

CITY OF SHELBY
Richland County, Ohio

Basic Financial Statements

December 31, 2010



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Shelby, Richland County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

August 23, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2011

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)

The City of Shelby's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net assets increased \$1,379,573. Net assets of governmental activities increased \$311,552, net assets of business-type activities increased by \$1,068,021.
- The General Fund reported an increase in fund balance of \$15,810.
- Business-type operations reflected an operating income (loss) of \$963,970 .

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)

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

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

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

Fund Financial Statements

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

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

Governmental Funds - Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer,

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)

water and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

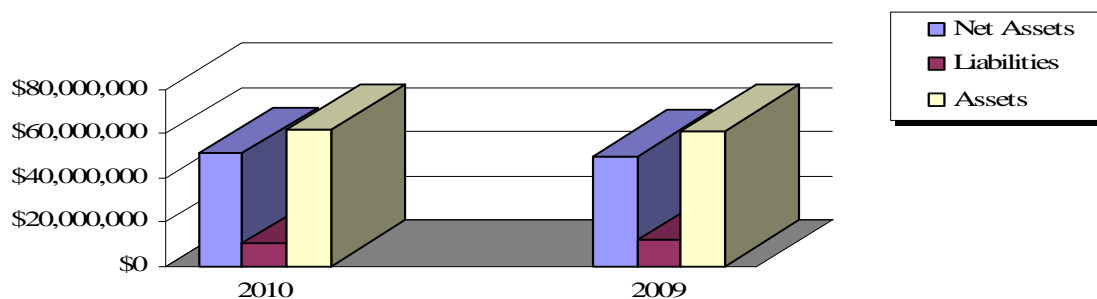
Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting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

The City as a Whole

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and Other Assets	\$7,459,391	\$6,257,772	\$9,186,310	\$8,940,927	\$16,645,701	\$15,198,699
Capital Assets	16,540,280	16,913,002	28,426,924	29,288,769	44,967,204	46,201,771
Total Assets	23,999,671	23,170,774	37,613,234	38,229,696	61,612,905	61,400,470
Liabilities:						
Long-Term Liabilities	1,125,642	1,280,548	3,823,430	4,199,441	4,949,072	5,479,989
Other Liabilities	1,933,224	1,260,973	3,421,128	4,729,600	5,354,352	5,990,573
Total Liabilities	3,058,866	2,541,521	7,244,558	8,929,041	10,303,424	11,470,562
Net Assets:						
Invested in Capital Assets, Net of Related Debt	15,816,469	15,993,811	22,189,936	22,308,954	38,006,405	38,302,765
Restricted	4,086,046	3,976,305	0	0	4,086,046	3,976,305
Unrestricted	1,038,290	659,137	8,178,740	6,991,701	9,217,030	7,650,838
Total Net Assets	\$20,940,805	\$20,629,253	\$30,368,676	\$29,300,655	\$51,309,481	\$49,929,908



**City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)**

Total net assets of the City as a whole increased \$1,379,573. Net assets of the City's governmental activities increased \$311,552, while the net assets of the City's business-type activities increased \$1,068,021 from 2009. The City had an unrestricted net assets balance of \$9,217,030 that may be used to meet the government's ongoing obligations to citizens and creditors.

Assets increased only slightly mainly due to a slow down in the economy. Long-Term Liabilities decreased due to the City continuing to make principal payments on their long term debt obligations. Other Liabilities increased mainly due to an increase in accounts payable in 2010 as compared to 2009, which was due to a large estate tax that the City will have to pay back to various townships.

Table 2 shows the changes in net assets for the year ended December 31, 2010 and revenue and expense comparisons to 2009.

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City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for Services	\$864,972	\$854,817	\$15,141,496	\$15,101,179	\$16,006,468	\$15,955,996
Operating Grants and Contributions	1,459,498	833,173	53,636	0	1,513,134	833,173
Capital Grants and Contributions	5,645	1,846,535	0	181,754	5,645	2,028,289
Total Program Revenues	2,330,115	3,534,525	15,195,132	15,282,933	17,525,247	18,817,458
General Revenues:						
Income Taxes	2,826,743	2,181,568	0	0	2,826,743	2,181,568
Property Taxes	673,331	683,084	0	0	673,331	745,983
Excise Taxes	420,675	372,314	0	62,899	420,675	435,213
Grants and Entitlements	645,851	729,547	0	0	645,851	729,547
Investment Earnings	46,300	89,560	29,132	84,303	75,432	173,863
Other Revenues	175,078	59,832	62,045	58,825	237,123	118,657
Total General Revenues	4,787,978	4,115,905	91,177	206,027	4,879,155	4,321,932
Total Revenues	7,118,093	7,650,430	15,286,309	15,488,960	22,404,402	23,139,390
Program Expenses:						
General Government	910,453	1,255,068	0	0	910,453	1,255,068
Public Safety	3,259,757	3,442,212	0	0	3,259,757	3,442,212
Leisure Time Activities	81,926	78,525	0	0	81,926	78,525
Community Development	1,045,972	2,074,454	0	0	1,045,972	2,074,454
Transportation and Street Repair	1,147,815	1,803,430	0	0	1,147,815	1,803,430
Public Health and Welfare	285,986	327,912	0	0	285,986	327,912
Other	42,995	29,725	0	0	42,995	29,725
Interest and Fiscal Charges	31,637	42,224	0	0	31,637	42,224
Sewer	0	0	1,351,953	1,340,120	1,351,953	1,340,120
Water	0	0	1,849,866	1,892,294	1,849,866	1,892,294
Electric	0	0	11,016,469	12,559,221	11,016,469	12,559,221
Total Program Expenses	6,806,541	9,053,550	14,218,288	15,791,635	21,024,829	24,845,185
Increase (Decrease) in Net Assets before Transfers	311,552	(1,403,120)	1,068,021	(302,675)	1,379,573	(1,705,795)
Transfers - Internal Activities	0	(11,805)	0	11,805	0	0
Extraordinary Item - Insurance Recoveries	0	42,922	0	39,545	0	82,467
Change in Net Assets	311,552	(1,372,003)	1,068,021	(251,325)	1,379,573	(1,623,328)
Net Assets Beginning of Year	20,629,253	22,001,256	29,300,655	29,551,980	49,929,908	51,553,236
Net Assets End of Year	\$20,940,805	\$20,629,253	\$30,368,676	\$29,300,655	\$51,309,481	\$49,929,908

Governmental Activities

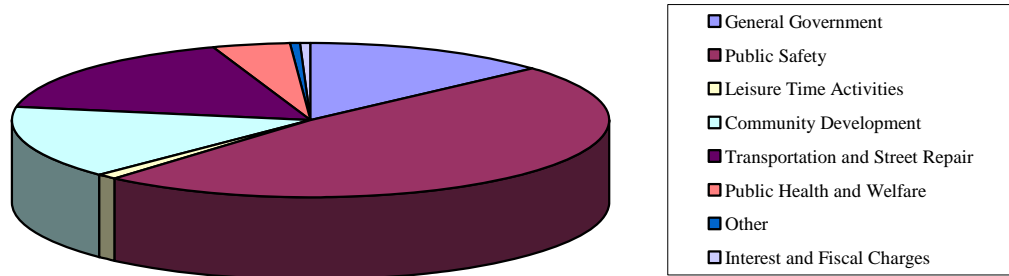
The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 74% of the City's governmental activities total general revenue.

Capital Grants revenue decreased mainly due to a decrease in grant monies to finance various street improvement projects throughout the City since most of the projects were complete in 2009. Total expenses decreased mainly due to decreases in various repairs and maintenance expenses as well as decreases in personnel costs as a result of the downturn in the economy in 2010.

**City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)**

Governmental Activities
Program Expenses for 2010

<u>Program Expenses</u>	<u>Percentage</u>
General Government	13.38%
Public Safety	47.89%
Leisure Time Activities	1.20%
Community Development	15.38%
Transportation and Street Repair	16.86%
Public Health and Welfare	4.20%
Other	0.63%
Interest and Fiscal Charges	0.46%
Other	<u>100.00%</u>



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

Business-Type Activities

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of \$15,203,741 and expenses of \$14,239,771 for fiscal year 2010. Business activities receive no support from tax revenues. The business activities net assets at the end of the year was \$30,368,676, which increased \$1,068,021 from 2009.

The City's Funds

The City has one major governmental fund: the General Fund. Assets of the general fund comprised \$2,387,652 (34%), of the total \$7,017,002 governmental funds assets.

General Fund: Fund balance at December 31, 2010 was \$672,518 a decrease in fund balance of \$14,389 from 2009. The General fund balance remained relatively consistent from 2009 to 2010.

**City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)**

General Fund Budgeting Highlights

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

As the City completed the year, its General Fund balance reported an actual fund balance of \$453,428, on a Non-GAAP Budgetary Basis.

Variations from the final budget amounts to the original amounts are primarily due to the following reasons: The City underestimated the taxes and intergovernmental revenues, while total expenditures were relatively consistent.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$44,967,204 invested in land, buildings and improvements, equipment and infrastructure. Table 3 shows 2010 balances compared to 2009:

**Table 3
Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$215,712	\$206,050	\$233,440	\$233,440	\$449,152	\$439,490
Construction in Progress	0	188,710	0	284,666	0	473,376
Buildings and Improvements	3,848,635	3,634,329	13,733,874	13,631,744	17,582,509	17,266,073
Equipment	3,676,879	3,451,843	28,206,306	27,978,595	31,883,185	31,430,438
Infrastructure	19,804,291	19,632,026	23,238,660	22,811,577	43,042,951	42,443,603
Accumulated Depreciation	(11,005,237)	(10,199,956)	(36,985,356)	(35,651,253)	(47,990,593)	(45,851,209)
Total Net Capital Assets	<u>\$16,540,280</u>	<u>\$16,913,002</u>	<u>\$28,426,924</u>	<u>\$29,288,769</u>	<u>\$44,967,204</u>	<u>\$46,201,771</u>

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

Debt

The City had \$723,811 in bonds and loans outstanding for Governmental Activities and \$3,536,988 in loans outstanding for Business-Type Activities.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)

Table 4
Outstanding Debt at Year End

		<u>2010</u>	<u>2009</u>
Governmental Activities:			
Special Assessment Bonds:			
Street Improvement - Fox Run 6	2.36%	\$0	\$13,497
Street Improvement - Fox Run 7	4.24%	<u>165,178</u>	<u>185,825</u>
Total Special Assessment Bonds		<u>165,178</u>	<u>199,322</u>
General Obligation Bonds:			
2003 Various Purpose Bonds	4.25%	276,331	406,106
2007 Various Purpose Bonds	4.75%	175,000	190,000
Premium on Bonds		<u>1,709</u>	<u>1,925</u>
Total General Obligation Bonds		<u>453,040</u>	<u>598,031</u>
OPWC Loan:			
Wareham Road	0.00%	<u>105,593</u>	<u>121,838</u>
Total Governmental Activities Debt		<u><u>\$723,811</u></u>	<u><u>\$919,191</u></u>
Business Type Activities:			
OPWC Loan:			
Wastewater treatment plant expansion	3.00%	<u>\$85,714</u>	<u>\$142,857</u>
OWDA Loans:			
EQ basin	1.00%	842,321	1,024,424
WTP upgrade	2.75%	<u>2,608,953</u>	<u>2,762,534</u>
Total OWDA Loans		3,451,274	3,786,958
Total Business-Type Activities Debt		<u>3,536,988</u>	<u>3,929,815</u>
Total Debt		<u><u>\$4,260,799</u></u>	<u><u>\$4,849,006</u></u>

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

**City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2010
(Unaudited)**

Economic Outlook

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

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

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

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

Contacting The City's Finance Department

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

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City of Shelby, Ohio
Statement of Net Assets
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$4,858,194	\$5,682,959	\$10,541,153
Restricted Cash and Investments	2,002	14,729	16,731
Cash and Cash Equivalents with Fiscal Agent	705,131	0	705,131
Receivables:			
Taxes	1,293,182	0	1,293,182
Accounts	1,047	1,457,745	1,458,792
Interest	4,142	0	4,142
Intergovernmental	658,316	0	658,316
Special Assessments	31,452	0	31,452
Internal Balances	(266,731)	266,731	0
Prepays	30,730	200,062	230,792
Inventory	137,937	959,274	1,097,211
Deferred Bond Issuance Costs	3,989	0	3,989
Investment in Joint Venture	0	604,810	604,810
Nondepreciable Capital Assets	215,712	233,440	449,152
Depreciable Capital Assets, Net	16,324,568	28,193,484	44,518,052
Total Assets	23,999,671	37,613,234	61,612,905
Liabilities:			
Accounts Payable	993,533	492,262	1,485,795
Accrued Wages and Benefits	258,680	154,889	413,569
Retainage Payable	2,002	14,729	16,731
Accrued Interest Payable	5,986	45,710	51,696
Contracts Payable	0	13,538	13,538
Unearned Revenue	609,011	0	609,011
Claims Payable	64,012	0	64,012
Bond Anticipation Notes Payable	0	2,700,000	2,700,000
Long-Term Liabilities:			
Due Within One Year	266,305	531,218	797,523
Due In More Than One Year	859,337	3,292,212	4,151,549
Total Liabilities	3,058,866	7,244,558	10,303,424
Net Assets:			
Invested in Capital Assets, Net of Related Debt	15,816,469	22,189,936	38,006,405
Restricted for:			
Debt Service	882,365	0	882,365
Capital Projects	1,423,730	0	1,423,730
Human Services Programs	315,468	0	315,468
Community Development Projects	693,210	0	693,210
Mini Park Trust	25,465	0	25,465
Street Maintenance, Construction and Repair	336,019	0	336,019
Other Purposes	409,789	0	409,789
Unrestricted	1,038,290	8,178,740	9,217,030
Total Net Assets	\$20,940,805	\$30,368,676	\$51,309,481

See accompanying notes to the basic financial statements

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2010

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$910,453	\$419,396	\$0	\$0
Public Safety	3,259,757	350,132	26,149	1,183
Leisure Time Activities	81,926	12,075	28,090	0
Community Development	1,045,972	35,181	617,210	0
Transportation and Street Repair	1,147,815	9,275	696,231	4,462
Public Health and Welfare	285,986	38,913	91,818	0
Other	42,995	0	0	0
Interest and Fiscal Charges	31,637	0	0	0
Total Governmental Activities	6,806,541	864,972	1,459,498	5,645
Business-Type Activities:				
Sewer	1,351,953	1,468,692	0	0
Water	1,849,866	1,953,151	53,636	0
Electric	11,016,469	11,719,653	0	0
Total Business-Type Activities	14,218,288	15,141,496	53,636	0
Totals	\$21,024,829	\$16,006,468	\$1,513,134	\$5,645

General Revenues:

Income Taxes

Property Taxes Levied for:

General Purposes

Special Revenue Purposes

Other Taxes:

Excise Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets 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
(\$491,057)	\$0	(\$491,057)
(2,882,293)	0	(2,882,293)
(41,761)	0	(41,761)
(393,581)	0	(393,581)
(437,847)	0	(437,847)
(155,255)	0	(155,255)
(42,995)	0	(42,995)
(31,637)	0	(31,637)
<u>(4,476,426)</u>	<u>0</u>	<u>(4,476,426)</u>
0	116,739	116,739
0	156,921	156,921
<u>0</u>	<u>703,184</u>	<u>703,184</u>
0	976,844	976,844
<u>(4,476,426)</u>	<u>976,844</u>	<u>(3,499,582)</u>
2,826,743	0	2,826,743
171,091	0	171,091
502,240	0	502,240
420,675	0	420,675
645,851	0	645,851
46,300	29,132	75,432
175,078	62,045	237,123
<u>4,787,978</u>	<u>91,177</u>	<u>4,879,155</u>
311,552	1,068,021	1,379,573
<u>20,629,253</u>	<u>29,300,655</u>	<u>49,929,908</u>
<u>\$20,940,805</u>	<u>\$30,368,676</u>	<u>\$51,309,481</u>

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2010

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$1,312,747	\$3,545,447	\$4,858,194
Restricted Cash and Investments	0	2,002	2,002
Receivables:			
Taxes	640,292	652,890	1,293,182
Accounts	0	1,047	1,047
Interest	3,638	504	4,142
Intergovernmental	389,577	268,739	658,316
Special Assessments	0	31,452	31,452
Prepays	18,229	12,501	30,730
Inventory	23,169	114,768	137,937
Total Assets	<u>2,387,652</u>	<u>4,629,350</u>	<u>7,017,002</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	895,308	98,225	993,533
Accrued Wages and Benefits	229,943	28,737	258,680
Retainage Payable	0	2,002	2,002
Deferred Revenue	589,883	733,706	1,323,589
Total Liabilities	<u>1,715,134</u>	<u>862,670</u>	<u>2,577,804</u>
Fund Balances:			
Reserved for Encumbrances	104,019	191,873	295,892
Reserved for Inventory	23,169	114,768	137,937
Reserved for Prepays	18,229	12,501	30,730
Reserved for Property Tax Advances	4,336	6,503	10,839
Unreserved, Undesignated, Reported in:			
General Fund	522,765	0	522,765
Special Revenue Funds	0	1,270,647	1,270,647
Debt Service Funds	0	847,139	847,139
Capital Projects Funds	0	1,297,784	1,297,784
Permanent Funds	0	25,465	25,465
Total Fund Balances	<u>672,518</u>	<u>3,766,680</u>	<u>4,439,198</u>
Total Liabilities and Fund Balances	<u>\$2,387,652</u>	<u>\$4,629,350</u>	<u>\$7,017,002</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 December 31, 2010

Total Governmental Fund Balance		\$4,439,198
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		16,540,280
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income Taxes	\$216,206	
Delinquent Property Taxes	58,236	
Interest	4,142	
Intergovernmental	404,542	
Other	31,452	
		714,578
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Internal Service Net Assets	\$641,119	
Allocation to Business-Type Activities	(266,731)	
		374,388
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(5,986)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(401,831)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		
		3,989
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
		(723,811)
Net Assets of Governmental Activities		<u>\$20,940,805</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2010

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$2,608,960	\$1,273,820	\$3,882,780
Fines, Licenses and Permits	220,081	104,227	324,308
Charges for Services	369,171	135,256	504,427
Investment Earnings	38,756	7,161	45,917
Intergovernmental	718,402	1,278,864	1,997,266
Special Assessments	0	36,237	36,237
Other Revenues	105,881	77,833	183,714
Total Revenues	4,061,251	2,913,398	6,974,649
Expenditures:			
Current:			
General Government	895,311	206,289	1,101,600
Public Safety	2,835,115	291,601	3,126,716
Leisure Time Activities	0	71,971	71,971
Community Development	0	972,904	972,904
Transportation and Street Repair	34,765	610,479	645,244
Public Health and Welfare	0	279,589	279,589
Other	0	42,995	42,995
Capital Outlay	0	514,173	514,173
Debt Service:			
Principal Retirement	0	195,164	195,164
Interest and Fiscal Charges	0	34,973	34,973
Total Expenditures	3,765,191	3,220,138	6,985,329
Excess of Revenues Over (Under) Expenditures	296,060	(306,740)	(10,680)
Other Financing Sources (Uses):			
Transfers In	0	280,250	280,250
Transfers (Out)	(280,250)	0	(280,250)
Total Other Financing Sources (Uses)	(280,250)	280,250	0
Net Change in Fund Balance	15,810	(26,490)	(10,680)
Fund Balance Beginning of Year	686,907	3,724,944	4,411,851
Change in Reserve for Inventory	(30,199)	68,226	38,027
Fund Balance End of Year	\$672,518	\$3,766,680	\$4,439,198

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2010

Net Change in Fund Balance - Total Governmental Funds (\$10,680)

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

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

Capital assets used in governmental activities	\$432,559	
Depreciation Expense	(805,281)	
		(372,722)

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

Income Taxes	\$46,213	
Delinquent Property Taxes	(8,244)	
Interest	(8,253)	
Intergovernmental	109,266	
Other	4,462	
		143,444

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 195,164

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 3,624

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

Compensated Absences	(\$40,474)	
Amortization of Bond Issuance Cost	(504)	
Amortization of Bond Premium	216	
Change in Inventory	38,027	
		(2,735)

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

Change in Net Assets - Internal Service Funds	564,647	
Change in portion of Internal Service Fund Net Assets allocated to Business-Type Activities	(209,190)	
		355,457

Change in Net Assets of Governmental Activities \$311,552

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$2,482,300	\$2,815,300	\$2,599,896	(\$215,404)
Fines, Licenses and Permits	206,250	211,250	220,081	8,831
Intergovernmental	596,600	1,614,100	1,568,864	(45,236)
Charges for Services	345,000	395,000	369,171	(25,829)
Investment Earnings	80,000	80,000	38,484	(41,516)
Other Revenues	46,500	51,500	40,576	(10,924)
Total Revenues	3,756,650	5,167,150	4,837,072	(330,078)
Expenditures:				
Current:				
General Government	1,059,700	1,055,689	955,017	100,672
Public Safety	2,800,403	2,866,413	2,838,239	28,174
Transportation and Street Repair	37,300	37,300	36,191	1,109
Total Expenditures	3,897,403	3,959,402	3,829,447	129,955
Excess of Revenues Over (Under) Expenditures	(140,753)	1,207,748	1,007,625	(200,123)
Other Financing Sources (Uses):				
Transfers In	68,000	68,000	65,304	(2,696)
Transfers (Out)	(260,250)	(672,250)	(280,250)	392,000
Total Other Financing Sources (Uses)	(192,250)	(604,250)	(214,946)	389,304
Net Change in Fund Balance	(333,003)	603,498	792,679	189,181
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	410,414	410,414	410,414	0
Fund Balance End of Year	\$77,411	\$1,013,912	\$1,203,093	\$189,181

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Current Assets:					
Equity in Pooled Cash and Investments	\$907,234	\$911,174	\$3,864,551	\$5,682,959	\$0
Restricted Cash and Investments	0	14,729	0	14,729	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	705,131
Receivables:					
Accounts	102,042	218,662	1,137,041	1,457,745	0
Prepays	14,588	27,588	157,886	200,062	0
Inventory	30,908	145,802	782,564	959,274	0
Total Current Assets	1,054,772	1,317,955	5,942,042	8,314,769	705,131
Noncurrent Assets:					
Investment in Joint Venture	0	0	604,810	604,810	0
Capital Assets:					
Nondepreciable Capital Assets	0	184,070	49,370	233,440	0
Depreciable Capital Assets, Net	7,365,745	10,231,225	10,596,514	28,193,484	0
Total Noncurrent Assets	7,365,745	10,415,295	11,250,694	29,031,734	0
Total Assets	8,420,517	11,733,250	17,192,736	37,346,503	705,131
Liabilities:					
Current Liabilities:					
Accounts Payable	3,177	30,179	458,906	492,262	0
Accrued Wages and Benefits	28,014	37,187	89,688	154,889	0
Compensated Absences	6,863	17,001	48,781	72,645	0
Retainage Payable	0	14,729	0	14,729	0
Accrued Interest Payable	4,212	35,873	5,625	45,710	0
Contracts Payable	0	13,538	0	13,538	0
Claims Payable	0	0	0	0	64,012
Bond Anticipation Notes Payable	0	0	2,700,000	2,700,000	0
Long-Term Liabilities Due Within One Year	241,072	217,501	0	458,573	0
Total Current Liabilities	283,338	366,008	3,303,000	3,952,346	64,012
Long-Term Liabilities:					
Compensated Absences	29,329	41,224	143,244	213,797	0
Bonds, Notes & Loans Payable	686,963	2,391,452	0	3,078,415	0
Total Long-Term Liabilities	716,292	2,432,676	143,244	3,292,212	0
Total Liabilities	999,630	2,798,684	3,446,244	7,244,558	64,012
Net Assets:					
Invested in Capital Assets, Net of Related Debt	6,437,710	7,806,342	7,945,884	22,189,936	0
Unrestricted	983,177	1,128,224	5,800,608	7,912,009	641,119
Total Net Assets	\$7,420,887	\$8,934,566	\$13,746,492	\$30,101,945	\$641,119
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				\$266,731	
Net Assets of Business-Type Activities				\$30,368,676	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Operating Revenues:					
Charges for Services	\$1,468,692	\$1,953,151	\$11,719,653	\$15,141,496	\$2,011,863
Other Revenues	539	4,950	56,756	62,245	0
Total Operating Revenues	1,469,231	1,958,101	11,776,409	15,203,741	2,011,863
Operating Expenses:					
Personal Services	663,424	901,360	2,080,438	3,645,222	0
Contractual Services	145,897	79,747	547,448	773,092	0
Materials and Supplies	79,037	357,824	7,354,670	7,791,531	0
Depreciation	358,391	352,963	622,749	1,334,103	0
Utilities	130,710	127,151	211,146	469,007	0
Claims	0	0	0	0	1,459,267
Other Expenses	9,220	5,649	211,947	226,816	0
Total Operating Expenses	1,386,679	1,824,694	11,028,398	14,239,771	1,459,267
Operating Income	82,552	133,407	748,011	963,970	552,596
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	29,132	29,132	12,051
Interest (Expense)	(8,880)	(73,211)	(58,266)	(140,357)	0
Gain (Loss) in Investment in Joint Venture	0	0	(47,350)	(47,350)	0
Operating Grants	0	53,636	0	53,636	0
Excise Tax Revenue	0	0	41,537	41,537	0
Excise Tax (Expense)	0	0	(41,737)	(41,737)	0
Total Non-Operating Revenues (Expenses)	(8,880)	(19,575)	(76,684)	(105,139)	12,051
Change in Net Assets	73,672	113,832	671,327	858,831	564,647
Net Assets Beginning of Year	7,347,215	8,820,734	13,075,165	29,243,114	76,472
Net Assets End of Year	\$7,420,887	\$8,934,566	\$13,746,492	\$30,101,945	\$641,119
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				\$209,190	
Change in Net Assets - Total Business-Type Activities				\$30,311,135	

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, 2010

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,471,832	\$1,963,692	\$11,805,388	\$15,240,912	\$2,011,863
Cash Payments to Employees	(658,060)	(897,185)	(2,090,285)	(3,645,530)	0
Cash Payments to Suppliers	(383,769)	(562,733)	(9,248,962)	(10,195,464)	0
Cash Payments for Claims	0	0	0	0	(1,519,496)
Net Cash Provided (Used) by Operating Activities					
Operating Activities	430,003	503,774	466,141	1,399,918	492,367
Cash Flows from Noncapital Financing Activities:					
Operating Grants Received	0	53,636	0	53,636	0
Cash Payments for Excise Taxes	0	0	(41,737)	(41,737)	0
Cash Received for Other Local Taxes	0	0	41,537	41,537	0
Net Cash Provided (Used) by Noncapital Financing Activities	0	53,636	(200)	53,436	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(28,951)	(154,562)	(288,745)	(472,258)	0
Debt Principal Payments	(239,246)	(153,581)	(350,000)	(742,827)	0
Debt Interest Payments	(9,790)	(76,121)	(61,854)	(147,765)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(277,987)	(384,264)	(700,599)	(1,362,850)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	29,801	29,801	12,051
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	29,801	29,801	12,051
Net Increase (Decrease) in Cash and Cash Equivalents	152,016	173,146	(204,857)	120,305	504,418
Cash and Cash Equivalents Beginning of Year	755,218	752,757	4,069,408	5,577,383	200,713
Cash and Cash Equivalents End of Year	907,234	925,903	3,864,551	\$5,697,688	705,131
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	82,552	133,407	748,011	\$963,970	552,596
Adjustments:					
Depreciation	358,391	352,963	622,749	1,334,103	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	2,601	5,573	28,979	37,153	0
(Increase) Decrease in Inventory	(5,095)	10,478	(32,494)	(27,111)	0
(Increase) Decrease in Prepays	1,804	195	24,052	26,051	0
Increase (Decrease) in Payables	(15,614)	(3,017)	(912,047)	(930,678)	(60,229)
Increase (Decrease) in Accrued Liabilities	5,364	4,175	(13,109)	(3,570)	0
Net Cash Provided (Used) by Operating Activities	\$430,003	\$503,774	\$466,141	\$1,399,918	\$492,367

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2010

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$200,725
Restricted Cash and Investments	<u>4,840</u>
Total Assets	<u><u>205,565</u></u>
Liabilities:	
Other Liabilities	4,840
Intergovernmental Payable	<u>200,725</u>
Total Liabilities	<u><u>\$205,565</u></u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 1 - Description of the City

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply this FASB guidance. The City’s significant accounting policies are described below.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of two insurance purchasing pools which are described in Note 12.

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

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

Joint Venture

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

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$604,810 at December 31, 2010. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2010 are:

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

Basis of Presentation - Fund Accounting

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

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 only major governmental fund:

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

Basis of Accounting

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2010, are recorded as deferred revenue in the governmental funds.

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

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

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

Budgetary Data

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2010.

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

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

Equity in Pooled Cash and Investments

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2010, interest revenue credited to the general fund amounted to \$38,756 and \$7,161 from other governmental funds.

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

The City is self-insured through a fiscal agent, Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA). The money held by the fiscal agent is presented as "cash with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OME-RESA is described in Note 12.

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Inventories of Materials and Supplies

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

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

Inventory consists of expendable supplies held for consumption.

Capital Assets

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Compensated Absences

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

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

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

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

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

Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2010, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

Accrued Liabilities and Long-Term Obligations

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

Interfund Activity

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

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

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

Fund Balance Reserves

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

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

Estimates

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

Contributed Capital

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of net assets restricted for income tax operations, City administrative operations and trust fund resources. Of the City's \$4,086,046 in restricted net assets, none was restricted by enabling legislation.

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

Unamortized Issuance Costs/Bond Premium and Discount

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

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

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

Operating Revenues and Expenses

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

Note 3 - Equity in Pooled Cash and Investments

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

Cash in Segregated Accounts

At December 31, 2010, the City had \$4,840 in segregated accounts for municipal court deposits, \$2,002 in segregated accounts for retainage due from governmental funds and \$14,729 in segregated accounts for retainage due from business-type funds. These accounts were covered by the FDIC or pooled collateral held by the depository institution. These amounts are not included in the City's depository balance below.

Cash with Fiscal Agent

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2010 was \$705,131. This amount is not included in the City's depository balance below.

Deposits

At December 31, 2010, \$4,877,354 of the City's bank balance of \$5,646,343 was exposed to custodial risk as discussed below, while \$768,989 was covered by the FDIC.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Investments

As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Funds	\$5,762,177	0.00
Repurchase Agreements	301,621	0.00
Total Fair Value	<u>\$6,063,798</u>	
 Portfolio Weighted Average Maturity		 0.00

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

Credit Risk – It is the City’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The City’s investments in Money Market Funds and Repurchase Agreements were not rated.

Concentration of Credit Risk – The City’s investment policy allows investments in Federal Government Securities or Instrumentalities. The City has invested 95% in Money Market Funds and 5% in Repurchase Agreements.

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

Note 4 - Interfund Transactions

Interfund transfers for the year ended December 31, 2010, consisted of the following, as reported on the fund statements:

Transfers from the general fund to:

Other governmental funds	\$280,250
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 5 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2009 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 100 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2009, and are collected in 2011 with real property taxes.

2010 tangible personal property taxes are levied after October 1, 2010, on the value as of December 31, 2009. Collections are made in 2010. Tangible personal property assessments are 25 percent of true value.

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and interexchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after April 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county 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. Tangible personal property taxes paid by April 30 are usually received by the City prior to June 30.

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

Real Property	\$137,468,550
Public Utility	954,350
Total Valuation	<u>\$138,422,900</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.25% on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations are required to pay their estimated tax quarterly and file a declaration annually. Income tax receipts are recorded by the City as determined by the City ordinance.

Note 7 - Receivables

Receivables at December 31, 2010, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements and shared revenue.

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

Governmental Activities:

Income Taxes	\$615,096
Real and Other Taxes	678,086
Accounts	1,047
Special Assessments	31,452
Intergovernmental	658,316
Accrued Interest	4,142

Business-Type Activities:

Accounts	1,457,745
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Receivables have been disaggregated on the face of the basic financial statements. All receivables, except for special assessments which are collected over the life of the assessment, are expected to be collected within the subsequent year.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 8 – Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$206,050	\$9,662	\$0	\$215,712
Construction in Progress	188,710	0	188,710	0
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	3,634,329	214,306	0	3,848,635
Equipment	3,451,843	225,036	0	3,676,879
Infrastructure	19,632,026	172,265	0	19,804,291
Totals at Historical Cost	<u>\$27,112,958</u>	<u>\$621,269</u>	<u>\$188,710</u>	<u>\$27,545,517</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$1,593,526	\$136,321	\$0	\$1,729,847
Equipment	2,464,869	204,435	0	2,669,304
Infrastructure	6,141,561	464,525	0	6,606,086
Total Accumulated Depreciation	<u>\$10,199,956</u>	<u>\$805,281</u>	<u>\$0</u>	<u>\$11,005,237</u>
Governmental Activities Capital Assets, Net	<u>\$16,913,002</u>	<u>(\$184,012)</u>	<u>\$188,710</u>	<u>\$16,540,280</u>
Business-Type Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$233,440	\$0	\$0	\$233,440
Construction in Progress	284,666	0	284,666	0
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	13,631,744	102,130	0	13,733,874
Equipment	27,978,595	227,711	0	28,206,306
Infrastructure	22,811,577	427,083	0	23,238,660
Totals at Historical Cost	<u>\$64,940,022</u>	<u>\$756,924</u>	<u>\$284,666</u>	<u>\$65,412,280</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$5,609,444	\$337,227	\$0	\$5,946,671
Equipment	23,690,878	521,393	0	24,212,271
Infrastructure	6,350,931	475,483	0	6,826,414
Total Accumulated Depreciation	<u>\$35,651,253</u>	<u>\$1,334,103</u>	<u>\$0</u>	<u>\$36,985,356</u>
Business-Type Activities Capital Assets, Net	<u>\$29,288,769</u>	<u>(\$577,179)</u>	<u>\$284,666</u>	<u>\$28,426,924</u>

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

General Government	\$33,386
Public Safety	113,094
Leisure Time Activities	9,955
Community Development	71,319
Public Health and Welfare	2,164
Transportation and Street Repair	<u>575,363</u>
Total Depreciation Expense	<u><u>\$805,281</u></u>

Note 9 – Compensated Absences

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

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

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2010:

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds</u>						
Street Improvement - Series 2007	4.25%	\$406,106	\$0	(\$129,775)	\$276,331	\$135,291
Fire Truck - Series 2008	4.75%	190,000	0	(15,000)	175,000	20,000
Premium on General Obligations Bonds		1,925	0	(216)	1,709	0
Total General Obligation Bonds		<u>598,031</u>	<u>0</u>	<u>(144,991)</u>	<u>453,040</u>	<u>155,291</u>
<u>Special Assessment Bonds</u>						
Street Improvement - Fox Run 6	2.36%	13,497	0	(13,497)	0	0
Street Improvement - Fox Run 7	4.24%	185,825	0	(20,647)	165,178	20,647
Total Special Assessment Bonds		<u>199,322</u>	<u>0</u>	<u>(34,144)</u>	<u>165,178</u>	<u>20,647</u>
<u>OPWC Loan Payable:</u>						
Wareham Road	0.00%	121,838	0	(16,245)	105,593	16,245
Total Bonds and Loans Payable		<u>919,191</u>	<u>0</u>	<u>(195,380)</u>	<u>723,811</u>	<u>192,183</u>
Compensated Absences		<u>361,357</u>	<u>101,422</u>	<u>(60,948)</u>	<u>401,831</u>	<u>74,122</u>
Total Governmental Activities		<u>\$1,280,548</u>	<u>\$101,422</u>	<u>(\$256,328)</u>	<u>\$1,125,642</u>	<u>\$266,305</u>
Business-Type Activities						
<u>OPWC Loan Payable:</u>						
Wastewater Treatment Plant Expansion	0.00%	\$142,857	\$0	(\$57,143)	\$85,714	\$57,143
<u>OWDA Loans Payable:</u>						
EQ Basin	1.00%	1,024,424	0	(182,103)	842,321	183,929
WTP Upgrade	2.75%	2,762,534	0	(153,581)	2,608,953	217,501
Total Loans Payable		<u>3,929,815</u>	<u>0</u>	<u>(392,827)</u>	<u>3,536,988</u>	<u>458,573</u>
Compensated Absences		<u>269,626</u>	<u>85,892</u>	<u>(69,076)</u>	<u>286,442</u>	<u>72,645</u>
Total Business-Type Activities		<u>\$4,199,441</u>	<u>\$85,892</u>	<u>(\$461,903)</u>	<u>\$3,823,430</u>	<u>\$531,218</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

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

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2010, are as follows:

Year Ending December 31	Governmental Activities						Business-Type Activities			
	General Obligation Bonds		Special Assessment Bonds		OPWC Loan		OPWC Loan		ODWA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$155,291	\$20,094	\$20,647	\$6,801	\$16,245	\$0	\$57,143	\$0	\$401,430	\$78,226
2012	161,040	13,444	20,648	5,924	16,245	0	28,571	0	409,295	70,359
2013	20,000	6,550	20,647	5,066	16,245	0	0	0	417,346	62,308
2014	20,000	5,450	20,648	4,159	16,245	0	0	0	425,588	54,067
2015	20,000	4,525	20,647	3,291	16,245	0	0	0	338,078	45,630
2016-2020	75,000	7,375	61,941	4,600	24,368	0	0	0	1,317,608	121,201
2021	0	0	0	0	0	0	0	0	141,929	1,951
Total	\$451,331	\$57,438	\$165,178	\$29,841	\$105,593	\$0	\$85,714	\$0	\$3,451,274	\$433,742

Note 11 - Notes Payable

The City had the following general obligation note activity during 2010 for electric enterprise fund. These notes are reported as a liability in the electric enterprise fund.

	Rate	Beginning Balance	Additions	Deletions	Ending Balance
Business-Type Activities					
Electric Fund:					
Electric System Improvements	2.25%	\$3,050,000	\$0	(\$3,050,000)	\$0
Electric System Improvements	1.50%	0	2,700,000	0	2,700,000
Total Business-Type Activities		\$3,050,000	\$2,700,000	(\$3,050,000)	\$2,700,000

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, 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, 2010, follows:

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

The claims liability of \$64,012 reported in the hospitalization internal service fund at December 31, 2010, 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, 2010 and 2009 were as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2010	\$124,241	\$1,725,000	(\$1,785,229)	\$64,012
2009	237,470	1,641,822	(1,755,051)	124,241

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 2009.

Note 13 – Pension Plans

Ohio Public Employees Retirement System

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members and employer contributions rates were consistent across all three plans. Plan members are required to contribute 10% of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 14% of covered payroll. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2010, 2009 and 2008 were \$480,474, \$479,078 and \$462,332, respectively. The full amount has been contributed for 2008 and 2009 and 91% has been contributed for 2010.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers (the City) are required to contribute 19.5% for police officers and 24.0% for firefighters. The City's contributions to OP&F for the years ending December 31, 2010, 2009 and 2008 were \$352,312, \$334,885, and \$339,191, respectively. The full amount has been contributed for 2008 and 2009 and 76% has been contributed for 2010.

Note 14 – Post Employment Benefits

Ohio Public Employees Retirement System

Plan Description

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

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

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the City contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determined the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to the health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's required contributions for the current year, which were used to fund postemployment benefits, were \$36,255 for the period January 1 through February 28, 2010, and \$138,626 for the period March 1 through December 31, 2010, \$64,699 for the period of January 1 through March 31, 2009 and \$137,375 for the period of April 1 through December 31, 2009, \$231,166 for 2008. The full amount (actual) has been contributed for 2008 and 2009 and 91% has been contributed for 2010.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

OPERS Retirement Board Implements its Health Care Preservation Plan

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

Ohio Police and Fire Pension Fund

Plan Description

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

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

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

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

Funding Policy

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

Information from City's Records

The City's required contributions to OP&F were \$61,296 for police and \$49,219 for fire for the year ending December 31, 2010; \$58,371 for police and \$46,760 for fire for the year ending December 31, 2009; and \$58,634 for police and \$47,751 for fire for the year ending December 31, 2008, respectively, was allocated to the healthcare plan. The actual contributions for 2008 and 2009 were 100% and 76% has been contributed for 2010.

Note 15 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statements of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund and the FEMA fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$15,810
Revenue Accruals	775,821
Expenditure Accruals	44,957
Transfer In	65,304
Encumbrances	<u>(109,213)</u>
Budget Basis	<u><u>\$792,679</u></u>

Note 16 - Contingencies

Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2010.

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.

Litigation

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

Note 17 - Change in Accounting Principles

For 2010, the City has implemented GASB No. 51 “Accounting and Financial Reporting for Intangible Assets.” Any intangible assets acquired by the City prior to January 1, 2010 are considered to have indefinite useful lives and are not retroactively reported.

Note 18 – Subsequent Events

As of March 1, 2011, The City of Shelby will no longer produce electricity from its coal fired electric facility. Due to the cost of meeting EPA guidelines in the future for emissions, it will no longer be financially feasible to produce energy at a competitive rate. The facility will remain in use as a switching station for purchased power. As of December 31, 2010, the capital assets related to the coal fired electric facility were fully depreciated.

CITY OF SHELBY, OHIO

Single Audit Reports

December 31, 2010

**CITY OF SHELBY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor/Pass - Through Grantor, Program Title	Pass Through Entity Number	CFDA	Disbursements
<u>United States Department of Housing Urban Development</u>			
Passed Through Ohio Housing and Community Partnerships:			
Community Development Block Grant-States Program	A-C-09-176-1	14.228	173,147
Home Investment Partnerships Program	A-C-09-176-2	14.239	245,555
			<u>418,702</u>
<u>United States Department of Justice- Office of Justice Program</u>			
Direct Funding			
Bullet Proof Vest Grant	NA	16.607	325
			<u>325</u>
<u>United States Department of Homeland Security</u>			
Passed Through Department of Public Safety, Ohio Emergency Management Agency:			
Hazard Mitigation Grant	FEMA 1720.10R-OH	97.039	86,217
Hazard Mitigation Grant	FEMA 1720.4R-OH	97.039	39,006
Repetitive Flood Claims	2008-05-5304FI-9052-4101	97.092	40,013
			<u>165,236</u>
TOTALS			<u><u>\$584,263</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated June 28, 2011.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Shelby's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended December 31, 2010, and have issued our report thereon dated June 28, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 28, 2011

**CITY OF SHELBY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010**

Section I – Summary of Auditor’s Results

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any material reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other significant control deficiencies reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under Section .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (list):</i>	FEMA - Hazard Mitigation Grant Program CFDA# 97.039 Repetitive Flood Claims Program CFDA# 97.092
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

None

Section III – Federal Award Findings and Questioned Costs

None

**CITY OF SHELBY
DECEMBER 31, 2010**

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

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



Dave Yost • Auditor of State

CITY OF SHELBY

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 6, 2011