

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

***GENERAL PURPOSE
FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2000***

LARRY PAXTON, FINANCE DIRECTOR



STATE OF OHIO
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Members of Council and Mayor
City of Shelby
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We have reviewed the independent auditor's report of the City of Shelby, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

July 11, 2001

**CITY OF SHELBY
RICHLAND COUNTY, OHIO**

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Independent Auditor’s Report

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

We have audited the accompanying general purpose financial statements of the City of Shelby, Richland County, (the “City”) as of and for the year ended December 31, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Shelby’s management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Shelby, as of December 31, 2000, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2001, on our consideration of the City of Shelby’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
June 25, 2001

CITY OF SHELBY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2000

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS										
ASSETS:										
Equity in pooled cash and cash equivalents	\$832,293	\$828,832	\$1,478,714	\$3,492,966	\$4,540,426	\$208,896	\$128,850			\$11,510,977
Equity in pooled cash and cash equivalents - nonexpendable trust fund							23,537			23,537
Cash in segregated accounts							6,803			6,803
Receivables (net of allowances for uncollectibles):										
Income taxes	259,122			259,122						518,244
Real and other taxes	514,693	801,193								1,315,886
Accounts		1,376			959,279					960,655
Special assessments			472,976							472,976
Due from other governments	140,557	84,784								225,341
Prepayments	12,904	5,038		938	64,001					82,881
Materials and supplies inventory	18,261	59,063			712,022					789,346
Property, plant and equipment (net of accumulated depreciation where applicable)					19,492,665			\$4,575,023		24,067,688
OTHER DEBITS:										
Amount available in debt service fund									\$593,706	593,706
Amount to be provided from general government resources									471,888	471,888
Total assets and other debits	<u>\$1,777,830</u>	<u>\$1,780,286</u>	<u>\$1,951,690</u>	<u>\$3,753,026</u>	<u>\$25,768,393</u>	<u>\$208,896</u>	<u>\$159,190</u>	<u>\$4,575,023</u>	<u>\$1,065,594</u>	<u>\$41,039,928</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2000

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General	
								Fixed Assets	
LIABILITIES, EQUITY AND OTHER CREDITS									
LIABILITIES:									
Accounts payable	\$22,974	\$23,119		\$347,152	\$795,153				\$1,188,398
Accrued wages and benefits	60,511	17,580			107,178			\$283,122	185,269
Compensated absences payable	6,374	2,515			356,818				648,829
Accrued interest payable		2,188			14,550				16,738
Deferred revenue	500,112	745,610	\$472,976			\$104,357			1,718,698
Claims payable									104,357
Due to other governments	92,190	102,835			139,973		\$6,803		341,801
Restricted/refundable deposits							128,850		128,850
Notes payable		100,000			3,600,000			456,100	3,700,000
Special assessment bonds payable								317,564	456,100
OPWC notes payable					3,027			8,808	317,564
Capital lease obligation									11,835
Total liabilities	682,161	993,847	472,976	347,152	5,016,699	104,357	135,653	1,065,594	8,818,439
EQUITY AND OTHER CREDITS:									
Investment in general fixed assets								\$4,575,023	4,575,023
Contributed capital					1,994,511				1,994,511
Retained earnings (accumulated deficit):									
Unreserved					18,757,183	104,539			18,861,722
Fund balances:									
Reserved for encumbrances	124,463	161,573		511,998					798,034
Reserved for debt service			593,706						593,706
Reserved for prepayments	12,904	5,038		938					18,880
Reserved for materials and supplies inventory	18,261	59,063							77,324
Reserved for principal endowment							23,537		23,537
Unreserved-undesignated	940,041	560,765	\$885,008	2,892,938					5,278,752
Total equity and other credits	1,095,669	786,439	1,478,714	3,405,874	20,751,694	104,539	23,537	4,575,023	32,221,489
Total liabilities, equity and other credits	\$1,777,830	\$1,780,286	\$1,951,690	\$3,753,026	\$25,768,393	\$208,896	\$159,190	\$4,575,023	\$41,039,928

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Municipal income tax	\$1,202,364	\$185,006		\$1,295,123	\$2,682,493
Property and other taxes	312,101	434,816			746,917
Charges for services	335,000	30,767		55,000	420,767
Licenses, permits and fees	13,348	18,587			31,935
Fines and forfeitures	162,395	6,212		24,630	193,237
Intergovernmental	807,519	572,572		55,209	1,435,300
Special assessments			\$247,225		247,225
Investment income	249,184	4,005	54,292	160,571	468,052
Rental income		8,230			8,230
Other	66,645	36,444		31,542	134,631
	<u>3,148,556</u>	<u>1,296,639</u>	<u>301,517</u>	<u>1,622,075</u>	<u>6,368,787</u>
Total revenue					
Expenditures:					
Current Operations:					
General government	835,577	231,845			1,067,422
Security of persons and property	1,867,037	266,072			2,133,109
Public health and welfare		236,482			236,482
Transportation		617,213			617,213
Community environment		204,188			204,188
Leisure time activity		69,924			69,924
Capital outlay				2,881,197	2,881,197
Debt service:					
Principal retirement	2,498		242,852		245,350
Interest and fiscal charges	814	2,188	32,056		35,058
	<u>2,705,926</u>	<u>1,627,912</u>	<u>274,908</u>	<u>2,881,197</u>	<u>7,489,943</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	442,630	(331,273)	26,609	(1,259,122)	(1,121,156)
Other financing sources (uses):					
Operating transfers in	6,073	339,167		1,020,250	1,365,490
Operating transfers out	(359,417)		(6,073)	(1,000,000)	(1,365,490)
	<u>(353,344)</u>	<u>339,167</u>	<u>(6,073)</u>	<u>20,250</u>	<u>0</u>
Total other financing sources (uses)					
Excess of revenues and other financing sources over (under) expenditures and other uses	89,286	7,894	20,536	(1,238,872)	(1,121,156)
Fund balances, January 1.	1,003,295	758,411	1,458,178	4,644,746	7,864,630
Increase in reserve for inventory	3,088	20,134			23,222
Fund balances, December 31.	<u>\$1,095,669</u>	<u>\$786,439</u>	<u>\$1,478,714</u>	<u>\$3,405,874</u>	<u>\$6,766,696</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL, IN CUMULATIVE FISCAL YEAR BASIS
 ALL GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	General				Special Revenue				Debt Service				Capital Projects				Total (Amount in '000)	
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	
Revenues:																		
Incometaxes.....		\$3,310,000	\$664,376	\$3,310,000	\$2,686,626											\$3,310,000	\$2,686,626	
Property and other taxes.....	\$28,054		\$3,807	379,791													1,941	
Charges for services.....	292,290		42,710	26,571	30,767											38,388	42,379	
Licenses, permits and fees.....	11,646		1,348	20,885	18,587											32,491	31,055	
Fees and forfeitures.....	141,691		20,704	3,000	6,212											164,908	193,227	
Intergovernmental.....	777,989		113,662	619,104	565,906											1,427,201	1,512,646	
Special assessments.....				3,664	4,016											21,016	247,225	
Investment income.....				10,096	10,830											329,596	486,052	
Rental income.....				66,645	66,645											10,890	334	
Other.....	1,744,113		243,881	4,433,689	3,700,771											6,663,000	6,377,204	
Total revenues.....																		
Expenditures:																		
Current:																		
General government.....	1,013,005		904,158	1,083,845	300,676											1,303,679	1,173,751	
Security of persons and property.....	2,091,607		1,910,881	1,827,506	367,314											2,489,021	2,277,448	
Public health and welfare.....					217,336											260,294	217,336	
Transportation.....					1,009,712											1,009,712	728,857	
Community development.....					201,169											261,169	211,767	
Leisure time activity.....					80,624											80,624	69,446	
Capital outlay.....					69,446											7,300,702	3,466,019	
Debt service:																		
Principal retirement.....					246,000											246,000	242,852	
Interest and fiscal charges.....					36,100											36,100	32,056	
Total expenditures.....	3,104,610		2,815,039	2,911,651	1,853,576											7,300,702	3,466,019	
Excess (deficiency) of revenues over funded expenditures.....	(1,300,977)		616,095	544,932	2,103,730											(6,353,501)	(2,073,308)	
Other financing sources (uses):																		
Operating transfers in.....	1,044,028		1,196,616	1,252,528	379,515											1,755,686	2,432,316	
Operating transfers (out).....	(599,417)		(599,417)	0	(306,400)											(1,000,000)	(1,000,000)	
Proceeds from sale of assets.....					10,000											2,000,000	2,000,000	
Total other financing sources (uses).....	684,611		877,199	1,252,528	(2,610,021)											1,383,346	(1,482,300)	
Excess of revenues and other financing sources over (under) expenditures and other uses.....	673,666		21,154	697,010	(696,321)											64,320,908	(1,831,762)	
Fund balances, January 1.....	484,118		484,118	0	591,761											3,903,836	3,903,836	
Plus year encumbrances appropriated.....	181,728		181,728	0	233,248											577,442	577,442	
Fund balances, December 31.....	665,846		665,846	577,010	824,989											4,487,674	4,487,674	

THE NOTES TO THE GENERAL FUND FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Charges for services	\$8,648,738	\$553,231		\$9,201,969
Investment earnings			\$1,139	1,139
Other	272,270	5,463		277,733
Total operating revenues	8,921,008	558,694	1,139	9,480,841
Operating expenses:				
Personal services	2,322,641			2,322,641
Contract services	1,783,380		863	1,784,243
Materials and supplies	4,108,187			4,108,187
Utilities	265,727			265,727
Depreciation	893,077			893,077
Claims.		408,657		408,657
Other	866,603			866,603
Total operating expenses	10,239,615	408,657	863	10,649,135
Operating income (loss).	(1,318,607)	150,037	276	(1,168,294)
Nonoperating revenues (expenses):				
Interest expense and fiscal charges.	(171,810)			(171,810)
Investment earnings	363,568	8,924		372,492
Other nonoperating expenses.	(71,805)			(71,805)
Total nonoperating revenues (expenses)	119,953	8,924		128,877
Net income (loss)	(1,198,654)	158,961	276	(1,039,417)
Retained earnings/fund balance, January 1	19,955,837	(54,422)	23,261	19,924,676
Retained earnings/fund balance, December 31	18,757,183	104,539	23,537	18,885,259
Contributed capital, January 1	2,040,760			2,040,760
Depreciation on fixed assets acquired by contributed capital	(46,249)			(46,249)
Contributed capital, december 31	1,994,511			1,994,511
Fund equity, December 31.	\$20,751,694	\$104,539	\$23,537	\$20,879,770

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from customers	\$8,358,587	\$553,231		\$8,911,818
Cash received from other operations	272,270	5,463		277,733
Cash payments for personal services	(2,184,551)			(2,184,551)
Cash payments for contract services	(1,587,792)		(\$863)	(1,588,655)
Cash payments for materials and supplies	(3,909,991)			(3,909,991)
Cash payments for utilities	(265,727)			(265,727)
Cash payments for claims		(513,975)		(513,975)
Cash payments for other expenses	(866,603)			(866,603)
Net cash provided by (used in) operating activities	(183,807)	44,719	(863)	(139,951)
Cash flows from noncapital financing activities:				
Transfers in from other funds	2,906			2,906
Transfers out to other funds	(2,906)			(2,906)
Cash used for nonoperating expenses	(71,805)			(71,805)
Net cash used in noncapital financing activities	(71,805)			(71,805)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(3,356,239)			(3,356,239)
Proceeds from the sale of notes	3,600,000			3,600,000
Principal retirement	(4,000,000)			(4,000,000)
Interest and fiscal charges	(173,120)			(173,120)
Net cash used in capital and related financing activities	(3,929,359)			(3,929,359)
Cash flows from investing activities:				
Interest received	363,568	8,924	1,139	373,631
Net cash provided by investing activities	363,568	8,924	1,139	373,631
Net increase (decrease) in cash and cash equivalents	(3,821,403)	53,643	276	(3,767,484)
Cash and cash equivalents, January 1	8,361,829	155,253	23,261	8,540,343
Cash and cash equivalents, December 31.	\$4,540,426	\$208,896	\$23,537	\$4,772,859
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss).	(\$1,318,607)	\$150,037	\$276	(\$1,168,294)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	893,077			893,077
Interest reported as operating income			(1,139)	(1,139)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(51,403)			(51,403)
Increase in accounts receivable.	(290,151)			(290,151)
Increase in prepayments	(12,501)			(12,501)
Increase in accounts payable	457,688			457,688
Increase in accrued wages and benefits.	35,326			35,326
Decrease in compensated absences payable	24,865			24,865
Increase in due to other governments.	77,899			77,899
Decrease in claims payable.		(105,318)		(105,318)
Net cash provided by (used in) operating activities	(183,807)	\$44,719	(\$863)	(139,951)

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

A. Reporting Entity

For financial reporting purposes, the City's GPFS 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 GPFS to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of one insurance purchasing pool which is described in Note 14.

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

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of fund or account groups, each of which is considered a separate account entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate. The various funds are summarized by type in the GPFS.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

GOVERNMENTAL FUNDS:

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund accounts for the general operating revenues and expenditures of the City not recorded elsewhere.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds - These funds are used to account for revenues received and used to pay principal and interest on debt reported in the City's general long-term obligations account group.

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

PROPRIETARY FUNDS:

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS:

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include nonexpendable trust funds and agency funds. The nonexpendable trust funds are accounted for in the same manner as proprietary funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. At December 31, 2000, there were no accruals for the agency funds which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

General Fixed Assets Account Group - This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those accounted for in the enterprise funds. General fixed assets include land, land improvements, buildings, building improvements, computer equipment, vehicles, and furniture and equipment owned by the City.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except those that are accounted for in the proprietary funds.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the sixty days after year-end to be used to pay liabilities of the current year. This is known as the "available period".

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: reimbursements from other governments, amounts receivable from city income tax withholdings, charges for services, interest on investments and state-levied, locally-shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance). Other revenues including: licenses, permits, certain charges for services, and miscellaneous revenues are recorded as revenue if they are deemed to be both measurable and available. Property taxes measurable as of December 31, 2000, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance current year activities, have been recorded as deferred revenue.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized when the related liability is expected to be liquidated with expendable available financial resources with the following exceptions: general long-term obligation principal and interest is reported only when paid; and the costs of accumulated unpaid vacation and sick leave are reported in the period due rather than in the period earned by employees.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and the nonexpendable trust funds. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust funds are accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

D. Budgetary Data

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

TAX BUDGET

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

ESTIMATED RESOURCES

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2000.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

APPROPRIATIONS

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

LAPSING OF APPROPRIATIONS

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

ENCUMBRANCES

As part of formal budgetary control, purchase order, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balances for subsequent-year expenditures for governmental funds and as a note disclosure for the proprietary fund.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

E. Health Care

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

F. Cash and Cash Equivalents

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

During fiscal year 2000, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal 2000, interest revenue credited to the general fund amounted to \$249,184 which includes \$202,781 assigned from other City funds.

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

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City, are considered to be cash equivalents. Investments with maturities greater than three months at the time of purchase are not considered to be cash equivalents.

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

G. Inventories of Materials and Supplies

Inventories of materials and supplies of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year-end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

Fixed assets include land, buildings, improvements, and equipment owned by the City. When purchased such assets are recorded as expenditures in the governmental funds and are accounted for in the general fixed assets account group.

Infrastructure fixed assets such as streets, sidewalks, curbs and gutters are not capitalized by the City and are not reported as part of the general fixed assets account group.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation expense is not recorded in the general fixed asset account group.

2. Proprietary Fund Fixed Assets

Fixed assets in the proprietary funds are capitalized in the individual funds in which they are utilized. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

Depreciation on fixed assets used in proprietary funds is computed and recorded using the straight-line method. Estimated useful lives of the various classes of fixed assets are as follows:

<u>Description</u>	<u>Estimated Life</u>
Building	30-50 years
Improvements/Infrastructure	10-50 years
Equipment	5-10 years

I. Compensated Absences

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

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

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. Payment of vacation and sick leave recorded in the general long-term obligations account group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and sick leave when such payments become due.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receivables and revenues when the entitlement occurs (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Intergovernmental receivables are reported as revenue if they are both measurable and available and intended to finance fiscal 2000 operations. Intergovernmental receivables that are measurable as of December 31, 2000, but are intended to finance 2001 operations, whose availability is indeterminable, have been recorded as deferred revenue.

K. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in that fund.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. GAAP requires the presentation of short-term note liability in the fund that received the note proceeds, with long-term obligations presented in the general long obligations account group. Principal and interest payments on matured general long-term obligations and special assessment debt are reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. Interfund transfers have been eliminated for GAAP reporting.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

An analysis of interfund transactions is presented in Note 4.

M. Fund Balance Reserves

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

The City reports amounts representing encumbrances outstanding, amount available for debt service, prepayments, and materials and supplies inventory as reservations of fund balance in the governmental funds. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment.

N. Estimates

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

O. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the enterprise funds that is not subject to repayment. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year end.

P. Total Columns on GPFS

Total columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

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

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

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

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

Deposits: At year-end, the carrying amount of the City’s deposits, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$1,942,575 and the bank balance was \$2,525,698. Of the bank balance:

1. \$342,986 was covered by federal depository insurance; and
2. \$2,182,712 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category			Fair
	1	2	3	Value
Repurchase Agreements	\$ - - -	\$9,598,742	\$ - - -	\$9,598,742

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.”

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$11,541,317	\$ 0
Investments of the Cash Management Pool:		
Repurchase Agreements	<u>(9,598,742)</u>	<u>9,598,742</u>
GASB Statement No. 3	<u>\$ 1,942,575</u>	<u>\$9,598,742</u>

NOTE 4 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 2000:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 6,073	\$ 359,417
<u>Special Revenue Funds</u>		
City Administration	70,000	---
Street	148,167	---
Police Pension	55,000	---
Fire Pension	<u>66,000</u>	<u>---</u>
Total Special Revenue Funds	<u>339,167</u>	<u>---</u>
<u>Debt Service Fund</u>		
Special Bond Retirement	---	6,073

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 4 - INTERFUND TRANSACTIONS - (Continued)

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Capital Projects Funds</u>		
Shelby Reservoir	\$ - - -	\$1,000,000
Water Facilities	1,000,000	- - -
Police Equipment	<u>20,250</u>	<u>- - -</u>
Total Capital Projects Funds	<u>1,020,250</u>	<u>1,000,000</u>
Total	<u>\$1,365,490</u>	<u>\$1,365,490</u>

NOTE 5 - PROPERTY TAXES

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

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 5 - PROPERTY TAXES - (Continued)

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

The full tax rate for all City operations for the year ended December 31, 2000, was \$5.60 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property for tax year 2000 are as follows:

Real Property	\$113,738,400
Public Utility Property	2,905,510
Tangible Personal Property	<u>51,628,459</u>
Total Assessed Valuation	<u>\$168,272,369</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2000. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2000 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 6 - LOCAL INCOME TAX

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 7 - RECEIVABLES

Receivables at December 31, 2000, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the combined balance sheet. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2000, as well as intended to finance fiscal 2000 operations. All receivables are considered fully collectible.

A summary of the principal items of receivables follows:

<u>Fund/Description</u>	<u>Amount</u>
<u>General Fund</u>	
Income taxes	\$259,122
Real and other taxes	514,693
Intergovernmental	140,557
<u>Special Revenue Funds</u>	
Real and other taxes	801,193
Accounts	1,376
Intergovernmental	84,784
<u>Debt Service Funds</u>	
Special assessments	472,976
<u>Capital Projects Funds</u>	
Income taxes	259,122
<u>Enterprise Funds</u>	
Accounts	959,279

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 8 - FIXED ASSETS

A. Proprietary Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 2000, follows:

Land and improvements	\$ 392,689
Buildings and improvements	12,657,916
Infrastructure	5,034,130
Machinery and equipment	14,911,755
Vehicles	505,252
Construction in progress	3,888,606
Less: accumulated depreciation	<u>(17,897,683)</u>
Total net assets	<u>\$ 19,492,665</u>

During fiscal year 2000, the City incurred approximately \$1,065,000 in boiler repair and maintenance expense. The boilers are reported as a component of the fixed assets in the City's Electric enterprise fund. These repair and maintenance costs did not significantly extend the useful life of the boilers and thus have not been capitalized. These expenses have been reported as a component of contractual services expense in the City's GPFS.

B. General Fixed Assets

A summary of the changes in general fixed assets during 2000 follows:

	<u>Balance at</u> <u>12/31/99</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/00</u>
Land and land improvements	\$ 668,323	\$ ---	\$ ---	\$ 668,323
Buildings and building improvements	977,374	97,000	---	1,074,374
Furniture, fixtures and equipment	896,599	74,735	(24,711)	946,623
Vehicles	<u>1,758,607</u>	<u>127,096</u>	<u>---</u>	<u>1,885,703</u>
Total fixed assets	<u>\$4,300,903</u>	<u>\$298,831</u>	<u>\$(24,711)</u>	<u>\$4,575,023</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

A. General Long-Term Obligations Account Group Lease

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$8,808. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2000 totaled \$2,498 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2000:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2001	\$ 3,312
2002	3,312
2003	<u>3,312</u>
Total	9,936
Less: amount representing interest	<u>(1,128)</u>
Present value of net minimum lease payments	<u>\$ 8,808</u>

B. Proprietary Lease

Fixed assets consisting of copier equipment have been capitalized in the Electric enterprise fund in the amount of \$4,750. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Electric enterprise fund. Principal payments in fiscal year 2000 totaled \$1,723.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2000:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2001	\$1,780
2002	<u>1,483</u>
Total	3,263
Less: amount representing interest	<u>(236)</u>
Present value of net minimum lease payments	<u>\$3,027</u>

NOTE 10 - COMPENSATED ABSENCES

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount to be paid using available expendable resources, and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the general long-term obligations account group. At December 31, 2000, these amounts were \$8,889 and \$283,122, respectively.

In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability. The liability for compensated absences in the proprietary funds at December 31, 2000, was \$356,818.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 11 - LONG-TERM OBLIGATIONS

A. Change in general long-term obligations of the City during 2000, were as follows:

	<u>Interest Rates</u>	<u>Balance Outstanding 12/31/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/00</u>
<u>Special Assessment Bonds:</u>					
Fox Run 4	5.20%	\$ 52,000	\$ - - -	\$ (52,000)	\$ 0
Shelby Avenue	5.45%	62,100	- - -	(31,000)	31,100
Riverview Estates	4.25%	500,000	- - -	(115,000)	385,000
Fox Run 5	5.60%	<u>59,000</u>	<u>- - -</u>	<u>(19,000)</u>	<u>40,000</u>
Total Special Assessment Bonds Payable		<u>\$ 673,100</u>	<u>\$ - - -</u>	<u>\$(217,000)</u>	<u>\$456,100</u>
<u>OPWC Notes Payable:</u>					
Wareham Road	0.0%	\$ 276,165	\$ - - -	\$ (16,245)	\$ 259,920
Auburn Street	0.0%	<u>67,251</u>	<u>- - -</u>	<u>(9,607)</u>	<u>57,644</u>
Total OPWC Notes Payable		<u>\$ 343,416</u>	<u>\$ - - -</u>	<u>\$(25,852)</u>	<u>\$ 317,564</u>
<u>Other Long-Term Obligations:</u>					
Capital Lease Obligation		\$ 11,306	\$ - - -	\$(2,498)	\$ 8,808
Compensated Absences		<u>274,976</u>	<u>8,146</u>	<u>- - -</u>	<u>283,122</u>
Total Other Long-Term Obligations		<u>\$ 286,282</u>	<u>\$ 8,146</u>	<u>\$(2,498)</u>	<u>\$ 291,930</u>
Total		<u>\$1,302,798</u>	<u>\$ 8,146</u>	<u>\$(245,350)</u>	<u>\$1,065,594</u>

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

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

B. Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2000, are as follows:

<u>Year Ended</u>	<u>Special Assessment Bonds</u>			<u>OPWC Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$171,100	\$21,260	\$192,360	\$ 25,852	\$ ---	\$ 25,852
2002	150,000	13,045	163,045	25,852	---	25,852
2003	135,000	6,075	141,075	25,852	---	25,852
2004	---	---	---	25,852	---	25,852
2005	---	---	---	25,852	---	25,852
2006 - 2010	---	---	---	90,832	---	90,832
2011 - 2015	---	---	---	81,225	---	81,225
2016	---	---	---	16,247	---	16,247
Total	<u>\$456,100</u>	<u>\$40,380</u>	<u>\$496,480</u>	<u>\$317,564</u>	<u>\$ ---</u>	<u>\$317,564</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 12 - GENERAL OBLIGATION NOTES PAYABLE

A. The City had the following general obligation note activity during fiscal year 2000 for Electric enterprise fund. These notes are reported as a liability in the Electric enterprise fund, the fund that received the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/00</u>
Electric System Improvements - 4.30%	12/01/99	12/02/00	\$4,000,000	\$ - - -	\$(4,000,000)	\$ 0
Electric System Improvements - 4.85%	12/03/00	12/03/01	<u>0</u>	<u>3,600,000</u>	<u>- - -</u>	<u>3,600,000</u>
Total			<u>\$4,000,000</u>	<u>\$3,600,000</u>	<u>\$(4,000,000)</u>	<u>\$3,600,000</u>

B. On August 29, 2000, the City received proceeds of a \$100,000 general obligation note to finance various improvements throughout the City's parks. The note will be recorded as a fund liability in the Park special revenue fund, the fund receiving the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/00</u>
Park Fund Improvements - 6.6%	8/29/00	8/29/01	<u>\$ 0</u>	<u>\$100,000</u>	<u>\$ - - -</u>	<u>\$100,000</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 13 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. These enterprise funds include sewer, water, and electric. Segment information for the year ended December 31, 2000 was as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Operating revenues	\$ 654,541	\$1,230,587	\$ 7,035,880	\$ 8,921,008
Operating expenses before depreciation	564,236	917,726	7,864,576	9,346,538
Depreciation expense	167,025	227,873	498,179	893,077
Operating income (loss)	(76,720)	84,988	(1,326,875)	(1,318,607)
Net income (loss)	(80,418)	84,896	(1,203,132)	(1,198,654)
Additions to property, plant and equipment	- - -	187,155	3,169,084	3,356,239
Net working capital	504,020	662,042	417,480	1,583,542
Total assets	4,452,236	7,866,221	13,449,936	25,768,393
Bonds and other long term liabilities payable from operating revenues	- - -	- - -	3,603,027	3,603,027
Total liabilities	87,162	129,324	4,800,213	5,016,699
Retained earnings	2,370,563	7,736,897	8,649,723	18,757,183
Contributed capital	1,994,511	- - -	- - -	1,994,511
Total equity	4,365,074	7,736,897	8,649,723	20,751,694

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2000, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits. A summary of the City's insurance coverages at December 31, 2000, follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
OML Joint Self-Insurance Pool	Property	\$1,000
	General Liability	1,000
	Inland Marine	250
	Errors and Omission	1,000
	Law Enforcement	5,000
	Excess Liability	1,000
Shelby Mutual Insurance Company	Public Employee	
	Dishonest Bond Finance	1,000 5,000
Adams, Albert Curry Agency, Inc.	Property Coverage	
	Light Plant	25,000
Adams Albert Curry Agency, Inc.	Automobile	250 Comprehensive 1,000 Collision
	Aten & Mennetti Agency, Inc.	Steam Boiler
5,000 Water Plant		
1,000 All Other		

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 14 - RISK MANAGEMENT - (Continued)

The City has elected to provide a comprehensive medical benefits package through a self-insured program providing either Fee for Service (FFS) or Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Benefit Services, Inc., located in Akron, Ohio, reviews all claims for the plan which are then paid by the City. The total monthly premium paid into the internal service fund for the FFS plan is \$143.75 for single coverage and \$415.77 for family coverage and for the PPO plan is \$130.60 for single coverage and \$386.12 for family coverage. The employee's share for the FFS plan is \$10.50 for single coverage and \$27 per month for family coverage.

The claims liability of \$104,357 reported in the Hospitalization internal service fund at December 31, 2000, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by FASB 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, 2000 and 1999 were as follows:

<u>Fiscal Year</u>	<u>Beginning Of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2000	\$209,675	\$408,657	\$(513,975)	\$104,357
1999	189,597	563,493	(543,415)	209,675

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal 1999.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2000 was 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.0 percent of covered salary. The PERS Retirement Board instituted a temporary employees contribution rate rollback for calendar year 2000. The rate rollback was 20% for local government divisions and 6% for law enforcement divisions. The employer contribution rate for employees other than law enforcement was 10.84 percent of covered payroll; 6.54 percent was the portion used to fund pension obligations for 2000. The employer contribution rate for law enforcement employees was 15.70 percent of covered payroll; 11.40 percent was the portion used to fund pension obligations for 2000. The City's contributions for pension obligations to the PERS for the years ended December 31, 2000, 1999, and 1998 were \$309,915, \$349,490, and \$328,768, respectively; 82 percent has been contributed for 2000 and 100 percent for 1999 and 1998. \$66,393, representing the unpaid contribution for 2000, is recorded as a liability within the individual funds.

B. Ohio Police and Fire Pension Fund

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to the OP&F for the years ended December 31, 2000, 1999, and 1998 were \$254,895, \$232,890, and \$214,970, respectively; 70 percent has been contributed for 2000 and 100 percent for the years 1999 and 1998. \$76,282, representing the unpaid contributions for 2000, is recorded as a liability within the Police Pension and Fire Improvement Special Revenue Funds.

NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Public Employees Retirement System

PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. Health care funding and accounting is on a pay-as-you-go basis. The employer contribution rate was rolled back for the year 2000. The 2000 employer contribution rate for local government employers was 10.84% of covered payroll; 4.30% was the portion that was used to fund health care. The law enforcement employer rate for 2000 was 15.70% of covered payroll; 4.30% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The City's contribution actually made to fund postemployment benefits was \$123,966.

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

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

As of December 31, 1999 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively, at December 31, 1999 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 1999 (the latest information available), was 401,339.

During 2000, the PERS Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both the state and local government divisions and 6% for law enforcement divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

Additional information on the PERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2000, Comprehensive Annual Financial Report.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

B. Ohio Police and Fire Pension Fund

OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, “Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers.” The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer’s contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter’s employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F’s Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.0 percent and 7.25 percent of covered payroll in 1999 and 2000, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1999 (the latest information available), is 12,467 for police officers and 9,807 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$48,255 and \$37,792, respectively. OP&F’s total health care expenses for the year ending December 31, 1999 (the latest information available), was \$95.005 million which was net of member contributions of \$5.518 million.

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

The City's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the City reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER (UNDER) EXPENDITURES AND OTHER USES

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget Basis	\$ 21,154	\$ (178,236)	\$20,536	\$(1,833,762)
Adjustments:				
Net Adjustment for Revenue Accruals	1,149,592	(2,413,132)	---	1,295,123
Net Adjustment for Expenditure Accruals	(36,200)	43,105	---	(275,628)
Net adjustment for Other Financing Sources/ (Uses) Accruals	(1,190,543)	2,373,598	---	(1,283,055)
Encumbrances	<u>145,283</u>	<u>182,559</u>	<u>---</u>	<u>858,450</u>
GAAP Basis	<u>\$ 89,286</u>	<u>\$ 7,894</u>	<u>\$20,536</u>	<u>\$(1,238,872)</u>

CITY OF SHELBY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2000.

B. Litigation

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

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

In January 2001, the City's Electric Enterprise Fund entered into a joint venture agreement with 35 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5) for the purpose of providing electric power and energy to its participants on a cooperative basis. This joint venture was created by the American Municipal Power-Ohio, Incorporated (AMP-Ohio), which is an Ohio not for profit corporation, operating on a cooperative nonprofit basis for the mutual benefit of its member municipalities, each of which owns and/or operates an electric utility system. AMP-Ohio has 84 members - 79 municipalities in Ohio, 3 in Pennsylvania and 2 in West Virginia.

OMEGA JV2 is a 138.650 MW project including two 32MW used gas-turbines, one 11 MW used gas-fire turbine, and 34 1.825 MW new and one 1.6 MW used oil-fired diesel generator units. The project was financed through AMP-Ohio's issuance of \$50,260,000 in distributive generation bonds. The City has a 1.89% undivided ownership interest in the project. The City will report an equity interest equal to their undivided ownership interest in the net assets of the project in its fiscal year 2001 GPFS.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Worthington, Ohio 43085

Telephone 614.846.1899
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the City of Shelby ("Richland County") as of and for the year ended December 31, 2000, and have issued our report thereon dated June 25, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2000-COS-001. We also noted certain immaterial instances of noncompliance, which we have reported to the management of the City of Shelby in a separate letter dated June 25, 2001.

Members of Council and Mayor
City of Shelby

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shelby's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2000-COS-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Shelby in a separate letter dated June 25, 2001.

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

Trimble, Julian & Grube, Inc.
June 25, 2001

**CITY OF SHELBY
RICHLAND COUNTY
DECEMBER 31, 2000**

SCHEDULE OF FINDINGS

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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Finding Number	2000-COS-001
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Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

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

Without timely certification, the City may expend more funds than available in the treasury or in the process of collection, or than funds appropriated.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The City should consider using "Then" and "Now" certificates where applicable. Guidance on the use of these certificates is found in this code section and the Ohio Compliance Supplement published by Auditor of State.



STATE OF OHIO
OFFICE OF THE AUDITOR

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CITY OF SHELBY
RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2001**