

CITY OF SHELBY
BASIC
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2002

LARRY PAXTON, FINANCE DIRECTOR



**Auditor of State
Betty Montgomery**

Mayor and Members of City Council
City of Shelby

We have reviewed the Independent Auditor's Report of the City of Shelby, Richland County, prepared by Trimble, Julian & Grube, Inc. for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 15, 2003

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CITY OF SHELBY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio, (the “City”), as of and for the year ended December 31, 2002, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Richland County, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof 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 13, 2003 on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
June 13, 2003

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 UNAUDITED

The discussion and analysis of the City of Shelby's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2002. 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 2002 are as follows:

- The total net assets of the City increased \$693,410. Net assets of governmental activities decreased \$820,025 or 3.90% below fiscal year 2001.
- General revenues accounted for \$5,180,185 or 82.57% of total governmental activities revenue. Program specific revenues accounted for \$1,093,830 or 17.43% of total governmental activities revenue.
- Governmental activities capital assets, net-decreased \$52,469.
- The City had \$5,923,221 in expenses related to governmental activities; \$1,093,830 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,829,391 was offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,180,185.
- The general fund, the City's only major governmental fund, had revenues of \$3,333,993 in 2002. This represents an increase of \$323,037 or 10.73% from 2001 revenues. The expenditures of the general fund, which totaled \$2,936,475 in 2002, increased \$192,673 from 2001. Also, the general fund's operating transfers out decreased by \$13,708 in 2002. The fund balance in the general fund decreased from \$964,200 in 2001 to \$883,054 in 2002.
- Net assets for the business-type activities, which are made up of the Water, Sewer and Electric enterprise funds, increased in 2002 by \$1,513,435 or 5.92%. This increase in net assets was due primarily to the addition of capital assets.
- In the general fund, the actual revenues came in \$150,477 higher than they were originally budgeted and actual expenditures were \$96,989 less than the amount in the original budget. The general fund also maintained a positive variance of \$64,821 in revenues and \$219,289 in expenditures versus the final budgeted amounts. These positive variances are the result of the City's conservative budgeting.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. The general fund is the City's only major governmental fund.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 UNAUDITED

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2002?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 UNAUDITED

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

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major fund, which was identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 14-18 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 water, sewer and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 19-22 of this report.

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-51 of this report.

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 for 2002 compared to 2001.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<u>Assets</u>						
Current and other assets	\$ 7,500,388	\$ 8,267,581	\$ 7,617,475	\$ 6,868,156	\$ 15,117,863	\$ 15,135,737
Capital assets	<u>14,979,967</u>	<u>15,032,436</u>	<u>24,792,928</u>	<u>24,409,526</u>	<u>39,772,895</u>	<u>39,441,962</u>
Total assets	<u>22,480,355</u>	<u>23,300,017</u>	<u>32,410,403</u>	<u>31,277,682</u>	<u>54,890,758</u>	<u>54,577,699</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	695,389	869,463	355,753	351,395	1,051,142	1,220,858
Other liabilities	<u>1,599,696</u>	<u>1,425,259</u>	<u>4,993,267</u>	<u>5,378,339</u>	<u>6,592,963</u>	<u>6,803,598</u>
Total liabilities	<u>2,295,085</u>	<u>2,294,722</u>	<u>5,349,020</u>	<u>5,729,734</u>	<u>7,644,105</u>	<u>8,024,456</u>
<u>Net Assets</u>						
Invested in capital assets,						
net of related debt	14,575,934	14,449,621	24,792,928	24,409,526	39,368,862	38,859,147
Restricted	4,941,085	5,252,571	-	-	4,941,085	5,252,571
Unrestricted	<u>668,251</u>	<u>1,303,103</u>	<u>2,268,455</u>	<u>1,138,422</u>	<u>2,936,706</u>	<u>2,441,525</u>
Total net assets	<u>\$20,185,270</u>	<u>\$21,005,295</u>	<u>\$27,061,383</u>	<u>\$25,547,948</u>	<u>\$47,246,653</u>	<u>\$46,553,243</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2002, the City's assets exceeded liabilities by \$47,246,653. At year-end, net assets were \$20,185,270 and \$27,061,383 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 72.46% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2002, was \$14,575,934 and \$24,792,928 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, 2002, 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 governmental net assets, \$4,941,085 or 24.48%, 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 \$668,251 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the comparative analysis of changes in net assets for fiscal year 2002 compared to 2001.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:						
Program revenues:						
Charges for services and sales	\$ 689,109	\$ 730,422	\$ 11,989,813	\$ 10,486,703	\$ 12,678,922	\$ 11,217,125
Operating grants and contribution:	340,381	654,416	-	-	340,381	654,416
Capital grants and contributions	64,340	1,297,351	-	-	64,340	1,297,351
General revenues:						
Property taxes	1,311,672	765,949	-	-	1,311,672	765,949
Income taxes	3,075,317	2,597,892	-	-	3,075,317	2,597,892
Excise taxes	-	-	439,088	280,174	439,088	280,174
Unrestricted grants	656,772	1,065,647	-	-	656,772	1,065,647
Interest	54,449	151,582	59,103	147,153	113,552	298,735
Other	81,975	151,693	39,092	448,948	121,067	600,641
Total revenues	<u>6,274,015</u>	<u>7,414,952</u>	<u>12,527,096</u>	<u>11,362,978</u>	<u>18,801,111</u>	<u>18,777,930</u>
Expenses:						
General government	1,413,349	1,247,942	-	-	1,413,349	1,247,942
Security of persons and property	2,613,201	2,516,016	-	-	2,613,201	2,516,016
Public health and welfare	303,871	261,171	-	-	303,871	261,171
Transportation	1,069,234	1,217,891	-	-	1,069,234	1,217,891
Community environment	420,554	548,795	-	-	420,554	548,795
Leisure time activity	84,124	78,296	-	-	84,124	78,296
Other	3,867	797	-	-	3,867	797
Interest and fiscal charges	15,021	27,691	-	-	15,021	27,691
Investment in joint venture	-	-	57,120	-	57,120	-
Sewer	-	-	940,306	830,628	940,306	830,628
Water	-	-	1,334,325	1,282,883	1,334,325	1,282,883
Electric	-	-	9,852,729	8,702,093	9,852,729	8,702,093
Total expenses	<u>5,923,221</u>	<u>5,898,599</u>	<u>12,184,480</u>	<u>10,815,604</u>	<u>18,107,701</u>	<u>16,714,203</u>
Increase in net assets before transfers and capital contributions	350,794	1,516,353	342,616	547,374	693,410	2,063,727
Transfers	(90,000)	(510,000)	90,000	510,000	-	-
Capital contributions	<u>(1,080,819)</u>	<u>-</u>	<u>1,080,819</u>	<u>683,548</u>	<u>-</u>	<u>683,548</u>
Increase/(decrease) in net assets	<u>\$ (820,025)</u>	<u>\$ 1,006,353</u>	<u>\$ 1,513,435</u>	<u>\$ 1,740,922</u>	<u>\$ 693,410</u>	<u>\$ 2,747,275</u>

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Governmental Activities

Governmental activities net assets decreased \$820,025 in 2002. This decrease is a result of decreasing revenues and increasing expenses. In 2001, capital contributions made from governmental funds were included in expenses, therefore 2001 expenses before contributions were \$5,215,051. The most significant decrease in revenues is due to a decrease in grant revenues for CDBG from 2001 to 2002 and a decrease in local government revenues due to the state freezing these funds.

Security of persons and property, which supports the operations of the police and fire department accounts for \$2,613,201 or 44.12% of total expenses of the City. These expenses were partially funded by \$447,146 in direct charges to users of the services. General government expenses, which includes city council, the mayor's office, the finance department, civil service and building and zoning programs, totaled \$1,413,349 or 23.86% of total expenses. General government expenses were partially funded by \$171,954 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$340,381 in operating grants and contributions and \$64,340 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$308,554 or 90.65%, subsidized transportation programs.

General revenues totaled \$5,180,185, and amounted to 82.57% of total revenues. These revenues primarily consist of property and income tax revenue of \$4,386,989, or 84.69% of total general revenues. Property taxes increased 71.25% during 2002 despite a decline in the economy. The 2001 property taxes have been restated to properly reflect tax revenue for the year (this restatement had no effect on net assets at December 31, 2001). This increase is due in part to the increase in Kilowatt hour taxes received in 2002 since this tax was implemented during 2001 and taxes were only received for half of the 2001 fiscal year. In addition, the City received a reimbursement of taxes from the State based on Senate Bills 3 and 287. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$571,270 or 86.98% 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 2002 compared to 2001. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	<u>2002</u>		<u>2001</u>	
	<u>Total Cost of</u>	<u>Net Cost of</u>	<u>Total Cost of</u>	<u>Net Cost of</u>
	<u>Services</u>	<u>Services</u>	<u>Services</u>	<u>Services</u>
Expenses:				
General government	\$ 1,413,349	\$ 1,241,395	\$ 1,247,942	\$ 1,052,583
Security of persons and property	2,613,201	2,141,488	2,516,016	2,006,175
Public health and welfare	303,871	280,123	261,171	230,991
Transportation	1,069,234	760,080	1,217,891	214,691
Community environment	420,554	326,979	548,795	(369,315)
Leisure time activity	84,124	68,354	78,296	62,991
Other	3,867	(4,049)	797	(450)
Interest and fiscal charges	<u>15,021</u>	<u>15,021</u>	<u>27,691</u>	<u>18,744</u>
Total expenses	<u>\$ 5,923,221</u>	<u>\$ 4,829,391</u>	<u>\$ 5,898,599</u>	<u>\$ 3,216,410</u>

The dependence upon general revenues for governmental activities is apparent, with 81.53% and 54.53% of expenses supported through taxes and other general revenues during 2002 and 2001, respectively.

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Business-Type Activities

Business-type activities include the Water, Sewer and Electric enterprise funds. These programs had program revenues of \$11,989,813, general revenues of \$537,283 and expenses of \$12,184,480 for fiscal year 2002. The Electric fund received a \$90,000 operating transfer in from the general fund. The Sewer and Water fund received \$488,819 and \$592,000, respectively, in capital contributions from other funds.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$5,087,147 which is \$442,502 below last year's total of \$5,529,649. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2002 for all major and nonmajor governmental funds.

	<u>Fund Balance</u> <u>December 21, 2002</u>	<u>Fund Balance</u> <u>December 21, 2001</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 883,054	\$ 964,200	\$ (81,146)
Other Nonmajor Governmental Funds	<u>4,204,093</u>	<u>4,565,449</u>	<u>(361,356)</u>
Total	<u>\$ 5,087,147</u>	<u>\$ 5,529,649</u>	<u>\$ (442,502)</u>

General Fund

The City's general fund balance decreased \$81,146. The decrease in fund balance can be attributed to operating transfers out to other funds of \$479,900 coupled with a 7.02% increase in total expenditures primarily in the areas of salaries, wages and fringe benefits. These expenditure increases were partially offset by an increase in revenues. The tables that follow assist in illustrating the financial activities of the general fund.

	<u>2002</u>	<u>2001</u>	<u>Percent</u> <u>Change</u>
Revenues			
Taxes	\$ 2,135,691	\$ 1,702,277	25.46%
Charges for services	256,000	328,000	(21.95)
Licenses and permits	14,420	14,515	(0.65)
Fines and forfeitures	251,868	222,768	13.06
Investment income	50,410	139,165	(63.78)
Intergovernmental	573,792	545,877	5.11
Other revenues	<u>51,812</u>	<u>58,354</u>	<u>(11.21)</u>
Total	<u>\$ 3,333,993</u>	<u>\$ 3,010,956</u>	<u>10.73%</u>

CITY OF SHELBY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

	<u>2002</u>	<u>2001</u>	<u>Percentage Change</u>
Expenditures			
General government	\$ 955,826	\$ 906,376	5.46%
Security of persons and property	1,977,337	1,834,114	7.81
Principal retirement and interest	<u>3,312</u>	<u>3,312</u>	-
Total	<u>\$ 2,936,475</u>	<u>\$ 2,743,802</u>	<u>7.02%</u>

Budgeting Highlights - General Fund

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

Budgetary information is presented for the general fund, the City's only major governmental fund. In the general fund one of the most significant changes was between the original and final budgeted amount in the area of revenues, which increased \$85,656 or 4.81% from \$1,779,721 to \$1,865,377. Total actual revenues of \$1,930,198 exceeded final budgeted revenues by \$64,821. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$219,289 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2002, the City had \$39,772,895 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles, infrastructure and construction in progress. Of this total, \$14,979,967 was reported in governmental activities and \$24,792,928 was reported in business-type activities. The following table shows fiscal 2002 balances compared to 2001:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 211,404	\$ 211,404	\$ 155,800	\$ 155,800	\$ 367,204	\$ 367,204
Land improvements	358,634	249,831	532,059	546,309	890,693	796,140
Buildings and improvements	567,359	454,941	12,925,301	11,139,126	13,492,660	11,594,067
Furniture, fixtures and equipment	370,018	407,669	4,136,929	4,576,310	4,506,947	4,983,979
Vehicles	730,755	897,617	595,607	408,358	1,326,362	1,305,975
Infrastructure	12,741,797	12,810,974	5,333,502	4,395,577	18,075,299	17,206,551
Construction in progress	<u>-</u>	<u>-</u>	<u>1,113,730</u>	<u>3,188,046</u>	<u>1,113,730</u>	<u>3,188,046</u>
Increase in net assets	<u>\$14,979,967</u>	<u>\$15,032,436</u>	<u>\$ 24,792,928</u>	<u>\$ 24,409,526</u>	<u>\$39,772,895</u>	<u>\$ 39,441,962</u>

CITY OF SHELBY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Debt Administration

At December 31, 2002 the City had \$135,000 in special assessment bonds and OPWC notes of \$265,860 outstanding. Of this total, \$160,852 is due within one year and \$240,008 is due within greater than one year. The following table is a comparison of the bonds and note outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2002</u>	<u>Governmental Activities 2001</u>
Long-Term Obligations:		
<u>Special Assessment Bonds:</u>		
Riverview Estates	\$ 135,000	\$ 265,000
Fox Run 5	<u>-</u>	<u>20,000</u>
Total Special Assessment Bonds	<u>\$ 135,000</u>	<u>\$ 285,000</u>
<u>OPWC Notes:</u>		
Wareham Road	\$ 227,430	\$ 243,675
Auburn Street	<u>38,430</u>	<u>48,037</u>
Total OPWC Notes	<u>\$ 265,860</u>	<u>\$ 291,712</u>
Total	<u><u>\$ 400,860</u></u>	<u><u>\$ 576,712</u></u>

The City has one special assessment bond outstanding at December 31, 2002 in the amount of \$135,000. The City issued \$95,200 in special assessment bonds on August 27, 1997, for the Fox Run project. These bonds bear an annual interest rate of 5.60% and matured on December 1, 2002. Special assessment bonds in the amount of \$610,000 were issued on August 19, 1998 for the Riverview Estates project and bear an annual interest rate of 4.50%. These bonds are scheduled to mature on December 1, 2003. The bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the projects. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The City has two Ohio Public Works Commission (OPWC) notes outstanding at December 31, 2002 in the amount of \$265,860. On July 1, 1997, the City issued \$96,073 in OPWC notes to finance the Auburn Street Storm Sewer Replacement Project. These notes are scheduled to retire on January 1, 2007. The City issued \$394,200 in OPWC notes on July 7, 1997 to finance the Wareham Road Area Storm Sewer Replacement Project. These notes are scheduled to mature on July 1, 2016. The OPWC notes are interest free.

For the Future

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

CITY OF SHELBY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

The unemployment rate for the City is currently 3.9%, as compared to the state's average unemployment rate of 5.6% and the national average of 6.0%.

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

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

In 2002, the City issued \$4,250,000 of bond anticipation notes for refinancing of renovations of the Electric Generation Plant. In fiscal year 2003, the City plans to reissue \$3,750,000 of bond anticipation notes for the Electric Generation Plant improvements.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact Larry Paxton, Finance Director, 23 W. Main Street, Shelby, Ohio, 44875.

CITY OF SHELBY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 5,055,611	\$ 4,643,767	\$ 9,699,378
Receivables (net of allowances for uncollectibles):			
Income taxes	669,870	-	669,870
Real and other taxes	960,382	6,247	966,629
Accounts	2,030	1,103,260	1,105,290
Special assessments	127,490	-	127,490
Due from other governments	599,865	-	599,865
Prepayments	28,836	104,953	133,789
Materials and supplies inventory.	56,304	777,210	833,514
Investment in joint venture.	-	982,038	982,038
Capital assets:			
Land and construction in progress.	211,404	1,269,530	1,480,934
Depreciable capital assets, net	14,768,563	23,523,398	38,291,961
Total capital assets.	14,979,967	24,792,928	39,772,895
 Total assets.	 <u>22,480,355</u>	 <u>32,410,403</u>	 <u>54,890,758</u>
 Liabilities:			
Accounts payable.	66,519	488,487	555,006
Accrued wages and benefits	98,177	90,242	188,419
Due to other governments	202,400	158,600	361,000
Deferred revenue.	897,000	-	897,000
Accrued interest payable.	472	5,938	6,410
Claims payable.	135,128	-	135,128
Notes payable	200,000	4,250,000	4,450,000
Long-term liabilities:			
Due within one year.	215,441	58,833	274,274
Due in more than one year	479,948	296,920	776,868
 Total liabilities	 <u>2,295,085</u>	 <u>5,349,020</u>	 <u>7,644,105</u>
 Net assets:			
Invested in capital assets, net of related debt	14,575,934	24,792,928	39,368,862
Restricted for:			
Capital projects.	2,654,823	-	2,654,823
Debt service	956,336	-	956,336
Other purposes.	1,329,926	-	1,329,926
Unrestricted.	668,251	2,268,455	2,936,706
 Total net assets	 <u>\$ 20,185,270</u>	 <u>\$ 27,061,383</u>	 <u>\$ 47,246,653</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 1,413,349	\$ 171,954	\$ -	\$ -
Security of persons and property.	2,613,201	447,146	19,707	4,860
Public health and welfare	303,871	22,072	1,676	-
Transportation	1,069,234	600	308,554	-
Community environment.	420,554	31,567	2,528	59,480
Leisure time activity.	84,124	15,770	-	-
Other	3,867	-	7,916	-
Interest and fiscal charges.	15,021	-	-	-
Total governmental activities	<u>5,923,221</u>	<u>689,109</u>	<u>340,381</u>	<u>64,340</u>
Business-Type Activities:				
Sewer	940,306	648,935	-	-
Water	1,334,325	1,452,401	-	-
Electric	9,909,849	9,888,477	-	-
Total business-type activities	<u>12,184,480</u>	<u>11,989,813</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 18,107,701</u>	<u>\$ 12,678,922</u>	<u>\$ 340,381</u>	<u>\$ 64,340</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Special revenue	
Income taxes levied for:	
General purposes.	
Special revenue	
Capital projects	
Other local taxes	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues	
Transfers.	
Capital contributions.	
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
\$ (1,241,395)	\$ -	\$ (1,241,395)
(2,141,488)	-	(2,141,488)
(280,123)	-	(280,123)
(760,080)	-	(760,080)
(326,979)	-	(326,979)
(68,354)	-	(68,354)
4,049	-	4,049
(15,021)	-	(15,021)
<u>(4,829,391)</u>	<u>-</u>	<u>(4,829,391)</u>
-	(291,371)	(291,371)
-	118,076	118,076
-	(21,372)	(21,372)
<u>-</u>	<u>(194,667)</u>	<u>(194,667)</u>
<u>(4,829,391)</u>	<u>(194,667)</u>	<u>(5,024,058)</u>
755,788	-	755,788
555,884	-	555,884
1,397,349	-	1,397,349
430,417	-	430,417
1,247,551	-	1,247,551
-	439,088	439,088
656,772	-	656,772
54,449	59,103	113,552
81,975	39,092	121,067
<u>5,180,185</u>	<u>537,283</u>	<u>5,717,468</u>
(90,000)	90,000	-
<u>(1,080,819)</u>	<u>1,080,819</u>	<u>-</u>
(820,025)	1,513,435	693,410
<u>21,005,295</u>	<u>25,547,948</u>	<u>46,553,243</u>
<u>\$ 20,185,270</u>	<u>\$ 27,061,383</u>	<u>\$ 47,246,653</u>

CITY OF SHELBY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2002

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 645,480	\$ 4,190,128	\$ 4,835,608
Receivables (net of allowance for uncollectibles):			
Income taxes	334,935	334,935	669,870
Real and other taxes	342,611	617,771	960,382
Accounts.	-	2,030	2,030
Special assessments	-	127,490	127,490
Due from other governments.	294,434	305,431	599,865
Prepayments	17,362	11,474	28,836
Materials and supplies inventory.	<u>20,263</u>	<u>36,041</u>	<u>56,304</u>
 Total assets.	 <u>\$ 1,655,085</u>	 <u>\$ 5,625,300</u>	 <u>\$ 7,280,385</u>
Liabilities:			
Accounts payable	\$ 31,414	\$ 35,105	\$ 66,519
Accrued wages and benefits	80,727	17,450	98,177
Due to other governments	88,383	114,017	202,400
Deferred revenue	571,507	1,054,635	1,626,142
Note payable.	<u>-</u>	<u>200,000</u>	<u>200,000</u>
 Total liabilities.	 <u>772,031</u>	 <u>1,421,207</u>	 <u>2,193,238</u>
Fund Balances:			
Reserved for encumbrances.	140,809	321,005	461,814
Reserved for prepayments	17,362	11,474	28,836
Reserved for materials and supplies inventory	20,263	36,041	56,304
Unreserved, undesignated, reported in:			
General fund.	704,620	-	704,620
Special revenue funds.	-	486,503	486,503
Debt service fund	-	956,808	956,808
Capital projects funds.	<u>-</u>	<u>2,392,262</u>	<u>2,392,262</u>
 Total fund balances	 <u>883,054</u>	 <u>4,204,093</u>	 <u>5,087,147</u>
 Total liabilities and fund balances.	 <u>\$ 1,655,085</u>	 <u>\$ 5,625,300</u>	 <u>\$ 7,280,385</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, 2002

Total governmental fund balances		\$ 5,087,147
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,979,967
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 63,382	
Income tax	164,565	
Special assessments	127,490	
Intergovernmental revenues	<u>373,705</u>	
Total		729,142
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		84,875
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(472)	
Special assessment bonds	(135,000)	
OPWC notes	(265,860)	
Compensated absences	(291,356)	
Capital lease payable	<u>(3,173)</u>	
Total		<u>(695,861)</u>
Net assets of governmental activities		<u>\$ 20,185,270</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 1,383,079	\$ 1,667,307	\$ 3,050,386
Property and other taxes	752,612	544,295	1,296,907
Charges for services	256,000	109,557	365,557
Licenses and permits	14,420	22,072	36,492
Fines and forfeitures	251,868	38,408	290,276
Intergovernmental	573,792	741,639	1,315,431
Special assessments	-	149,669	149,669
Investment income	50,410	25,516	75,926
Rental income	-	3,780	3,780
Other	51,812	29,913	81,725
Total revenues	<u>3,333,993</u>	<u>3,332,156</u>	<u>6,666,149</u>
Expenditures:			
Current:			
General government	955,826	369,187	1,325,013
Security of persons and property	1,977,337	288,086	2,265,423
Public health and welfare	-	301,408	301,408
Transportation	-	733,653	733,653
Community environment	-	333,101	333,101
Leisure time activity	-	72,204	72,204
Capital outlay	-	1,790,321	1,790,321
Other	-	3,867	3,867
Debt service:			
Principal retirement	2,930	175,852	178,782
Interest and fiscal charges	382	15,185	15,567
Total expenditures	<u>2,936,475</u>	<u>4,082,864</u>	<u>7,019,339</u>
Excess of revenues over (under) expenditures	<u>397,518</u>	<u>(750,708)</u>	<u>(353,190)</u>
Other financing sources (uses):			
Proceeds from sale of capital assets	-	250	250
Transfers in	1,503	389,900	391,403
Transfers out	<u>(479,900)</u>	<u>(1,503)</u>	<u>(481,403)</u>
Total other financing sources (uses)	<u>(478,397)</u>	<u>388,647</u>	<u>(89,750)</u>
Net change in fund balances	(80,879)	(362,061)	(442,940)
Fund balances at beginning of year	964,200	4,565,449	5,529,649
Increase (decrease) in reserve for inventory	(267)	705	438
Fund balances at end of year	<u>\$ 883,054</u>	<u>\$ 4,204,093</u>	<u>\$ 5,087,147</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

Net change in fund balances - total governmental funds	\$	(442,940)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$670,372) was less than depreciation expense (\$722,841) in the current period.		(52,469)
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		438
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(396,423)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		178,782
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		546
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.		(4,708)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		<u>(103,251)</u>
Change in net assets of governmental activities.	\$	<u><u>(820,025)</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 FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property and other taxes	\$ 327,290	\$ 339,554	\$ 354,963	\$ 15,409
Charges for services	236,042	247,403	256,000	8,597
Licenses and permits	13,296	13,936	14,420	484
Fines and forfeitures	232,897	244,106	252,589	8,483
Intergovernmental	503,204	530,910	545,749	14,839
Investment income	46,480	48,717	50,410	1,693
Other	420,512	440,751	456,067	15,316
Total revenues.	<u>1,779,721</u>	<u>1,865,377</u>	<u>1,930,198</u>	<u>64,821</u>
Expenditures:				
Current:				
General government	1,016,473	1,041,589	976,876	64,713
Security of persons and property	2,120,909	2,218,093	2,063,517	154,576
Total expenditures	<u>3,137,382</u>	<u>3,259,682</u>	<u>3,040,393</u>	<u>219,289</u>
Excess of revenues over (under) expenditures	<u>(1,357,661)</u>	<u>(1,394,305)</u>	<u>(1,110,195)</u>	<u>284,110</u>
Other financing sources (uses):				
Transfers in	1,274,641	1,335,986	1,382,412	46,426
Transfers out	<u>(455,200)</u>	<u>(479,900)</u>	<u>(479,900)</u>	<u>-</u>
Total other financing sources (uses)	<u>819,441</u>	<u>856,086</u>	<u>902,512</u>	<u>46,426</u>
Net change in fund balance	(538,220)	(538,219)	(207,683)	330,536
Fund balance at beginning of year	538,220	538,220	538,220	-
Prior year encumbrances appropriated	<u>142,720</u>	<u>142,720</u>	<u>142,720</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 142,720</u>	<u>\$ 142,721</u>	<u>\$ 473,257</u>	<u>\$ 330,536</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31,2002

	Business Type Activities -Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer	Water	Electric	Total	
Assets:					
Current Assets:					
Equity in pooled cash and cash equivalents	\$ 432,222	\$ 1,204,545	\$ 3,007,000	\$ 4,643,767	\$ 220,003
Receivables (net of allowance for uncollectibles):					
Real and other taxes.	-	-	6,247	6,247	-
Accounts	77,228	165,489	860,543	1,103,260	-
Prepayments.	11,535	9,471	83,947	104,953	-
Materials and supplies inventory	10,723	19,710	746,777	777,210	-
Total current assets	<u>531,708</u>	<u>1,399,215</u>	<u>4,704,514</u>	<u>6,635,437</u>	<u>220,003</u>
Noncurrent Assets:					
Investment in joint venture	-	-	982,038	982,038	-
Capital assets:					
Land and construction in progress	215,954	77,130	976,446	1,269,530	-
Depreciable capital assets, net	4,504,982	7,839,479	11,178,937	23,523,398	-
Total capital assets	<u>4,720,936</u>	<u>7,916,609</u>	<u>12,155,383</u>	<u>24,792,928</u>	<u>-</u>
Total noncurrent assets	<u>4,720,936</u>	<u>7,916,609</u>	<u>13,137,421</u>	<u>25,774,966</u>	<u>-</u>
Total assets	<u>5,252,644</u>	<u>9,315,824</u>	<u>17,841,935</u>	<u>32,410,403</u>	<u>220,003</u>
Liabilities:					
Current Liabilities:					
Accounts payable.	7,810	12,036	468,641	488,487	-
Accrued wages and benefits	11,155	19,456	59,631	90,242	-
Due to other governments	20,411	34,466	103,723	158,600	-
Claims payable.	-	-	-	-	135,128
Accrued interest payable.	-	-	5,938	5,938	-
Notes payable	-	-	4,250,000	4,250,000	-
Total current liabilities.	<u>39,376</u>	<u>65,958</u>	<u>4,887,933</u>	<u>4,993,267</u>	<u>135,128</u>
Long-term liabilities:					
Compensated absences	93,138	68,719	193,896	355,753	-
Total long-term liabilities	<u>93,138</u>	<u>68,719</u>	<u>193,896</u>	<u>355,753</u>	<u>-</u>
Total liabilities	<u>132,514</u>	<u>134,677</u>	<u>5,081,829</u>	<u>5,349,020</u>	<u>135,128</u>
Net assets:					
Invested in capital assets.	4,720,936	7,916,609	12,155,383	24,792,928	-
Unrestricted	<u>399,194</u>	<u>1,264,538</u>	<u>604,723</u>	<u>2,268,455</u>	<u>84,875</u>
Total net assets	<u>\$ 5,120,130</u>	<u>\$ 9,181,147</u>	<u>\$ 12,760,106</u>	<u>\$ 27,061,383</u>	<u>\$ 84,875</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities - Internal Service Fund</u>
Operating revenues:					
Charges for services	\$ 648,935	\$ 1,444,986	\$ 9,888,477	\$ 11,982,398	\$ 586,257
Special assessments	-	7,415	-	7,415	-
Other	3,040	6,340	29,712	39,092	-
Total operating revenues	<u>651,975</u>	<u>1,458,741</u>	<u>9,918,189</u>	<u>12,028,905</u>	<u>586,257</u>
Operating expenses:					
Personal services	362,307	551,926	1,781,322	2,695,555	-
Contract services	82,714	95,416	514,015	692,145	-
Materials and supplies	36,836	193,375	5,465,828	5,696,039	-
Utilities	78,796	88,336	122,866	289,998	-
Depreciation	263,260	303,733	838,004	1,404,997	-
Claims	-	-	-	-	693,547
Other	116,393	101,539	586,558	804,490	-
Total operating expenses	<u>940,306</u>	<u>1,334,325</u>	<u>9,308,593</u>	<u>11,583,224</u>	<u>693,547</u>
Operating income (loss)	(288,331)	124,416	609,596	445,681	(107,290)
Nonoperating revenues (expenses):					
Interest expense and fiscal charges	-	-	(105,048)	(105,048)	-
Interest revenue	4,278	4,510	50,315	59,103	4,039
Investment in joint venture	-	-	(57,120)	(57,120)	-
Other local tax revenue	-	-	439,088	439,088	-
Excise tax expense	-	-	(439,088)	(439,088)	-
Total nonoperating revenues (expenses)	<u>4,278</u>	<u>4,510</u>	<u>(111,853)</u>	<u>(103,065)</u>	<u>4,039</u>
Net income (loss) before contributions and transfers	(284,053)	128,926	497,743	342,616	(103,251)
Capital contributions	488,819	592,000	-	1,080,819	-
Transfers in	-	-	90,000	90,000	-
Changes in net assets	204,766	720,926	587,743	1,513,435	(103,251)
Net assets at beginning of year	<u>4,915,364</u>	<u>8,460,221</u>	<u>12,172,363</u>	<u>25,547,948</u>	<u>188,126</u>
Net assets at end of year	<u>\$ 5,120,130</u>	<u>\$ 9,181,147</u>	<u>\$ 12,760,106</u>	<u>\$ 27,061,383</u>	<u>\$ 84,875</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Business-Type Activities - Enterprise Funds</u>				Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 642,748	\$ 1,431,727	\$ 9,819,529	\$ 11,894,004	\$ 586,257
Cash received from special assessments	-	7,415	-	7,415	-
Cash received from other operations.	3,040	6,340	29,712	39,092	-
Cash payments for personal services	(336,223)	(561,278)	(1,755,925)	(2,653,426)	-
Cash payments for contract services	(101,166)	(92,472)	(405,566)	(599,204)	-
Cash payments for materials and supplies	(32,869)	(137,037)	(5,400,334)	(5,570,240)	-
Cash payments for utilities.	(78,796)	(88,336)	(122,866)	(289,998)	-
Cash payments for claims	-	-	-	-	(669,188)
Cash payments for other expenses.	(116,393)	(101,539)	(586,558)	(804,490)	-
Net cash provided by (used in) operating activities	<u>(19,659)</u>	<u>464,820</u>	<u>1,577,992</u>	<u>2,023,153</u>	<u>(82,931)</u>
Cash flows from noncapital financing activities:					
Cash received from operating transfers in	-	-	90,000	90,000	-
Cash received from other local taxes	-	-	476,226	476,226	-
Cash payments for excise taxes	-	-	(439,088)	(439,088)	-
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>-</u>	<u>127,138</u>	<u>127,138</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(529,871)	(680,517)	(715,737)	(1,926,125)	-
Capital contributions	488,819	592,000	-	1,080,819	-
Proceeds from the sale of notes.	-	-	4,250,000	4,250,000	-
Principal retirement.	-	-	(4,750,000)	(4,750,000)	-
Principal on capital lease payment	-	-	(1,431)	(1,431)	-
Interest and fiscal charges.	-	-	(108,089)	(108,089)	-
Net cash used in capital and related financing activities.	<u>(41,052)</u>	<u>(88,517)</u>	<u>(1,325,257)</u>	<u>(1,454,826)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received.	<u>4,278</u>	<u>4,510</u>	<u>50,315</u>	<u>59,103</u>	<u>4,039</u>
Net cash provided by investing activities	<u>4,278</u>	<u>4,510</u>	<u>50,315</u>	<u>59,103</u>	<u>4,039</u>
Net increase (decrease) in cash and cash equivalents	(56,433)	380,813	430,188	754,568	(78,892)
Cash and cash equivalents at beginning of year.	488,655	823,732	2,576,812	3,889,199	298,895
Cash and cash equivalents at end of year	<u>\$ 432,222</u>	<u>\$ 1,204,545</u>	<u>\$ 3,007,000</u>	<u>\$ 4,643,767</u>	<u>\$ 220,003</u>

- - continued

CITY OF SHELBY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<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 (used in) operating activities:					
Operating income (loss)	\$ (288,331)	\$ 124,416	\$ 609,596	\$ 445,681	\$ (107,290)
Adjustments:					
Depreciation	263,260	303,733	838,004	1,404,997	-
Changes in assets and liabilities:					
(Increase) decrease in materials and supplies inventory	(2,551)	67,248	(968)	63,729	-
Increase in accounts receivable	(6,187)	(13,259)	(68,948)	(88,394)	-
Increase in prepayments	(7,458)	(5,063)	(51,823)	(64,344)	-
Increase (decrease) in accounts payable	9,676	(2,903)	226,734	233,507	-
Decrease in contracts payable	(14,152)	-	-	(14,152)	-
Increase (decrease) in accrued wages and benefits	428	1,384	(1,742)	70	-
Increase in due to other governments	5,130	8,858	22,282	36,270	-
Increase (decrease) in compensated absences payable	20,526	(19,594)	4,857	5,789	-
Increase in claims payable	-	-	-	-	24,359
Net cash provided by (used in) operating activities	<u>\$ (19,659)</u>	<u>\$ 464,820</u>	<u>\$ 1,577,992</u>	<u>\$ 2,023,153</u>	<u>\$ (82,931)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2002

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 138,368
Cash in segregated accounts	<u>6,282</u>
Total assets	<u>\$ 144,650</u>
Liabilities:	
Due to other governments	\$ 6,282
Restricted/refundable deposits.	<u>138,368</u>
Total liabilities	<u>\$ 144,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

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

JOINT VENTURE WITH EQUITY INTEREST

Ohio Municipal Electric Generation Agency Joint Venture

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

OMEGA JV2 is a 138.650 MW project that includes two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine, and thirty-four 1.825 MW new and one 1.6 MW used oil-fired diesel generator units. Title to this project was transferred to the 36 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$37,590 in annual fees to the joint venture for 2002.

The following is a summary of audited financial information of OMEGA JV2 for the year ended December 31, 2002:

	<u>OMEGA JV2</u>
Total Assets	\$ 52,473,954
Total Liabilities	514,292
Members Equity	51,959,662
Total Revenues	2,308,497
Total Expenses	<u>5,330,727</u>
Excess Income over/(under) Expenses	<u>\$ (3,022,230)</u>

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

The City reports an equity interest equal to their undivided ownership percentage of the joint venture members equity. Since the City has an explicit and measurable interest in OMEGA JV2, the City has reported \$982,038 in equity interest for this joint venture on the Statement of Net Assets at December 31, 2002. Separate financial statement for the joint venture is available through either the City or AMP-Ohio.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

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

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

B. Basis of Presentation - Fund Accounting

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

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

C. Fund Accounting

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

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

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

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

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

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

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The City's agency funds are customer deposits and Municipal Court. The customer deposit fund is deposits made by utility customers which are refunded if the customer has fulfilled their obligations when they cancel their account. 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.

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

E. Basis of Accounting

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

F. Budgetary Data

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that 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 2002.

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

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

G. Health Care

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

H. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal 2002, interest revenue credited to the general fund amounted to \$50,410 which includes \$41,318 assigned from other City funds.

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

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

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

I. Inventories of Materials and Supplies

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

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

J. Capital Assets

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

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

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

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

K. Compensated Absences

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

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental funds; however, they are reported in the government-wide financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Interfund Balances

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

O. Interfund Activity

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

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

P. Fund Balance Reserves

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

The City reports amounts representing encumbrances outstanding, prepayments, and materials and supplies inventory, as reservations of fund balance in the governmental fund financial statements.

Q. Estimates

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

R. Contributed Capital

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

S. Net Assets

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

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

T. Operating Revenues and Expenses

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

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2002.

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute into three categories:

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

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

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

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

Deposits: At year-end, the carrying amount of the City's deposits, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$2,103,240 and the bank balance was \$1,883,776. Of the bank balance:

1. \$382,870 was covered by federal depository insurance; and

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. \$1,500,906 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category			Fair
	1	2	3	Value
Repurchase agreements	\$ -	\$ -	\$ 7,740,788	\$7,740,788

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

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

	Cash and	
	Cash Equivalents/ Deposits	
GASB Statement No. 9	\$ 9,844,028	\$ -
Investments of the cash management pool:		
Repurchase agreements	(7,740,788)	7,740,788
GASB Statement No. 3	\$ 2,103,240	\$ 7,740,788

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2002, consisted of the following, as reported on the fund statements:

Transfers to general fund from:	
Nonmajor governmental funds	\$ 1,503
Transfers to nonmajor governmental funds from:	
General fund	389,900
Transfers to electric fund from:	
General fund	<u>90,000</u>
Total	<u>\$ 481,403</u>

All transfers were legal and in compliance with Ohio Revised Code. The most significant transfers that occurred during the year were \$389,900 in transfers from the general fund to the nonmajor special revenue funds. These transfers were used to fund street projects and police and fire pension expenditures.

NOTE 5 - PROPERTY TAXES

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

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

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

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

NOTE 5 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2002, was \$5.60 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property for tax year 2001 are as follows:

Real property	\$ 122,272,900
Public utility property	2,266,420
Tangible personal property	<u>41,777,380</u>
Total assessed valuation	<u>\$ 166,316,700</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2002. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 6 - LOCAL INCOME TAX

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2002, as well as intended to finance fiscal 2002 operations.

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

Governmental Activities:

Income taxes	\$ 669,870
Real and other taxes	960,382
Special assessments	127,490
Due from other governments	599,865

Business-Type Activities:

Accounts	1,103,260
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CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 7 - RECEIVABLES - (Continued)

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2002, was as follows:

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/02</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 211,404	\$ -	\$ -	\$ 211,404
Total capital assets, not being depreciated	<u>211,404</u>	<u>-</u>	<u>-</u>	<u>211,404</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	508,190	136,370	-	644,560
Buildings and improvements	978,341	125,307	-	1,103,648
Furniture, fixtures and equipment	1,065,018	104,780	-	1,169,798
Vehicles	1,851,909	17,086	-	1,868,995
Infrastructure	<u>15,693,794</u>	<u>286,829</u>	<u>-</u>	<u>15,980,623</u>
Total capital assets, being depreciated	<u>20,097,252</u>	<u>670,372</u>	<u>-</u>	<u>20,767,624</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(258,359)	(27,567)	-	(285,926)
Buildings and improvements	(523,400)	(12,889)	-	(536,289)
Furniture, fixtures and equipment	(657,349)	(142,431)	-	(799,780)
Vehicles	(954,292)	(183,948)	-	(1,138,240)
Infrastructure	<u>(2,882,820)</u>	<u>(356,006)</u>	<u>-</u>	<u>(3,238,826)</u>
Total accumulated depreciation	<u>(5,276,220)</u>	<u>(722,841)</u>	<u>-</u>	<u>(5,999,061)</u>
Total capital assets, being depreciated, net	<u>14,821,032</u>	<u>(52,469)</u>	<u>-</u>	<u>14,768,563</u>
Governmental activities capital assets, net	<u>\$15,032,436</u>	<u>\$ (52,469)</u>	<u>\$ -</u>	<u>\$ 14,979,967</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 8 - CAPITAL ASSETS - (Continued)

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/02</u>
Business-Type Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 155,800	\$ -	\$ -	\$ 155,800
Construction in progress	<u>3,188,046</u>	<u>319,098</u>	<u>(2,393,414)</u>	<u>1,113,730</u>
Total capital assets, not being depreciated	<u>3,343,846</u>	<u>319,098</u>	<u>(2,393,414)</u>	<u>1,269,530</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	699,529	7,520	-	707,049
Buildings and improvements	16,741,197	2,097,553	-	18,838,750
Furniture, fixtures and equipment	17,000,081	412,853	-	17,412,934
Vehicles	754,406	235,811	-	990,217
Infrastructure	<u>5,788,864</u>	<u>1,108,978</u>	<u>-</u>	<u>6,897,842</u>
Total capital assets, being depreciated	<u>40,984,077</u>	<u>3,862,715</u>	<u>-</u>	<u>44,846,792</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(153,220)	(21,770)	-	(174,990)
Buildings and improvements	(5,602,071)	(311,378)	-	(5,913,449)
Furniture, fixtures and equipment	(12,423,771)	(852,234)	-	(13,276,005)
Vehicles	(346,048)	(48,562)	-	(394,610)
Infrastructure	<u>(1,393,287)</u>	<u>(171,053)</u>	<u>-</u>	<u>(1,564,340)</u>
Total accumulated depreciation	<u>(19,918,397)</u>	<u>(1,404,997)</u>	<u>-</u>	<u>(21,323,394)</u>
Total capital assets, being depreciated, net	<u>21,065,680</u>	<u>2,457,718</u>	<u>-</u>	<u>23,523,398</u>
Business-type activities capital assets, net	<u>\$ 24,409,526</u>	<u>\$ 2,776,816</u>	<u>\$ (2,393,414)</u>	<u>\$ 24,792,928</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 8 - CAPITAL ASSETS - (Continued)

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

Governmental activities	
General government	\$ 38,233
Security of persons and property	150,939
Public health and welfare	73
Transportation	446,779
Community environment	77,134
Leisure time activity	<u>9,683</u>
Total depreciation expense - governmental activities	<u>\$ 722,841</u>

9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

A. Governmental Lease

Capital fixed assets consisting of police phone equipment have been capitalized in the amount of \$8,808. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2002 totaled \$2,930 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2002:

<u>Fiscal Year Ending December 31</u>	<u>Amount</u>
2003	<u>\$ 3,312</u>
Total	3,312
Less: amount representing interest	<u>(139)</u>
Present value of net minimum lease payments	<u>\$ 3,173</u>

B. Proprietary Lease

Fixed assets consisting of copier equipment have been capitalized in the Electric enterprise fund in the amount of \$4,750. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Electric enterprise fund. Principal payments in fiscal year 2002 totaled \$1,431 which retired the lease.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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.

NOTE 11 - LONG-TERM OBLIGATIONS

A. The City's long-term obligations at year-end and a schedule of current year activity is as follows:

	<u>Interest Rate</u>	<u>Balance Outstanding 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/02</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
<u>Special Assessment Bonds:</u>						
Riverview Estates	4.50%	\$ 265,000	\$ -	\$ (130,000)	\$ 135,000	\$ 135,000
Fox Run 5	5.60%	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Total Special Assessment Bonds Payable		<u>\$ 285,000</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ 135,000</u>	<u>\$ 135,000</u>
<u>OPWC Notes Payable:</u>						
Wareham Road	0.00%	\$ 243,675	\$ -	\$ (16,245)	\$ 227,430	\$ 16,245
Auburn Street	0.00%	<u>48,037</u>	<u>-</u>	<u>(9,607)</u>	<u>38,430</u>	<u>9,607</u>
Total OPWC Notes Payable		<u>\$ 291,712</u>	<u>\$ -</u>	<u>\$ (25,852)</u>	<u>\$ 265,860</u>	<u>\$ 25,852</u>
<u>Other Long-Term Obligations:</u>						
Capital Lease Obligation		\$ 6,103	\$ -	\$ (2,930)	\$ 3,173	\$ 3,173
Compensated Absences		<u>286,648</u>	<u>4,708</u>	<u>-</u>	<u>291,356</u>	<u>51,416</u>
Total Other Long-Term Obligations		<u>\$ 292,751</u>	<u>\$ 4,708</u>	<u>\$ (2,930)</u>	<u>\$ 294,529</u>	<u>\$ 54,589</u>
Total Governmental Activities		<u>\$ 869,463</u>	<u>\$ 4,708</u>	<u>\$ (178,782)</u>	<u>\$ 695,389</u>	<u>\$ 215,441</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

	Balance Outstanding <u>12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>12/31/02</u>	Amounts Due in <u>One Year</u>
Business-Type Activities:					
Compensated Absences	\$ 349,964	\$ 5,789	\$ -	\$ 355,753	\$ 58,833
Capital Lease Obligation	<u>1,431</u>	<u>-</u>	<u>(1,431)</u>	<u>-</u>	<u>-</u>
Total Business-Type	<u>\$ 351,395</u>	<u>\$ 5,789</u>	<u>\$ (1,431)</u>	<u>\$ 355,753</u>	<u>\$ 58,833</u>

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. Special assessment monies will be received in the debt service fund and the debt will also be retired from this fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

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

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

- B.** Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2002, are as follows:

<u>Year Ended</u>	<u>Special Assessment Bonds</u>			<u>OPWC Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$135,000	\$ 6,075	\$141,075	\$ 25,852	\$ -	\$ 25,852
2004	-	-	-	25,853	-	25,853
2005	-	-	-	25,852	-	25,852
2006	-	-	-	25,853	-	25,853
2007	-	-	-	16,245	-	16,245
2008 - 2012	-	-	-	81,225	-	81,225
2013 - 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,980</u>	<u>-</u>	<u>64,980</u>
Total	<u>\$135,000</u>	<u>\$ 6,075</u>	<u>\$141,075</u>	<u>\$265,860</u>	<u>\$ -</u>	<u>\$265,860</u>

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 12 - GENERAL OBLIGATION NOTES PAYABLE

- A. The City had the following general obligation note activity during fiscal year 2002 for Electric enterprise fund. These notes are reported as a liability in the Electric enterprise fund, the fund that received the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/02</u>
Electric System						
Improvements - 2.3%	11/26/01	11/30/02	\$ 4,750,000	\$ -	\$(4,750,000)	\$ -
Electric System						
Improvements - 1.7%	12/01/02	12/01/03	<u>-</u>	<u>4,250,000</u>	<u>-</u>	<u>4,250,000</u>
Total			<u>\$ 4,750,000</u>	<u>\$ 4,250,000</u>	<u>\$(4,750,000)</u>	<u>\$ 4,250,000</u>

- B. The City had the following general obligation note activity during fiscal year 2002 in the governmental funds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/02</u>
Park Fund						
Improvements - 6.6%	08/29/01	08/29/02	\$ 50,075	\$ -	\$(50,075)	\$ -
Water and Sewer St. Rt. 39						
Improvements - 1.85%	09/24/02	09/24/03	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total			<u>\$ 50,075</u>	<u>\$ 200,000</u>	<u>\$(50,075)</u>	<u>\$ 200,000</u>

Park Improvements

On August 29, 2001, the City received proceeds of a \$50,075 general obligation note to finance various improvements throughout the City's Park. The note was retired from the Park special revenue fund.

Water and Sewer Improvements

During 2002, the City issued \$200,000 in general obligation notes to finance water and sewer improvements on St. Rt. 39. The City plans to issue bonds and retire the notes in 2003. The notes will be repaid through special assessments to be collected by the City. The note proceeds and capital outlay expenditures have been recorded in the Special Assessments capital projects fund. Additions to water and sewer infrastructure will be recorded in the Water and Sewer enterprise funds as capital contributions.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 2002, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits. A summary of the City's insurance coverage at December 31, 2002, follows:

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

The City has elected to provide a comprehensive medical benefits package through a self-insured program providing either Fee for Service (FFS) or Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Benefit Services, Inc., located in Akron, Ohio, reviews all claims for the plan which are then paid by the City. The total monthly premium paid into the internal service fund for the FFS plan is \$310.00 for single coverage and \$800.00 for family coverage and for the PPO plan is \$294.50 for single coverage and \$760.00 for family coverage. The employee's share for the FFS plan is \$15.50 for single coverage and \$40.00 per month for family coverage.

The claims liability of \$135,128 reported in the Hospitalization internal service fund at December 31, 2002, 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, 2002 and 2001 were as follows:

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 13 - RISK MANAGEMENT - (Continued)

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Fiscal Year</u>
2002	\$ 110,769	\$ 693,547	\$(669,188)	\$ 135,128
2001	104,357	536,610	(530,198)	110,769

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal year 2001.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$442,668, \$418,376, and \$309,915, respectively; 72% has been contributed for 2002 and 100% for 2001 and 2000. \$123,201, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2002, 2001, and 2000 were \$274,868, \$261,160, and \$254,895, respectively; 70% has been contributed for 2002 and 100% for the years 2001 and 2000. \$83,507, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$163,346.

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

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$56,105 and \$43,174, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

CITY OF SHELBY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

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

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ (207,683)
Net adjustment for revenue accruals	1,403,795
Net adjustment for expenditure accruals	(68,305)
Net adjustment for other sources/uses	(1,380,909)
Adjustment for encumbrances	<u>172,223</u>
GAAP basis	<u>\$ (80,879)</u>

CITY OF SHELBY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2002.

B. Contracts

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

C. Litigation

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

NOTE 18 - CONTRACTUAL COMMITMENTS

During 2002, the City entered several construction contracts for water and sewer projects.

The following is a list of the contracts outstanding:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed Amount</u>	<u>Outstanding 12/31/02</u>
State Route 39 Water and Sewer	\$ 135,834	\$ 130,710	\$ 5,124
Myrtle-Norman Project	176,402	44,974	131,428
Water Treatment Plant - Lime Lagoon	30,000	-	30,000

NOTE 19 - CERTIFICATE OF RECOGNITION

The City received a recognition certificate from GASB for its early implementation of GASB 34. The certificate has been included on page 52 of the supplement information section of this report.

SUPPLEMENTAL INFORMATION

Certificate of Recognition

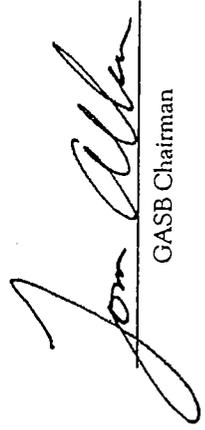
Presented to

City of Shelby, Ohio

For
Early Implementation of GASB 34

The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability.

Fiscal Year Ended 12/31/01


GASB Chairman

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

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Facsimile 614.846.2799

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

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

We have audited the basic financial statements of the City of Shelby as of and for the year ended December 31, 2002, and have issued our report thereon dated June 13, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Shelby's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City of Shelby in a separate letter dated June 13, 2003.

Members of Council and Mayor
City of Shelby

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shelby's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City of Shelby in a separate letter dated June 13, 2003.

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

Trimble, Julian & Grube, Inc.
June 13, 2003

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-COS-001	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasure or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Partially corrected. The City is attempting to properly submit and approve purchase orders before purchases are made. The citation has been moved to the management letter.



**Auditor of State
Betty Montgomery**

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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 4, 2003**