. This bond matures on December 1, 2010.

Street improvement bond - Fox Run 7: The bond was issued on June 20, 2008 for the purpose of financing the cost of water, sewer and pavement improvements in the Fox Run 7 area under authority of the Ohio Revised Code. The bond proceeds have been recorded in the Fox Run 7 fund, a nonmajor governmental fund. The bond proceeds were used to retire the bond anticipation note discussed below. This bond bears an interest rate of 4.24% and matures on December 20, 2018. The bond is being retired from the special assessment bond retirement fund, a nonmajor governmental fund.

General obligation bonds payable - General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. The following are the City's general obligation bonds:

Street improvement bond - series 2007: The bond was issued on July 27, 2007 to finance the cost of making improvements to streets, alleys, catch basins and sidewalks within the City. The bond bears an interest rate of 4.25% and matures on July 27, 2012. The source of payment of this bond is from a portion of the 1/4 percent income tax levy approved by voters on May 6, 2006. This bond is being paid from the streets, alleys and basin rehab fund, a nonmajor governmental fund.

Fire truck bond - series 2008: The bond was issued on October 15, 2008 to finance the purchase of a new fire truck. This bond was issued through the Ohio Capital Asset Financing Program, whereby participating political subdivisions of the State combine several bond issues into one issue. The City is only obligated for its "fractionalized interest" in the bond issue, which is the proportionate share of the aggregate bond issue. For the City this amounts to \$205,000. This bond bears an interest rate of 4.75% and matures on December 1, 2018. Payment of this bond will be made from the fire equipment fund, a nonmajor governmental fund.

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

OWDA loans payable - The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable from water and sewer operating revenues. The loan agreements function similar to a line-of-credit agreement. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. The EQ basin and water treatment plant upgrade projects financed through OWDA loans are closed out as of December 31, 2009.

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2009, are as follows:

<u>Year Ended</u>	<u>Street Improvement Bonds</u>			<u>OPWC Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 34,144	\$ 8,225	\$ 42,369	\$ 24,368	\$ -	\$ 24,368
2011	20,647	6,801	27,448	16,245	-	16,245
2012	20,648	5,924	26,572	16,245	-	16,245
2013	20,647	5,066	25,713	16,245	-	16,245
2014	20,647	4,159	24,806	16,245	-	16,245
2015 - 2018	82,589	7,891	90,480	32,490	-	32,490
Total	<u>\$ 199,322</u>	<u>\$ 38,066</u>	<u>\$ 237,388</u>	<u>\$ 121,838</u>	<u>\$ -</u>	<u>\$ 121,838</u>

<u>Year Ended</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 144,775	\$ 26,323	\$ 171,098
2011	155,291	20,094	175,385
2012	161,040	13,444	174,484
2013	20,000	6,550	26,550
2014	20,000	5,450	25,450
2015 - 2018	95,000	11,900	106,900
Total	<u>\$ 596,106</u>	<u>\$ 83,761</u>	<u>\$ 679,867</u>

Principal and interest requirements to retire business-type long-term obligations outstanding at December 31, 2009, are as follows:

<u>Year Ended</u>	<u>OPWC Loan</u>			<u>OWDA Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 85,714	\$ -	\$ 85,714	\$ 335,684	\$ 85,911	\$ 421,595
2011	57,143	-	57,143	401,430	78,226	479,656
2012	-	-	-	409,295	70,359	479,654
2013	-	-	-	417,346	62,308	479,654
2014	-	-	-	425,588	54,067	479,655
2015-2019	-	-	-	1,377,577	157,178	1,534,755
2020-2021	-	-	-	420,038	11,603	431,641
Total	<u>\$ 142,857</u>	<u>\$ -</u>	<u>\$ 142,857</u>	<u>\$ 3,786,958</u>	<u>\$ 519,652</u>	<u>\$ 4,306,610</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2009, the City's total debt margin was \$15,200,411 and the unvoted debt margin was \$7,779,610.

NOTE 12 - NOTES PAYABLE

The City had the following general obligation note activity during 2009 for electric enterprise fund. These notes are reported as a liability in the electric enterprise fund.

	<u>Issue</u>	<u>Maturity</u>	<u>Balance</u>			<u>Balance</u>
	<u>Date</u>	<u>Date</u>	<u>Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u>
			<u>12/31/08</u>			<u>12/31/09</u>
Electric system						
improvements - 3.25%	11/13/08	11/12/09	\$ 3,420,000	\$ -	\$ (3,420,000)	\$ -
Electric system						
improvements - 2.25%	11/13/09	11/12/10	<u>-</u>	<u>3,050,000</u>	<u>-</u>	<u>3,050,000</u>
Total			<u>\$ 3,420,000</u>	<u>\$ 3,050,000</u>	<u>\$ (3,420,000)</u>	<u>\$ 3,050,000</u>

NOTE 13 - 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 2009, 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.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 13 - RISK MANAGEMENT - (Continued)

A summary of the City's insurance coverage at December 31, 2009, follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>	
EMC Insurance Co.	Property	\$1,000	
	General Liability	1,000	
	Inland Marine	1,000	
	Errors 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	
EMC Insurance Co.	Automobile	1,000	Comprehensive
		1,000	Collision
EMC Insurance Co.	Steam Boiler	5,000	Water Plant
		1,000	All Other

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Employee Benefit Management Corp, located in Dublin, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is \$694.02 for single coverage and \$1,528.37 for family coverage.

The claims liability of \$124,241 reported in the hospitalization internal service fund at December 31, 2009, 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, 2009 and 2008 were as follows:

Year	Beginning of Year	Claims	Payments	End of Year
2009	\$ 237,470	\$ 1,641,822	\$ (1,755,051)	\$ 124,241
2008	228,784	1,512,079	(1,503,393)	237,470

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 2008.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2009 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.10%. The City's contribution rate for 2009 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63% of covered payroll.

The City's contribution rate for pension benefits for 2009 was 7.00% from January 1 through March 31, 2009 and 8.50% from April 1 through December 31, 2009, except for those plan members in law enforcement and public safety. For those classifications, pension contributions were 10.63% from January 1 through March 31, 2009 and 12.13% from April 1 through December 31, 2009. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008 and 2007 were \$277,005, \$231,166 and \$269,634, respectively; 91.38% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

B. Ohio Police and Fire Pension Fund

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 14 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2009, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$110,256 and \$119,498 for the year ended December 31, 2009, \$110,752 and \$122,031 for the year ended December 31, 2008 and \$108,187 and \$116,271 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72.60% has been contributed for police and firefighters for 2009.

NOTE 15 - POSTEMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but not does mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14.00% of covered payroll (17.63% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for 2009 was 7.00% from January 1 through March 31, 2009 and 5.50% from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 15 - POSTEMPLOYMENT BENEFIT PLANS - (Continued)

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008 and 2007 were \$202,073, \$231,166 and \$180,125, respectively; 91.38% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 15 - POSTEMPLOYMENT BENEFIT PLANS - (Continued)

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$58,371 and \$46,760 for the year ended December 31, 2009, \$58,634 and \$47,751 for the year ended December 31, 2008 and \$57,275 and \$45,497 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72.60% has been contributed for police and firefighters for 2009.

NOTE 16 - 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 statements of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund and the FEMA fund are 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 and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures/expenses and other financing uses 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.

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 and the FEMA fund.

Net Change in Fund Balance

	General	FEMA
Budget basis	\$ (404,476)	\$ 100,088
Net adjustment for revenue accruals	18,159	-
Net adjustment for expenditure accruals	8,663	7,875
Net adjustment for other financing sources/(uses)	(3,884)	-
Adjustment for encumbrances	138,139	43,702
GAAP basis	\$ (243,399)	\$ 151,665

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 17 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2009.

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 for which the City's legal counsel anticipates a loss.

NOTE 18 - COMPLIANCE

Ohio Revised Code Section 5705.36(A)(4) states appropriations should not exceed actual available resources. Appropriations exceeded actual available resources in the following funds: general \$281,242 and FEMA \$1,277,688.

CITY OF SHELBY, OHIO

Single Audit Reports

December 31, 2009

CITY OF SHELBY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

<u>Federal Grantor/Pass - Through Grantor, Program Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA</u>	<u>Receipts</u>	<u>Disbursements</u>
United States Department of Housing Urban Development				
Passed Through Ohio Housing and Community Partnerships: Home Investment Partnerships Program	A-C-09-176	14.239	16,000	23,605
			<u>16,000</u>	<u>23,605</u>
United States Department of Justice- Office of Justice Program				
Direct Funding				
Bullet Proof Vest Grant	NA	16.607	878	5,113
			<u>878</u>	<u>5,113</u>
United States Department of Homeland Security				
Passed Through Department of Public Safety, Ohio Emergency Management Agency: Hazard Mitigation Grant	FEMA-1700-OH	97.039	1,746,902	1,603,112
Direct Funding: Assistance to Firefighters	NA	97.044	4,000	4,000
			<u>1,750,902</u>	<u>1,607,112</u>
TOTALS			<u><u>\$1,767,780</u></u>	<u><u>\$1,635,830</u></u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated June 28, 2010.

This report is intended solely for the information and use of management, the Auditor of State, City Council, 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Shelby, Ohio (the City) 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 programs for the year ended December 31, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the City 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's internal control over compliance with requirements that could have a direct and material effect on a 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2009, and have issued our report thereon date June 28, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Auditor of State, City Council, 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2010

**CITY OF SHELBY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009**

Section I – Summary of Auditor’s Results

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any material reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were the any other significant control deficiencies reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under Section .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (list):</i>	FEMA - Hazard Mitigation Grant Program CFDA# 97.039
<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

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

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Audit Findings and Questioned Costs

None



Mary Taylor, CPA
Auditor of State

CITY OF SHELBY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 9, 2010**