

CITY OF SHELBY, OHIO



Yellow Book Reports

December 31, 2013



Dave Yost • Auditor of State

City Council
City of Shelby
43 West 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, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 26, 2014

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**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2014, wherein we noted the City adopted GASB Statement No. 65 as disclosed in Note 17.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
June 30, 2014

CITY OF SHELBY
Richland County, Ohio



Basic Financial Statements

December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, Ohio (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 17 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–10 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
June 30, 2014

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(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, 2013. 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 position decreased \$764,065. Net position of governmental activities decreased \$1,013,710, net position of business-type activities increased by \$249,645.
- The General Fund reported a fund balance of \$362,102.
- Business-type operations reflected an operating income (loss) of \$278,421.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Shelby is financially better off or worse off as a result of the year's activities. These statements include all assets and 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.

These two statements report the City's net position 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 wellbeing. Some of these factors include the City's tax base and the condition of capital assets.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

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

- **Governmental Activities** - Most of the City's programs and services are reported here including general government, 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 major governmental funds are the General and the Police and Court Construction funds.

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

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

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

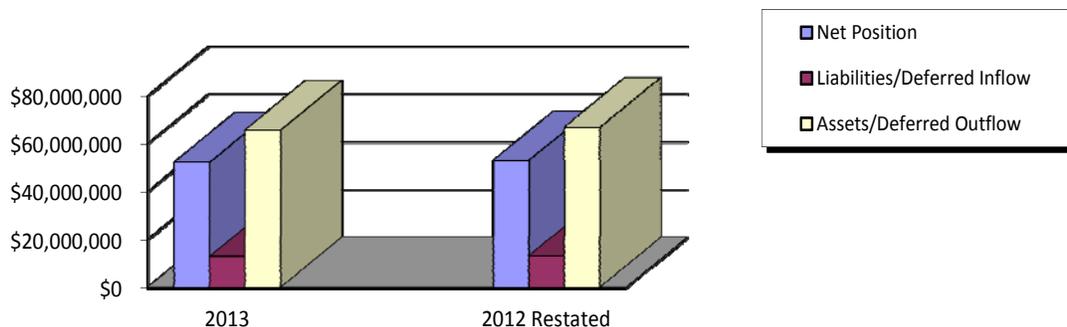
Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting 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 Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2013 compared to 2012.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
Assets:						
Current and Other Assets	\$7,527,013	\$11,763,008	\$10,162,776	\$9,926,061	\$17,689,789	\$21,689,069
Capital Assets	21,207,758	17,672,821	26,800,303	27,424,539	48,008,061	45,097,360
Total Assets	28,734,771	29,435,829	36,963,079	37,350,600	65,697,850	66,786,429
Liabilities:						
Long-Term Liabilities	7,035,755	7,212,642	3,817,275	4,686,765	10,853,030	11,899,407
Other Liabilities	1,035,062	590,481	989,034	756,710	2,024,096	1,347,191
Total Liabilities	8,070,817	7,803,123	4,806,309	5,443,475	12,877,126	13,246,598
Total Deferred Inflows of Resources	647,372	602,414	0	0	647,372	602,414
Net Position:						
Net Investment in Capital Assets	16,248,251	16,186,380	23,227,100	22,983,990	39,475,351	39,170,370
Restricted	3,077,797	3,844,752	0	0	3,077,797	3,844,752
Unrestricted	690,534	999,160	8,929,670	8,923,135	9,620,204	9,922,295
Total Net Position	\$20,016,582	\$21,030,292	\$32,156,770	\$31,907,125	\$52,173,352	\$52,937,417



Total net position of the City as a whole decreased \$764,065. Net position of the City's governmental activities decreased \$1,013,710, while the net position of the City's business-type activities increased \$249,645 from 2012. The City had an unrestricted net position balance of \$9,620,204 that may be used to meet the government's ongoing obligations to citizens and creditors.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

Current and Other Assets decreased mainly due to a decrease in equity in pooled cash and investments which was mainly due to a decrease in bank balance. Long-Term Liabilities decreased mainly due to the City making regularly scheduled principal payments.

Table 2 shows the changes in net position for the year ended December 31, 2013 and revenue and expense comparisons to 2012.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for Services	\$1,252,125	\$950,559	\$13,930,417	\$13,527,367	\$15,182,542	\$14,477,926
Operating Grants and Contributions	789,061	1,068,953	219,895	7,381	1,008,956	1,076,334
Capital Grants and Contributions	18,330	286,238	0	0	18,330	286,238
Total Program Revenues	2,059,516	2,305,750	14,150,312	13,534,748	16,209,828	15,840,498
General Revenues:						
Income Taxes	2,925,718	3,144,101	0	0	2,925,718	3,144,101
Property Taxes	602,164	630,491	0	0	602,164	630,491
Grants and Entitlements	427,741	347,228	0	0	427,741	347,228
Investment Earnings	16,411	34,631	7,668	9,113	24,079	43,744
Other Revenues	575,760	533,436	78,173	415,627	653,933	949,063
Total General Revenues	4,547,794	4,689,887	85,841	424,740	4,633,635	5,114,627
Total Revenues	6,607,310	6,995,637	14,236,153	13,959,488	20,843,463	20,955,125
Program Expenses:						
General Government	1,269,637	1,263,429	0	0	1,269,637	1,263,429
Public Safety	3,990,533	3,355,720	0	0	3,990,533	3,355,720
Leisure Time Activities	72,323	75,792	0	0	72,323	75,792
Community Development	614,439	785,050	0	0	614,439	785,050
Transportation and Street Repair	1,159,866	1,139,683	0	0	1,159,866	1,139,683
Public Health and Welfare	260,457	292,517	0	0	260,457	292,517
Other	0	28,775	0	0	0	28,775
Interest and Other Charges	253,765	299,011	0	0	253,765	299,011
Sewer	0	0	1,481,519	1,394,653	1,481,519	1,394,653
Water	0	0	1,890,653	1,889,217	1,890,653	1,889,217
Electric	0	0	10,614,336	9,053,803	10,614,336	9,053,803
Total Program Expenses	7,621,020	7,239,977	13,986,508	12,337,673	21,607,528	19,577,650
Change in Net Position	(1,013,710)	(244,340)	249,645	1,621,815	(764,065)	1,377,475
Net Position - Beginning of Year, Restated	21,030,292	21,274,632	31,907,125	30,285,310	52,937,417	51,559,942
Net Position - End of Year	\$20,016,582	\$21,030,292	\$32,156,770	\$31,907,125	\$52,173,352	\$52,937,417

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

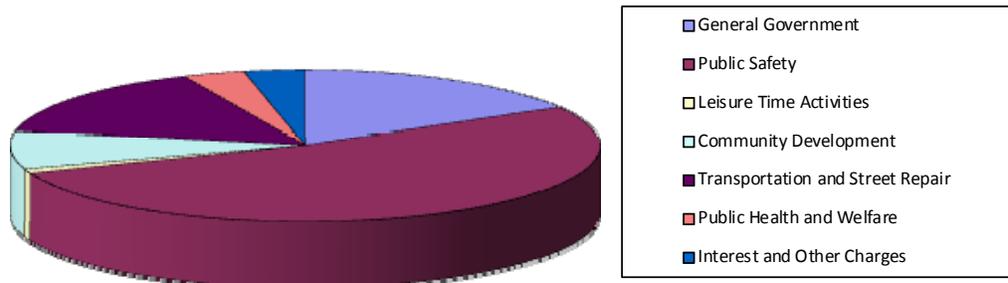
Governmental Activities

The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 78% of the City's governmental activities total general revenue.

Operating and Capital Grants and Contributions decreased mainly due to the City receiving less grant monies in 2013 when compared to 2012. Public Safety expenses increased mainly due to increases in personnel costs and general inflationary factors. All other program expenses remained relatively consistent from 2012 to 2013.

Governmental Activities
Program Expenses for 2013

<u>Program Expenses</u>	<u>Percentage</u>
General Government	16.66%
Public Safety	52.36%
Leisure Time Activities	0.95%
Community Development	8.06%
Transportation and Street Repair	15.22%
Public Health and Welfare	3.42%
Interest and Other Charges	3.33%
Total	100.00%



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

Business-Type Activities

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of \$14,054,691 and expenses of \$13,776,270 for fiscal year 2013. Business activities receive no support from tax revenues. The business activities (on the fund level) net position at the end of the year was \$32,219,395, which increased \$306,439 from 2012.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

The City's Funds

The City has two major governmental funds: the General, and Police and Court Construction Funds. Assets of the major governmental funds comprised \$3,021,058 (43%), of the total \$6,982,546 governmental funds' assets.

General Fund: Fund balance at December 31, 2013 was \$362,102. The General fund balance decreased mainly due to a decrease in taxes revenue.

Police and Court Construction Fund: Fund balance at December 31, 2013 was \$1,170,612. The fund balance decreased mainly due to the continuation of the construction of the Justice Center.

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 deficit of \$4,515, on a Non-GAAP Budgetary Basis.

Variations from the original budget amounts to the final budget amounts are primarily due to the following reasons: The City underestimated taxes, charges for services and intergovernmental revenues, while total expenditures were underestimated the general government and public safety expense.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$48,008,061 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2013 balances compared to 2012:

Table 3
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$405,871	\$405,871	\$233,440	\$233,440	\$639,311	\$639,311
Construction in Progress	4,302,969	358,921	0	5,984	4,302,969	364,905
Buildings and Improvements	5,082,408	4,996,020	13,881,547	13,863,483	18,963,955	18,859,503
Equipment	4,469,829	4,231,439	29,117,464	28,825,088	33,587,293	33,056,527
Infrastructure	20,181,306	20,181,306	24,370,725	24,018,411	44,552,031	44,199,717
Accumulated Depreciation	(13,234,625)	(12,500,736)	(40,802,873)	(39,521,867)	(54,037,498)	(52,022,603)
Total Net Capital Assets	<u>\$21,207,758</u>	<u>\$17,672,821</u>	<u>\$26,800,303</u>	<u>\$27,424,539</u>	<u>\$48,008,061</u>	<u>\$45,097,360</u>

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

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

Debt

The City had \$6,563,054 in bonds and loans outstanding for Governmental Activities and \$3,573,203 in loans and revenue bonds outstanding for Business-Type Activities.

Table 4
Outstanding Debt at Year End

		2013	2012
Governmental Activities:			
Special Assessment Bonds:			
Street Improvement - Fox Run 7	4.24%	\$103,237	\$123,884
Total Special Assessment Bonds		103,237	123,884
General Obligation Bonds:			
2007 Various Purpose Bonds	4.75%	115,000	135,000
2011 Municipal Justice Center Improvements	2.00%	6,150,000	6,285,000
Premium on Bonds		137,959	144,127
Total General Obligation Bonds		6,402,959	6,564,127
OPWC Loan:			
Wareham Road	0.00%	56,858	73,103
Total Governmental Activities Debt		6,563,054	6,761,114
OWDA Loans:			
EQ basin	1.00%	284,985	472,619
WTP upgrade	2.75%	1,938,218	2,167,930
Total OWDA Loans		2,223,203	2,640,549
Revenue Bonds:			
Electric System Revenue Bonds	1.00%	1,350,000	1,800,000
Total Business-Type Activities Debt		3,573,203	4,440,549
Total Debt		\$10,136,257	\$11,201,663

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

Economic Outlook

Since the 1800's the City has been known for its talented work force, which continues to be innovative, productive and stable. The City's industrial base continues to be strong and competitive, producing and shipping goods and materials around the world. While national trends reflect mergers and consolidations, the City has been aggressive and successful in adapting to these changing times by creating new opportunities. 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.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2013
(Unaudited)

The Technology Parkway area is creating excitement about increased business within the City. The Kehoe Center continues to grow with North Central State University. North Central State University currently has 950 students attending classes at the Kehoe Center campus and a four-year degree is possible in business or engineering on the Shelby Campus. A Convention Center is currently being financed and Phase I will be built on the third floor of the Kehoe Center. With a study complete for feasibility of a hotel near the Convention Center the possibilities are endless. This is becoming a gem for the City and will be a driving force in the future.

Shelby City Schools are in the process of building a new high school. The City passed a bond issue to pay for the construction of a new Justice Center to house our police force and municipal court and City council chambers. The citizens are very supportive of the Cities 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.

City of Shelby, Ohio
Statement of Net Position
December 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$4,692,650	\$7,092,111	\$11,784,761
Restricted Cash	198,715	0	198,715
Cash and Cash Equivalents with Fiscal Agent	481,842	0	481,842
Receivables (Net):			
Taxes	1,512,426	0	1,512,426
Accounts	27,730	1,609,781	1,637,511
Interest	530	454	984
Intergovernmental	402,692	0	402,692
Special Assessments	14,309	0	14,309
Internal Balances	62,625	(62,625)	0
Inventory	85,119	952,333	1,037,452
Investment in Joint Venture	0	430,954	430,954
Prepaid Items	48,375	139,768	188,143
Nondepreciable Capital Assets	4,708,840	233,440	4,942,280
Depreciable Capital Assets, Net	16,498,918	26,566,863	43,065,781
Total Assets	28,734,771	36,963,079	65,697,850
Liabilities:			
Accounts Payable	55,358	792,583	847,941
Accrued Wages and Benefits	253,191	166,424	419,615
Contracts Payable	343,821	0	343,821
Retainage Payable	198,715	0	198,715
Accrued Interest Payable	20,789	30,027	50,816
Claims Payable	163,188	0	163,188
Long-Term Liabilities:			
Due Within One Year	245,841	939,506	1,185,347
Due In More Than One Year	6,789,914	2,877,769	9,667,683
Total Liabilities	8,070,817	4,806,309	12,877,126
Deferred Inflows of Resources:			
Property Taxes	647,372	0	647,372
Total Deferred Inflows of Resources	647,372	0	647,372
Net Position:			
Net Investment in Capital Assets	16,248,251	23,227,100	39,475,351
Restricted for:			
Debt Service	827,275	0	827,275
Capital Projects	717,930	0	717,930
Human Services Programs	324,872	0	324,872
Community Development Projects	550,848	0	550,848
Mini Park Trust Nonexpendable	20,000	0	20,000
Mini Park Trust Expendable	5,200	0	5,200
Street Maintenance, Construction and Repair	474,182	0	474,182
Other Purposes	157,490	0	157,490
Unrestricted	690,534	8,929,670	9,620,204
Total Net Position	\$20,016,582	\$32,156,770	\$52,173,352

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2013

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,269,637	\$892,976	\$0	\$0
Public Safety	3,990,533	263,343	14,116	18,330
Leisure Time Activities	72,323	12,043	5,915	0
Community Development	614,439	46,040	181,803	0
Transportation and Street Repair	1,159,866	0	553,638	0
Public Health and Welfare	260,457	37,723	33,589	0
Interest and Other Charges	253,765	0	0	0
Total Governmental Activities	7,621,020	1,252,125	789,061	18,330
Business-Type Activities:				
Sewer	1,481,519	1,618,748	0	0
Water	1,890,653	2,046,813	219,895	0
Electric	10,614,336	10,264,856	0	0
Total Business-Type Activities	13,986,508	13,930,417	219,895	0
Totals	\$21,607,528	\$15,182,542	\$1,008,956	\$18,330

General Revenues:
Income Taxes
Property Taxes Levied for:
 General Purposes
 Special Revenue Purposes
Grants and Entitlements, Not Restricted
Unrestricted Contributions
Investment Earnings
Other Taxes: Excise Taxes
Other Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year, Restated

Net Position - End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$376,661)	\$0	(\$376,661)
(3,694,744)	0	(3,694,744)
(54,365)	0	(54,365)
(386,596)	0	(386,596)
(606,228)	0	(606,228)
(189,145)	0	(189,145)
(253,765)	0	(253,765)
<u>(5,561,504)</u>	<u>0</u>	<u>(5,561,504)</u>
0	137,229	137,229
0	376,055	376,055
0	(349,480)	(349,480)
<u>0</u>	<u>163,804</u>	<u>163,804</u>
<u>(5,561,504)</u>	<u>163,804</u>	<u>(5,397,700)</u>
2,925,718	0	2,925,718
186,422	0	186,422
415,742	0	415,742
427,741	0	427,741
1,500	0	1,500
16,411	7,668	24,079
396,829	0	396,829
177,431	78,173	255,604
<u>4,547,794</u>	<u>85,841</u>	<u>4,633,635</u>
(1,013,710)	249,645	(764,065)
<u>21,030,292</u>	<u>31,907,125</u>	<u>52,937,417</u>
<u>\$20,016,582</u>	<u>\$32,156,770</u>	<u>\$52,173,352</u>

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2013

	General	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$218,817	\$1,404,832	\$3,069,001	\$4,692,650
Restricted Cash	0	198,715	0	198,715
Receivables (Net):				
Taxes	786,649	216,050	509,727	1,512,426
Accounts	0	0	27,730	27,730
Interest	256	0	274	530
Intergovernmental	143,916	0	258,776	402,692
Special Assessments	0	0	14,309	14,309
Inventory	21,621	0	63,498	85,119
Prepaid Items	30,202	0	18,173	48,375
Total Assets	1,201,461	1,819,597	3,961,488	6,982,546
Liabilities:				
Accounts Payable	19,674	0	35,684	55,358
Accrued Wages and Benefits	224,422	0	28,769	253,191
Contracts Payable	0	343,821	0	343,821
Retainage Payable	0	198,715	0	198,715
Total Liabilities	244,096	542,536	64,453	851,085
Deferred Inflows of Resources:				
Property Taxes	235,579	0	471,615	707,194
Income Taxes	269,248	106,449	14,171	389,868
Grants and Other Taxes	90,180	0	181,878	272,058
Special Assessments	0	0	14,309	14,309
Investment Earnings	256	0	274	530
Total Deferred Inflows of Resources	595,263	106,449	682,247	1,383,959
Fund Balances:				
Nonspendable	51,823	0	101,671	153,494
Restricted	0	1,170,612	3,112,878	4,283,490
Assigned	247,858	0	239	248,097
Unassigned	62,421	0	0	62,421
Total Fund Balances	362,102	1,170,612	3,214,788	4,747,502
Total Liabilities, Deferred Inflows and Fund Balances	\$1,201,461	\$1,819,597	\$3,961,488	\$6,982,546

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 December 31, 2013

Total Governmental Fund Balance \$4,747,502

Amounts reported for governmental activities in the
 statement of net position 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 21,207,758

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

Income Taxes	389,868	
Intergovernmental	59,822	
Interest	530	
Special Assessments	272,058	
Other Receivables	14,309	
		736,587

An internal service fund is used by management to charge
 back costs to individual funds. The assets and
 liabilities of the internal service fund are included in
 governmental activities in the statement of net position.

Internal Service Net Position	318,654	
Allocation to Business-Type Activities	62,625	
		381,279

In the statement of net position interest payable is accrued when
 incurred; whereas, in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (20,789)

Some liabilities reported in the statement of net position do not
 require the use of current financial resources and, therefore,
 are not reported as liabilities in governmental funds.

Compensated Absences (472,701)

Long-term liabilities are not due and payable in the current
 period and, therefore, are not reported in the funds. (6,563,054)

Net Position of Governmental Activities \$20,016,582

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, 2013

	General	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$583,142	\$0	\$414,967	\$998,109
Income Taxes	1,928,217	723,944	84,366	2,736,527
Charges for Services	731,800	0	155,729	887,529
Investment Earnings	17,120	0	1,505	18,625
Intergovernmental	415,487	0	814,223	1,229,710
Special Assessments	0	0	32,810	32,810
Fines, Licenses & Permits	234,037	0	97,749	331,786
Other Revenues	109,714	0	69,217	178,931
Total Revenues	4,019,517	723,944	1,670,566	6,414,027
Expenditures:				
Current:				
General Government	1,164,809	0	0	1,164,809
Public Safety	2,785,305	0	523,686	3,308,991
Leisure Time Activities	0	0	63,250	63,250
Community Development	71,614	0	467,778	539,392
Transportation and Street Repair	32,790	0	547,094	579,884
Public Health and Welfare	0	0	257,160	257,160
Capital Outlay	0	4,458,744	360,782	4,819,526
Debt Service:				
Principal	0	135,000	56,892	191,892
Interest and Other Charges	0	248,600	11,679	260,279
Total Expenditures	4,054,518	4,842,344	2,288,321	11,185,183
Excess of Revenues Over (Under) Expenditures	(35,001)	(4,118,400)	(617,755)	(4,771,156)
Other Financing Sources (Uses):				
Transfers In	0	0	290,200	290,200
Transfers (Out)	(290,200)	0	0	(290,200)
Total Other Financing Sources (Uses)	(290,200)	0	290,200	0
Net Change in Fund Balance	(325,201)	(4,118,400)	(327,555)	(4,771,156)
Fund Balance - Beginning of Year	696,833	5,289,012	3,597,062	9,582,907
Change in Reserve for Inventory	(9,530)	0	(54,719)	(64,249)
Fund Balance - End of Year	\$362,102	\$1,170,612	\$3,214,788	\$4,747,502

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, 2013

Net Change in Fund Balance - Total Governmental Funds (\$4,771,156)

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	4,268,826	
Depreciation Expense	(733,889)	
		3,534,937

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

Income Taxes	189,191	
Delinquent Property Taxes	884	
Interest	(2,723)	
Intergovernmental	12,203	
Other	(6,272)	
		193,283

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 191,892

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. 346

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	(21,173)	
Amortization of Bond Premium	6,168	
Change in Inventory	(64,249)	
		(79,254)

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

Change in Net Position - Internal Service Funds	(140,552)	
Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities	56,794	
		(83,758)

Change in Net Position of Governmental Activities (\$1,013,710)

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, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Property and Other Taxes	\$660,125	\$759,054	\$612,079	(\$146,975)
Income Taxes	1,860,795	2,139,662	1,725,361	(414,301)
Charges for Services	789,244	907,523	731,800	(175,723)
Investment Earnings	18,465	21,232	17,121	(4,111)
Intergovernmental	527,889	607,001	489,468	(117,533)
Fines, Licenses & Permits	253,812	291,850	235,339	(56,511)
Other Revenues	118,500	136,259	109,875	(26,384)
Total Revenues	4,228,830	4,862,581	3,921,043	(941,538)
Expenditures:				
Current:				
General Government	981,853	939,609	923,872	15,737
Public Safety	3,137,840	3,002,836	2,952,542	50,294
Community Development	78,966	75,569	74,303	1,266
Transportation and Street Repair	50,919	48,728	47,912	816
Total Expenditures	4,249,578	4,066,742	3,998,629	68,113
Excess of Revenues Over (Under) Expenditures	(20,748)	795,839	(77,586)	(873,425)
Other Financing Sources (Uses):				
Transfers (Out)	(308,413)	(295,143)	(290,200)	4,943
Total Other Financing Sources (Uses)	(308,413)	(295,143)	(290,200)	4,943
Net Change in Fund Balance	(329,161)	500,696	(367,786)	(868,482)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	363,271	363,271	363,271	0
Fund Balance End of Year	\$34,110	\$863,967	(\$4,515)	(\$868,482)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-Type Activities -Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer	Water	Electric	Total Business-Type Activities	
Current Assets:					
Equity in Pooled Cash and Investments	\$1,190,926	\$752,377	\$5,148,808	\$7,092,111	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	481,842
Receivables (Net):					
Accounts	112,685	241,467	1,255,629	1,609,781	0
Interest	0	0	454	454	0
Inventory	65,463	169,536	717,334	952,333	0
Prepaid Items	13,825	26,128	99,815	139,768	0
Total Current Assets	1,382,899	1,189,508	7,222,040	9,794,447	481,842
Noncurrent Assets:					
Investment in Joint Venture	0	0	430,954	430,954	0
Capital Assets:					
Nondepreciable Capital Assets	0	184,070	49,370	233,440	0
Depreciable Capital Assets, Net	6,959,975	9,860,582	9,746,306	26,566,863	0
Total Noncurrent Assets	6,959,975	10,044,652	10,226,630	27,231,257	0
Total Assets	8,342,874	11,234,160	17,448,670	37,025,704	481,842
Liabilities:					
Current Liabilities:					
Accounts Payable	18,989	30,688	742,906	792,583	0
Accrued Wages and Benefits	38,180	47,523	80,721	166,424	0
Compensated Absences	7,132	17,480	39,306	63,918	0
Accrued Interest Payable	1,425	26,651	1,951	30,027	0
Claims Payable	0	0	0	0	163,188
Long-Term Liabilities Due Within One Year	189,516	236,072	450,000	875,588	0
Total Current Liabilities	255,242	358,414	1,314,884	1,928,540	163,188
Long-Term Liabilities:					
Compensated Absences	27,102	41,656	111,397	180,155	0
Bonds, Notes & Loans Payable	95,468	1,702,146	900,000	2,697,614	0
Total Noncurrent Liabilities	122,570	1,743,802	1,011,397	2,877,769	0
Total Liabilities	377,812	2,102,216	2,326,281	4,806,309	163,188
Net Position:					
Net Investment in Capital Assets	6,674,990	8,106,434	8,445,676	23,227,100	0
Unrestricted	1,290,072	1,025,510	6,676,713	8,992,295	318,654
Total Net Position	\$7,965,062	\$9,131,944	\$15,122,389	32,219,395	\$318,654
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(62,625)	
Net Position of Business-Type Activities				\$32,156,770	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2013

	Business-Type Activities -Enterprise Funds			Total Business-Type Activities	Governmental Activities- Internal Service Funds
	Sewer	Water	Electric		
Operating Revenues:					
Charges for Services	\$1,618,748	\$2,046,813	\$10,264,856	\$13,930,417	\$2,128,057
Other Revenues	24,934	10,842	88,498	124,274	0
Total Operating Revenues	1,643,682	2,057,655	10,353,354	14,054,691	2,128,057
Operating Expenses:					
Personal Services	671,621	895,111	1,493,316	3,060,048	0
Contractual Services	140,220	147,042	668,082	955,344	0
Materials and Supplies	143,687	305,121	7,632,468	8,081,276	0
Depreciation	344,127	338,915	597,964	1,281,006	0
Utilities	164,384	127,206	40,183	331,773	0
Other Expense	1,787	6,689	58,347	66,823	0
Claims	0	0	0	0	2,273,802
Total Operating Expenses	1,465,826	1,820,084	10,490,360	13,776,270	2,273,802
Operating Income (Loss)	177,856	237,571	(137,006)	278,421	(145,745)
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	7,668	7,668	5,193
Interest (Expense)	(3,320)	(54,892)	(30,958)	(89,170)	0
Gain (Loss) in Investment in Joint Venture	0	0	(64,274)	(64,274)	0
Operating Grants	0	219,895	0	219,895	0
Excise Tax (Expense)	0	0	(46,101)	(46,101)	0
Total Non-Operating Revenues (Expenses)	(3,320)	165,003	(133,665)	28,018	5,193
Change in Net Position	174,536	402,574	(270,671)	306,439	(140,552)
Net Position - Beginning of Year	7,790,526	8,729,370	15,393,060	31,912,956	459,206
Net Position - End of Year	\$7,965,062	\$9,131,944	\$15,122,389	\$32,219,395	\$318,654
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				<u>(\$56,794)</u>	
Change in Net Position - Total Business-Type Activities				<u>\$249,645</u>	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2013

	Business-Type Activities -Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer	Water	Electric	Total Business-Type Activities	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,647,839	\$2,066,564	\$10,399,556	\$14,113,959	\$2,128,057
Cash Payments to Employees	(828,081)	(1,035,175)	(2,247,481)	(4,110,737)	0
Cash Payments to Suppliers	(327,890)	(445,914)	(7,362,315)	(8,136,119)	0
Cash Payments for Claims	0	0	0	0	(2,179,242)
Net Cash Provided (Used) by Operating Activities	491,868	585,475	789,760	1,867,103	(51,185)
Cash Flows from Noncapital Financing Activities:					
Operating Grants Received	0	219,895	0	219,895	0
Cash Payments for Excise Taxes	0	0	(46,101)	(46,101)	0
Net Cash Provided (Used) by Noncapital Financing Activities	0	219,895	(46,101)	173,794	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(30,605)	(398,599)	(228,546)	(657,750)	0
Debt Principal Payments	(187,635)	(229,712)	(450,000)	(867,347)	0
Debt Interest Payments	(4,258)	(58,050)	(31,609)	(93,917)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(222,498)	(686,361)	(710,155)	(1,619,014)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	10,828	10,828	5,193
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	10,828	10,828	5,193
Net Increase (Decrease) in Cash and Cash Equivalent	269,370	119,009	44,332	432,711	(45,992)
Cash and Cash Equivalents - Beginning of Year	921,556	633,368	5,104,476	6,659,400	527,834
Cash and Cash Equivalents - End of Year	1,190,926	752,377	5,148,808	7,092,111	481,842
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	177,856	237,571	(137,006)	278,421	(145,745)
Adjustments:					
Depreciation	344,127	338,915	597,964	1,281,006	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	4,157	8,909	46,326	59,392	0
(Increase) Decrease in Inventory	(26,273)	(16,577)	56,808	13,958	0
(Increase) Decrease in Prepaid Items	797	975	(3,354)	(1,582)	0
Increase (Decrease) in Payables	6,107	7,832	222,180	236,119	0
Increase (Decrease) in Accrued Liabilities	(14,903)	7,850	6,842	(211)	0
Increase (Decrease) in Claims Payables	0	0	0	0	94,560
Net Cash Provided (Used) by Operating Activities	\$491,868	\$585,475	\$789,760	\$1,867,103	(\$51,185)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
December 31, 2013

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$217,329
Receivables (Net):	
Intergovernmental	<u>181</u>
Total Assets	<u>217,510</u>
Liabilities:	
Intergovernmental Payable	<u>217,510</u>
Total Liabilities	<u>\$217,510</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, 2013

Note 1 - Description of the City

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of two insurance purchasing pools, which are described in Note 11.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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 participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2013, the outstanding debt was \$15,769,323. 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 \$430,954 at December 31, 2013. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2013 are:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

<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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. 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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

Fund Accounting

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

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

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

Police and Court Construction Fund – To account for the construction of the City's Justice Center.

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

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

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

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

Water Fund -This fund accounts for the provision of water treatment and distribution to

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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 position and changes in net position. 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 position.

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no deferred outflows of resources on the government-wide statement of net position.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include income and property taxes, grants and other taxes, special assessments, and investment earnings revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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

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

Budgetary Data

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2013.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are included in the following year appropriations.

Equity in Pooled Cash and Investments

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2013, interest revenue credited to the general fund amounted to \$17,120 and \$1,505 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 part of the Ohio Municipal League (OML) Joint Self-Insurance Pool. The money held by the fiscal agent is presented as "cash and cash equivalents with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OML is described in Note 11.

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

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

Inventories of Materials and Supplies

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

On the governmental fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance, which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventory consists of expendable supplies held for consumption.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets 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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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, 2013, 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.

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

Interfund Activity

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

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

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

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets amounts held in retainage for contractors.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (prepaids) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the City Council.

Assigned – resources that are intended to be used for specific purposes as approved through the City's formal purchasing procedure by the Finance Director.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned.

The City considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Contributed Capital

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

Net Position

Net position represent the difference between assets, and deferred outflows of resources and liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position 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 position restricted for other purposes consist primarily of net position restricted for income tax operations, City

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

administrative operations and trust fund resources. Of the City's \$3,077,797 in restricted net position, none was restricted by enabling legislation.

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

Bond Premium and Discount

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

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

Operating Revenues and Expenses

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

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;

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, 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, 2013, the City had \$7,258 in segregated accounts for municipal court deposits. 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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, 2013 was \$481,842. This amount is not included in the City's depository balance below.

Deposits

At December 31, 2013, \$8,789,488 of the City's bank balance of \$12,953,050 was exposed to custodial risk as discussed below, while \$4,163,562 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.

Investments

As of December 31, 2013, the City had no investments.

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.

Concentration of Credit Risk – The City's investment policy allows investments in Federal Government Securities or Instrumentalities.

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, 2013, consisted of the following, as reported on the fund statements:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Transfers from the general fund to:

Other governmental funds \$290,200

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

Note 5 - Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2013 were levied after October 1, 2012 on assessed values as of January 1, 2012, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

Public utility real property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

Real Property	\$121,838,460
Public Utility	<u>1,331,450</u>
Total Valuation	<u><u>\$123,169,910</u></u>

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

The City receives property taxes from Richland County. The County Treasurer collects property taxes on behalf of all taxing districts in the counties. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2013, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2013 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is a deferred inflow.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.30% 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 1% for general use financing of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations are required to pay their estimated tax quarterly and file a declaration annually. Income tax receipts are recorded by the City as determined by the City ordinance.

Note 7 - Receivables

Receivables at year end, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts receivable.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 8 – Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$405,871	\$0	\$0	\$405,871
Construction in Progress	358,921	3,973,904	29,856	4,302,969
Capital Assets, being depreciated:				
Buildings and Improvements	4,996,020	86,388	0	5,082,408
Equipment	4,231,439	238,390	0	4,469,829
Infrastructure	20,181,306	0	0	20,181,306
Totals at Historical Cost	<u>\$30,173,557</u>	<u>\$4,298,682</u>	<u>\$29,856</u>	<u>\$34,442,383</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$1,982,237	\$116,372	\$0	\$2,098,609
Equipment	3,006,195	176,487	0	3,182,682
Infrastructure	7,512,304	441,030	0	7,953,334
Total Accumulated Depreciation	<u>\$12,500,736</u>	<u>\$733,889</u>	<u>\$0</u>	<u>\$13,234,625</u>
Governmental Activities Capital Assets, Net	<u>\$17,672,821</u>	<u>\$3,564,793</u>	<u>\$29,856</u>	<u>\$21,207,758</u>
Business-Type Activities				
Capital Assets, not being depreciated:				
Land	\$233,440	\$0	\$0	\$233,440
Construction in Progress	5,984	100	6,084	0
Capital Assets, being depreciated:				
Buildings and Improvements	13,863,483	18,064	0	13,881,547
Equipment	28,825,088	292,376	0	29,117,464
Infrastructure	24,018,411	352,314	0	24,370,725
Totals at Historical Cost	<u>\$66,946,406</u>	<u>\$662,854</u>	<u>\$6,084</u>	<u>\$67,603,176</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$6,557,741	\$289,829	\$0	\$6,847,570
Equipment	25,406,739	705,568	0	26,112,307
Infrastructure	7,557,387	285,609	0	7,842,996
Total Accumulated Depreciation	<u>\$39,521,867</u>	<u>\$1,281,006</u>	<u>\$0</u>	<u>\$40,802,873</u>
Business-Type Activities Capital Assets, Net	<u>\$27,424,539</u>	<u>(\$618,152)</u>	<u>\$6,084</u>	<u>\$26,800,303</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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

General Government	\$30,426
Public Safety	103,068
Leisure Time Activities	9,073
Community Development	64,996
Public Health and Welfare	1,972
Transportation and Street Repair	524,354
Total Depreciation Expense	<u>\$733,889</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.

Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2013:

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds</u>						
Fire Truck - Series 2008	4.75%	\$135,000	\$0	(\$20,000)	\$115,000	\$20,000
Municipal Justice Center Improvements	2.00%	6,285,000	0	(135,000)	6,150,000	135,000
Premium on General Obligations Bonds		144,127	0	(6,168)	137,959	0
Total General Obligation Bonds		<u>6,564,127</u>	<u>0</u>	<u>(161,168)</u>	<u>6,402,959</u>	<u>155,000</u>
<u>Special Assessment Bonds</u>						
Street Improvement - Fox Run 7	4.24%	123,884	0	(20,647)	103,237	20,647
Total Special Assessment Bonds		<u>123,884</u>	<u>0</u>	<u>(20,647)</u>	<u>103,237</u>	<u>20,647</u>
<u>OPWC Loan Payable:</u>						
Wareham Road	0.00%	73,103	0	(16,245)	56,858	16,245
Total Bonds and Loans Payable		<u>6,761,114</u>	<u>0</u>	<u>(198,060)</u>	<u>6,563,054</u>	<u>191,892</u>
Compensated Absences		451,528	73,627	(52,454)	472,701	53,949
Total Governmental Activities		<u>\$7,212,642</u>	<u>\$73,627</u>	<u>(\$250,514)</u>	<u>\$7,035,755</u>	<u>\$245,841</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities						
<u>OWDA Loans Payable:</u>						
EQ Basin	1.00%	\$472,619	\$0	(\$187,635)	\$284,984	\$189,516
WTP Upgrade	2.75%	2,167,930	0	(229,712)	1,938,218	236,072
<u>Revenue Bond:</u>						
Electric System Revenue Bonds	1.00%	1,800,000	0	(450,000)	1,350,000	450,000
Total Loans Payable		4,440,549	0	(867,347)	3,573,202	875,588
Compensated Absences		246,216	79,211	(81,354)	244,073	63,918
Total Business-Type Activities		\$4,686,765	\$79,211	(\$948,701)	\$3,817,275	\$939,506

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.

General obligation bonds payable - General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. In September, 2013, the City issued \$6,385,000 in General Obligation Bonds to finance improvements to the Municipal Justice Center. The bonds were issued at an interest rate of 4.11% and will mature on December 1, 2036.

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

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

Revenue bonds payable - In 2013, the City issued \$2,250,000 in Electric system Revenue Bonds. The bonds were issued at an interest rate of 1.88% and will mature on December 1, 2016.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2013, are as follows:

Year Ending December 31	Governmental Activities					
	General Obligation Bonds		Special Assessment Bonds		OPWC Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$155,000	\$247,850	\$20,647	\$4,159	\$16,245	\$0
2015	160,000	244,225	20,648	3,291	16,245	0
2016	175,000	239,125	20,648	2,414	16,245	0
2017	180,000	233,500	20,647	1,427	8,123	0
2018	195,000	226,050	20,647	759	0	0
2019-2023	1,015,000	1,013,600	0	0	0	0
2024-2028	1,390,000	779,800	0	0	0	0
2029-2033	1,740,000	476,035	0	0	0	0
2034-2036	1,255,000	104,140	0	0	0	0
Total	\$6,265,000	\$3,564,325	\$103,237	\$12,050	\$56,858	\$0

Year Ending December 31	Business-Type Activities			
	ODWA Loans		Revenue Bonds	
	Principal	Interest	Principal	Interest
2014	\$425,588	\$54,067	\$450,000	\$23,414
2015	338,078	45,630	450,000	15,610
2016	249,327	38,435	450,000	7,805
2017	256,230	31,531	0	0
2018	263,326	24,436	0	0
2019-2022	690,653	28,750	0	0
Total	\$2,223,202	\$222,849	\$1,350,000	\$46,829

Note 11 - 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 2013, 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, 2013, follows:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

<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 Finance	1,000 5,000	
EMC Insurance Co.	Automobile	1,000	Comprehensive
		1,000	Collision
EMC Insurance Co.	Steam Boiler	5,000	Water Plant
		1,000	All Other

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing Preferred Provider Organizations (PPO) programs to the employees 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, Mutual Health Services, located in Akron, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is \$691.21 for single coverage and \$1,522.19 for family coverage.

The claims liability of \$163,188 reported in the internal service fund at December 31, 2013, 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, 2013 and 2012 were as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2013	\$68,628	\$2,273,802	(\$2,179,242)	\$163,188
2012	223,216	1,737,494	(1,892,082)	68,628

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 2012 to 2013.

Note 12 – 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 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.

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, 2013, 2012 and 2011 were \$432,640, \$432,309, and \$488,322 respectively. The full amount has been contributed for 2013, 2012 and 2011. The City's unpaid contractually required OPERS contributions (including post employment benefits) at year end (the liability) were recorded in the accrued wages and benefits line item of the government-wide and fund financial statements along with various corresponding expenses/expenditures. In 2013, there were no unpaid contractually required OPERS contributions to record in accrued wages and benefits.

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, 2013, 2012 and 2011 were \$361,783, \$367,018, and \$371,771, respectively. In 2013, there were no unpaid contractually required OP&F

City of Shelby, Ohio
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For The Year Ended December 31, 2013

contributions to record in accrued wages and benefits. The full amount has been contributed for 2013, 2012 and 2011. The City's unpaid contractually required OP&F contributions (including post employment benefits) at year end (the liability) were recorded in the accrued wages and benefits line item of the government-wide and fund financial statements along with various corresponding expenses/expenditures.

Note 13 – 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.

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 2013, 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. 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 rates stated in Funding Policy, above, are the contractually required contribution rates for OPERS. The City's actual contributions for the current year, which were used to fund postemployment benefits, were \$30,890 for 2013, \$123,511 for 2012; and \$139,514 for 2011. The full amount has been contributed for 2013, 2012 and 2011.

OPERS Board of Trustees Adopt Changes to the Health Care Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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 is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. 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.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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 administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. The portion of employee contributions allocated to health care was 4.69% of covered payroll for January 1, 2013 through May 31, 2013, and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. 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 contributions to OP&F for the period of January 1, 2013 through March 31, 2013 were \$15,804 (police) and \$13,092 (fire); and for the period of June 1, 2013 through December 31, 2013 were \$16,047 (police) and \$14,180 (fire); for the year ending December 31, 2012 were \$62,473 (police) and \$52,395 (fire); and for the year ending December 31, 2011 were \$63,308 (police) and \$53,055 (fire); respectively, and were allocated to the healthcare plan. The actual contributions for 2013, 2012 and 2011 were 100%.

Note 14 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

City of Shelby, Ohio
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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

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	(\$325,201)
Revenue Accruals	(204,666)
Expenditure Accruals	195,668
Encumbrances	(139,577)
Funds Budgeted Elsewhere	<u>105,990</u>
Budget Basis	<u><u>(\$367,786)</u></u>

Note 15 - Contingencies

Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2013.

Contracts

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

Litigation

The City is currently 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, 2013

Contingent Liability

The City of Shelby is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 5,000 kilowatts of a total 771,281 kilowatts, giving the City a 0.65 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project (The City of Shelby voted against this action) due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to avoid them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is \$870,487. The City received a credit of \$226,124 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired costs estimate of \$644,363. Because all costs are still estimates and final actions are not complete, the City of Shelby has not recorded a payable to AMP. When final legal action is determined, the City of Shelby will record the payable and record a payment plan for such liability that exists.

If the City is required to pay the entire potential liability of \$644,363, it would not create a hardship for the City, as the Electric Fund has unrestricted net position of over \$6,000,000 and equity in pooled cash and investments at year end of over \$5,100,000. The City does not, at this time, intend to recover the amount through rate increases.

Note 16 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Fund Balances	General	Police and Court Construction	Other Governmental Funds	Total
Nonspendable:				
Inventory	\$21,621	\$0	\$63,498	\$85,119
Prepays	30,202	0	18,173	48,375
Muni Park Trust	0	0	20,000	20,000
Total Nonspendable	51,823	0	101,671	153,494
Restricted for:				
Police Court and Construction	0	1,170,612	0	1,170,612
Street	0	0	218,843	218,843
State Highway	0	0	6,296	6,296
Street Sales Tax	0	0	74,658	74,658
Health	0	0	284,380	284,380
Park	0	0	503,978	503,978
Rehab Escrow CDBG	0	0	7,634	7,634
Court Probation	0	0	4,734	4,734
Law Enforcement Trust	0	0	9,028	9,028
Court IDAT	0	0	65,383	65,383
Court Enforcement and Education	0	0	16,229	16,229
DARE	0	0	1,914	1,914
Police Computer	0	0	6,343	6,343
Court IDAM	0	0	23,486	23,486
Police Pension	0	0	8,339	8,339
Fire Pension	0	0	3,709	3,709
Shade Tree Trust	0	0	1,833	1,833
Fire Damage	0	0	7,165	7,165
Debt Service	0	0	812,920	812,920
Capital Projects	0	0	1,050,876	1,050,876
Muni Park Trust	0	0	5,130	5,130
Total Restricted	0	1,170,612	3,112,878	4,283,490
Assigned to:				
Encumbrances	134,288	0	0	134,288
Budgetary Variance	113,570	0	0	113,570
Police Equipment	0	0	239	239
Total Assigned	247,858	0	239	248,097
Unassigned (Deficit)	62,421	0	0	62,421
Total Fund Balance	\$362,102	\$1,170,612	\$3,214,788	\$4,747,502

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 17 – Change in Accounting Principle

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

Note 18 – Prior Period Adjustment

In prior periods, the City had reported assets related to bond issuance costs in the Governmental and Business-Type Activities entity-wide financial statements and proprietary fund financial statements. GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period's net position as follows:

	<u>Governmental Activities</u>
Net Position - December 31, 2012	\$21,248,743
Pay Period Adjustments:	
Bond Issuance Costs	(218,451)
Restated Net Position - December 31, 2012	<u><u>\$21,030,292</u></u>

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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 9, 2014