



**CITY OF SHELBY
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2019

**CITY OF SHELBY
RICHLAND COUNTY**

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INDEPENDENT AUDITOR'S REPORT

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, the required budgetary comparison schedule, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

September 17, 2020

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

The City of Shelby's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net position increased \$1,247,130. Net position of governmental activities increased \$2,052,608, net position of business-type activities decreased by \$805,478.
- The General Fund reported a fund balance of \$1,229,223.
- Business-type operations reflected an operating loss of \$1,014,187.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

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

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

Fund Financial Statements

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

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

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

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

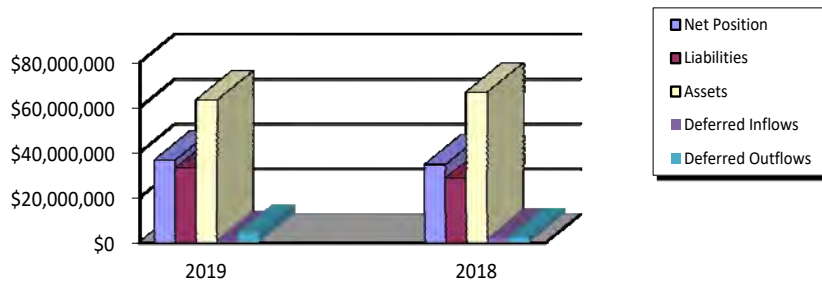
the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City as a Whole

As stated previously, the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2019 compared to 2018.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and Other Assets	\$7,363,965	\$7,473,603	\$12,476,029	\$12,447,091	\$19,839,994	\$19,920,694
Capital Assets	22,385,769	23,213,671	24,726,932	20,935,348	47,112,701	44,149,019
Total Assets	29,749,734	30,687,274	37,202,961	33,382,439	66,952,695	64,069,713
Deferred Outflows of Resources:						
OPEB	674,059	615,592	129,381	102,585	803,440	718,177
Pension	2,475,139	1,080,260	999,959	467,441	3,475,098	1,547,701
Total Deferred Outflows of Resources	3,149,198	1,695,852	1,129,340	570,026	4,278,538	2,265,878
Liabilities:						
Long-Term Liabilities	16,645,797	17,830,633	14,817,772	9,158,367	31,463,569	26,989,000
Other Liabilities	363,250	321,092	1,413,788	1,430,934	1,777,038	1,752,026
Total Liabilities	17,009,047	18,151,725	16,231,560	10,589,301	33,240,607	28,741,026
Deferred Inflows of Resources:						
Property Taxes	552,219	581,729	0	0	552,219	581,729
OPEB	268,469	142,296	64,607	142,604	333,076	284,900
Pension	278,863	769,650	145,246	524,194	424,109	1,293,844
Total Deferred Inflows of Resources	1,099,551	1,493,675	209,853	666,798	1,309,404	2,160,473
Net Position:						
Net Investment In Capital Assets	16,781,250	17,658,533	15,353,288	15,533,471	32,134,538	33,192,004
Restricted	4,350,767	4,586,236	0	0	4,350,767	4,586,236
Unrestricted	(6,341,683)	(9,507,043)	6,537,600	7,162,895	195,917	(2,344,148)
Total Net Position	\$14,790,334	\$12,737,726	\$21,890,888	\$22,696,366	\$36,681,222	\$35,434,092



Total net position of the City as a whole increased \$1,247,130. Net position of the City's governmental activities increased \$2,052,608, while the net position of the City's business-type activities decreased \$805,478 from 2018. The City had an unrestricted net position balance of \$195,917 that may be used to meet the government's ongoing obligations to citizens and creditors.

Long-Term Liabilities increased mainly due to the issuance of debt in 2019.

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

Table 2 shows the changes in net position for the year ended December 31, 2019 and revenue and expense comparisons to 2018.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program Revenues:						
Charges for Services	\$1,487,371	\$1,449,491	\$15,484,743	\$16,377,514	\$16,972,114	\$17,827,005
Operating Grants and Contributions	1,008,143	1,193,346	0	0	1,008,143	1,193,346
Capital Grants and Contributions	116,414	3,194,606	87,625	53,956	204,039	3,248,562
Total Program Revenues	2,611,928	5,837,443	15,572,368	16,431,470	18,184,296	22,268,913
General Revenues:						
Income Taxes	3,915,036	4,103,560	0	0	3,915,036	4,103,560
Property Taxes	640,389	601,349	0	0	640,389	601,349
Grants and Entitlements	387,151	241,063	0	0	387,151	241,063
Investment Earnings	122,372	61,242	77,530	67,661	199,902	128,903
Other Revenues	700,896	792,356	102,582	172,313	803,478	964,669
Total General Revenues	5,765,844	5,799,570	180,112	239,974	5,945,956	6,039,544
Total Revenues	8,377,772	11,637,013	15,752,480	16,671,444	24,130,252	28,308,457
Program Expenses:						
General Government	1,401,010	1,392,620	0	0	1,401,010	1,392,620
Public Safety	2,255,896	3,527,596	0	0	2,255,896	3,527,596
Leisure Time Activities	77,734	85,364	0	0	77,734	85,364
Community Development	681,305	463,630	0	0	681,305	463,630
Transportation and Street Repair	1,251,139	1,227,437	0	0	1,251,139	1,227,437
Public Health and Welfare	430,800	529,886	0	0	430,800	529,886
Other	11,057	16,612	0	0	11,057	16,612
Interest and Other Charges	216,223	219,925	0	0	216,223	219,925
Sewer	0	0	1,487,248	2,312,793	1,487,248	2,312,793
Water	0	0	2,860,659	2,804,849	2,860,659	2,804,849
Electric	0	0	12,210,051	11,714,917	12,210,051	11,714,917
Total Program Expenses	6,325,164	7,463,070	16,557,958	16,832,559	22,883,122	24,295,629
Change in Net Position	2,052,608	4,173,943	(805,478)	(161,115)	1,247,130	4,012,828
Net Position - Beginning of Year	12,737,726	8,563,783	22,696,366	22,857,481	35,434,092	31,421,264
Net Position - End of Year	\$14,790,334	\$12,737,726	\$21,890,888	\$22,696,366	\$36,681,222	\$35,434,092

Governmental Activities

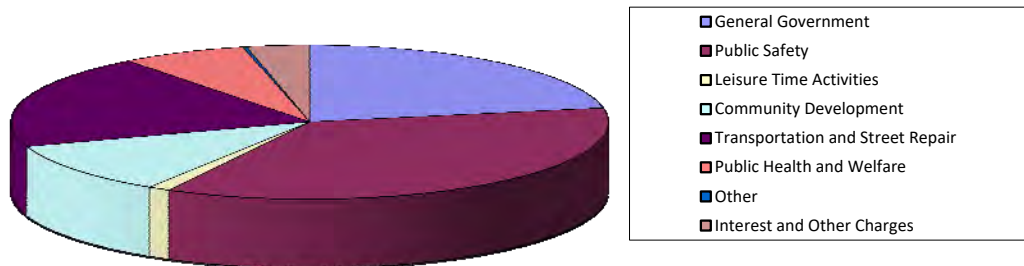
The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 79% of the City's governmental activities total general revenue.

The large decrease in capital grants and contributions program revenue was due to a \$2.8 million donated fire station received in 2018.

**City of Shelby, Ohio
Management’s Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)**

Governmental Activities
Program Expenses for 2019

Program Expenses	Percentage
General Government	22.1%
Public Safety	35.7%
Leisure Time Activities	1.2%
Community Development	10.8%
Transportation and Street Repair	19.8%
Public Health and Welfare	6.8%
Other	0.2%
Interest and Other Charges	3.4%
Total	100.0%



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

Business-Type Activities

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of \$15,587,325 and operating expenses of \$16,601,512 for fiscal year 2019. Business activities receive no support from tax revenues. The business activities (on the fund level) net position at the end of the year was \$21,834,562, which decreased \$866,953 from 2018.

The City’s Funds

The City has one major governmental fund: the General Fund. Assets of the major governmental fund comprise \$2,210,004 (31%), of the total \$7,086,679 governmental funds’ assets.

General Fund: Fund balance at December 31, 2019 was \$1,229,223.

General Fund Budgeting Highlights

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

City of Shelby, Ohio
Management’s Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

As the City completed the year, its General Fund balance reported an actual fund balance of \$849,819, on a Non-GAAP Budgetary Basis.

There were no significant variations from the original budget amounts to the final budget amounts.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$47,112,701 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2019 balances compared to 2018:

Table 3
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$406,004	\$406,004	\$245,327	\$245,327	\$651,331	\$651,331
Construction in Progress	978,473	742,125	122,924	5,061,397	1,101,397	5,803,522
Buildings and Improvements	12,066,503	12,123,624	24,716,738	16,207,599	36,783,241	28,331,223
Equipment	6,748,335	6,729,645	15,842,273	15,023,454	22,590,608	21,753,099
Infrastructure	22,057,930	22,057,930	19,185,152	19,228,430	41,243,082	41,286,360
Accumulated Depreciation	(19,871,476)	(18,845,657)	(35,385,482)	(34,830,859)	(55,256,958)	(53,676,516)
Total Net Capital Assets	<u>\$22,385,769</u>	<u>\$23,213,671</u>	<u>\$24,726,932</u>	<u>\$20,935,348</u>	<u>\$47,112,701</u>	<u>\$44,149,019</u>

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

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City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

Debt

The City had \$5,604,519 in capital leases, bonds and loans outstanding for Governmental Activities and \$9,373,644 in loans outstanding for Business-Type Activities.

Table 4
Outstanding Debt at Year End

		2019	2018
Governmental Activities:			
Capital Leases:			
2019 Ambulance		\$200,000	\$0
Total Capital Leases		<u>200,000</u>	<u>0</u>
General Obligation Bonds:			
Park Improvement Bonds	3.00%	83,333	0
Fire Station USDA Bond	3.50%	0	48,000
2011 Municipal Justice Center Improvements	4.10%	5,220,000	5,400,000
Premium on Bonds		<u>101,186</u>	<u>107,138</u>
Total General Obligation Bonds		<u>5,404,519</u>	<u>5,555,138</u>
Total Governmental Activities Debt		<u><u>5,604,519</u></u>	<u><u>5,555,138</u></u>
Business-Type Activities:			
OWDA Loans:			
2018 WWTP Improvements	1.00%	8,791,660	4,564,860
OPWC - CP425	0.00%	128,067	146,363
WTP upgrade	2.75%	420,038	690,654
West Main Street Sanitary Improvements	2.41%	<u>33,879</u>	<u>0</u>
Total OWDA Loans		<u>9,373,644</u>	<u>5,401,877</u>
Total Business-Type Activities Debt		<u>9,373,644</u>	<u>5,401,877</u>
Total Debt		<u><u>\$14,978,163</u></u>	<u><u>\$10,957,015</u></u>

See Notes 10 and 11 to the basic financial statements for further details on the City's long-term debt.

Economic Outlook

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

The City has proved to be forward thinking with an eye to preserving the past in 2019. Working in public/private partnership with the CIC, Shelby Foundation, Richland Community Development Group, The Richland Area Chamber of Commerce, and the Village of Plymouth, they signed an MOU to bring a full time Economic Development Liaison to work on behalf of the City and northern Richland County. Additionally the Historic Preservation Commission sought and received grant funding to retain

City of Shelby, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2019
(Unaudited)

Prospectus Architecture to work with the City to create a comprehensive historic preservation plan that will serve the historic downtown district as it is redeveloped. Additionally, again in a public/private partnership, Edge was retained to complete a Downtown corridor redevelopment plan that will likely be presented at the same time as the historic preservation plan will be completed. These strong moves will set the stage for new development on the Main St corridor. The City will continue to look for ways to partner with the private sector to move economic development forward.

The City continues to market properties and vacant buildings to site selectors through Jobs Ohio and follows up on all leads that fit the RFI. Technology Parkway remains a strong opportunity for business relocation or expansion opportunities. It now boasts its first tenant, a local manufacturer that has grown his business right here in Shelby and serves a statewide market. Workforce remains strong and North Central State College Center for Advanced Learning located in the Kehoe Center continues to be a great community partner in adapting programming to fit industry needs in addition to offering a 4 year engineering degree. This 163,000 square foot state of the art facility houses a nationally recognized Integrated Systems Technology laboratory and the regional Advanced Manufacturing Tool & Die Center, as well as an EnterpriseOhio Network's Skillsmax Center. Having this higher education entity within our city limits as well as Pioneer Joint Vocational School help insure we will have a strong and skilled workforce into the future.

The Mayor and the Chamber of Commerce have hosted 9 ribbon cuttings for Shelby businesses who started or expanded in 2019. These range from retail locations, restaurants, manufacturers and a brand new state of the art fire station that was benevolently donated to the City of Shelby debt free by a local philanthropist.

The Black Fork Commons Park in the central business district continues to be an exciting opportunity to improve quality of life and traffic to the downtown area as an amphitheater was completed in 2019.

Shelby is well positioned to continue to serve the taxpayers providing infrastructure and planning for future growth while preserving the history that makes Shelby unique.

Contacting the City's Finance Department

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

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City of Shelby, Ohio
Statement of Net Position
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$4,478,201	\$9,363,892	\$13,842,093
Restricted Cash	0	4,438	4,438
Cash and Cash Equivalents with Fiscal Agent	333,612	0	333,612
Receivables (Net):			
Taxes	1,823,157	0	1,823,157
Accounts	70,007	1,789,421	1,859,428
Intergovernmental	490,157	0	490,157
Special Assessments	2,896	5,878	8,774
Internal Balances	(56,326)	56,326	0
Inventory	158,583	938,994	1,097,577
Investment in Joint Venture	0	189,955	189,955
Prepaid Items	63,678	127,125	190,803
Nondepreciable Capital Assets	1,384,477	368,251	1,752,728
Depreciable Capital Assets, Net	<u>21,001,292</u>	<u>24,358,681</u>	<u>45,359,973</u>
Total Assets	<u>29,749,734</u>	<u>37,202,961</u>	<u>66,952,695</u>
Deferred Outflows of Resources:			
Pension	2,475,139	999,959	3,475,098
OPEB	<u>674,059</u>	<u>129,381</u>	<u>803,440</u>
Total Deferred Outflows of Resources	<u>3,149,198</u>	<u>1,129,340</u>	<u>4,278,538</u>
Liabilities:			
Accounts Payable	51,329	1,222,588	1,273,917
Accrued Wages and Benefits	211,894	129,844	341,738
Contracts Payable	4,535	46,645	51,180
Retainage Payable	0	4,438	4,438
Accrued Interest Payable	20,359	10,273	30,632
Claims Payable	75,133	0	75,133
Long-Term Liabilities:			
Due Within One Year	319,877	826,845	1,146,722
Due In More Than One Year			
Net Pension Liability	8,779,528	3,387,147	12,166,675
Net OPEB Liability	1,713,639	1,649,764	3,363,403
Other Amounts	<u>5,832,753</u>	<u>8,954,016</u>	<u>14,786,769</u>
Total Liabilities	<u>17,009,047</u>	<u>16,231,560</u>	<u>33,240,607</u>
Deferred Inflows of Resources:			
Property Taxes	552,219	0	552,219
Pension	278,863	145,246	424,109
OPEB	<u>268,469</u>	<u>64,607</u>	<u>333,076</u>
Total Deferred Inflows of Resources	<u>1,099,551</u>	<u>209,853</u>	<u>1,309,404</u>
Net Position:			
Net Investment in Capital Assets	16,781,250	15,353,288	32,134,538
Restricted for:			
Debt Service	539,085	0	539,085
Capital Projects	2,296,653	0	2,296,653
Street Maintenance, Construction and Repair	477,037	0	477,037
Community Development Projects	256,555	0	256,555
Mini Park Trust Expendable	26,076	0	26,076
Human Services Programs	370,978	0	370,978
Other Purposes	384,383	0	384,383
Unrestricted	<u>(6,341,683)</u>	<u>6,537,600</u>	<u>195,917</u>
Total Net Position	<u>\$14,790,334</u>	<u>\$21,890,888</u>	<u>\$36,681,222</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2019

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,401,010	\$1,141,658	\$0	\$0
Public Safety	2,255,896	236,344	11,571	2,538
Leisure Time Activities	77,734	8,733	12,466	0
Community Development	681,305	57,953	155,066	0
Transportation and Street Repair	1,251,139	0	651,851	113,876
Public Health and Welfare	430,800	42,683	177,189	0
Other	11,057	0	0	0
Interest and Other Charges	216,223	0	0	0
Total Governmental Activities	6,325,164	1,487,371	1,008,143	116,414
Business-Type Activities:				
Sewer	1,487,248	1,963,135	0	87,625
Water	2,860,659	2,414,218	0	0
Electric	12,210,051	11,107,390	0	0
Total Business-Type Activities	16,557,958	15,484,743	0	87,625
Totals	\$22,883,122	\$16,972,114	\$1,008,143	\$204,039

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

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$259,352)	\$0	(\$259,352)
(2,005,443)	0	(2,005,443)
(56,535)	0	(56,535)
(468,286)	0	(468,286)
(485,412)	0	(485,412)
(210,928)	0	(210,928)
(11,057)	0	(11,057)
(216,223)	0	(216,223)
(3,713,236)	0	(3,713,236)
0	563,512	563,512
0	(446,441)	(446,441)
0	(1,102,661)	(1,102,661)
0	(985,590)	(985,590)
(3,713,236)	(985,590)	(4,698,826)
3,915,036	0	3,915,036
219,205	0	219,205
421,184	0	421,184
387,151	0	387,151
122,372	77,530	199,902
362,191	0	362,191
338,705	102,582	441,287
5,765,844	180,112	5,945,956
2,052,608	(805,478)	1,247,130
12,737,726	22,696,366	35,434,092
<u>\$14,790,334</u>	<u>\$21,890,888</u>	<u>\$36,681,222</u>

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2019

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$1,013,944	\$3,464,257	\$4,478,201
Receivables (Net):			
Taxes	945,570	877,587	1,823,157
Accounts	64,453	5,554	70,007
Intergovernmental	111,963	378,194	490,157
Special Assessments	0	2,896	2,896
Inventory	33,811	124,772	158,583
Prepaid Items	40,263	23,415	63,678
Total Assets	<u>2,210,004</u>	<u>4,876,675</u>	<u>7,086,679</u>
Liabilities:			
Accounts Payable	28,467	22,862	51,329
Accrued Wages and Benefits	190,614	21,280	211,894
Contracts Payable	2,350	2,185	4,535
Total Liabilities	<u>221,431</u>	<u>46,327</u>	<u>267,758</u>
Deferred Inflows of Resources:			
Property Taxes	181,386	420,708	602,094
Income Taxes	502,365	286,896	789,261
Grants and Other Taxes	75,599	198,184	273,783
Special Assessments	0	2,896	2,896
Total Deferred Inflows of Resources	<u>759,350</u>	<u>908,684</u>	<u>1,668,034</u>
Fund Balances:			
Nonspendable	76,930	168,187	245,117
Restricted	0	3,734,762	3,734,762
Assigned	647,773	18,715	666,488
Unassigned	504,520	0	504,520
Total Fund Balances	<u>1,229,223</u>	<u>3,921,664</u>	<u>5,150,887</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$2,210,004</u>	<u>\$4,876,675</u>	<u>\$7,086,679</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities
 December 31, 2019

Total Governmental Fund Balances \$5,150,887

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.

Capital assets used in the operation of Governmental Funds 22,385,769

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

Income Taxes	789,261	
Delinquent Property Taxes	49,875	
Intergovernmental	273,783	
Other Receivables	2,896	
		1,115,815

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

Internal Service Net Position	258,479	
Allocation to Business-Type Activities	(56,326)	
		202,153

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

(20,359)

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

Compensated Absences (548,111)

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	2,475,139	
Deferred inflows of resources related to pensions	(278,863)	
Deferred outflows of resources related to OPEB	674,059	
Deferred inflows of resources related to OPEB	(268,469)	
		2,601,866

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Net Pension Liability	(8,779,528)	
Net OPEB Liability	(1,713,639)	
Bonds and Loans Payable	(5,604,519)	
		(16,097,686)

Net Position of Governmental Activities \$14,790,334

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2019

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property and Other Taxes	\$582,842	\$425,345	\$1,008,187
Income Taxes	2,676,495	1,340,058	4,016,553
Charges for Services	999,800	173,577	1,173,377
Investment Earnings	118,440	3,932	122,372
Intergovernmental	390,349	1,169,429	1,559,778
Fines, Licenses & Permits	207,009	104,089	311,098
Other Revenues	205,018	133,687	338,705
Total Revenues	5,179,953	3,350,117	8,530,070
Expenditures:			
Current:			
General Government	1,418,537	0	1,418,537
Public Safety	3,096,242	448,945	3,545,187
Leisure Time Activities	0	63,706	63,706
Community Development	38,709	411,061	449,770
Transportation and Street Repair	34,224	572,720	606,944
Public Health and Welfare	0	422,560	422,560
Other	0	11,057	11,057
Capital Outlay	2,350	1,790,271	1,792,621
Debt Service:			
Principal	0	244,667	244,667
Interest and Other Charges	0	219,983	219,983
Total Expenditures	4,590,062	4,184,970	8,775,032
Excess of Revenues Over (Under) Expenditures	589,891	(834,853)	(244,962)
Other Financing Sources (Uses):			
Issuance of Capital Leases	0	200,000	200,000
Issuance of Long-Term Capital-Related Debt	0	100,000	100,000
Transfers In	0	453,742	453,742
Transfers (Out)	(405,000)	(48,742)	(453,742)
Total Other Financing Sources (Uses)	(405,000)	705,000	300,000
Net Change in Fund Balance	184,891	(129,853)	55,038
Fund Balance - Beginning of Year	1,043,402	4,065,633	5,109,035
Change in Reserve for Inventory	930	(14,116)	(13,186)
Fund Balance - End of Year	\$1,229,223	\$3,921,664	\$5,150,887

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
 Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2019

Net Change in Fund Balance - Total Governmental Funds		\$55,038
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	266,608	
Depreciation Expense	<u>(1,094,510)</u>	(827,902)
Governmental funds report pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Pension Contributions	552,274	
Pension Expense	(1,261,109)	
OPEB Contributions	9,766	
OPEB Expense	<u>3,752,717</u>	3,053,648
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income Taxes	(101,517)	
Delinquent Property Taxes	(5,607)	
Intergovernmental	(48,070)	
Other	<u>2,896</u>	(152,298)
Repayment of bond and loans principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		244,667
In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.		
		(2,192)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated Absences	(1,471)	
Amortization of Bond Premium	5,952	
Change in Inventory	<u>(13,186)</u>	(8,705)
The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
Change in Net Position - Internal Service Funds	51,827	
Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities	<u>(61,475)</u>	(9,648)
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.		
		<u>(300,000)</u>
Change in Net Position of Governmental Activities		<u><u>\$2,052,608</u></u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-Type Activities-Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Current Assets:					
Equity in Pooled Cash and Investments	\$2,224,630	\$575,495	\$6,563,767	\$9,363,892	\$0
Restricted Cash	4,438	0	0	4,438	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	333,612
Receivables (Net):					
Accounts	246,066	283,065	1,260,290	1,789,421	0
Special Assessments	5,878	0	0	5,878	0
Inventory	102,000	273,367	563,627	938,994	0
Prepaid Items	24,439	41,917	60,769	127,125	0
Total Current Assets	2,607,451	1,173,844	8,448,453	12,229,748	333,612
Noncurrent Assets:					
Investment in Joint Venture	0	0	189,955	189,955	0
Capital Assets:					
Nondepreciable Capital Assets	122,924	193,443	51,884	368,251	0
Depreciable Capital Assets, Net	12,431,984	7,369,338	4,557,359	24,358,681	0
Total Noncurrent Assets	12,554,908	7,562,781	4,799,198	24,916,887	0
Total Assets	15,162,359	8,736,625	13,247,651	37,146,635	333,612
Deferred Outflows of Resources:					
Pension	280,442	363,025	356,492	999,959	0
OPEB	36,285	46,971	46,125	129,381	0
Total Deferred Outflows of Resources	316,727	409,996	402,617	1,129,340	0
Liabilities:					
Current Liabilities:					
Accounts Payable	64,153	73,214	1,085,221	1,222,588	0
Accrued Wages and Benefits	33,475	49,502	46,867	129,844	0
Compensated Absences	10,160	22,494	52,370	85,024	0
Contracts Payable	41,784	0	4,861	46,645	0
Retainage Payable	4,438	0	0	4,438	0
Accrued Interest Payable	4,497	5,776	0	10,273	0
Claims Payable	0	0	0	0	75,133
Long-Term Liabilities Due Within One Year	445,416	296,405	0	741,821	0
Total Current Liabilities	603,923	447,391	1,189,319	2,240,633	75,133
Long-Term Liabilities:					
Compensated Absences	44,461	70,836	206,896	322,193	0
Bonds, Notes & Loans Payable	8,380,123	251,700	0	8,631,823	0
Net Pension Liability	949,936	1,229,672	1,207,539	3,387,147	0
Net OPEB Liability	462,682	598,931	588,151	1,649,764	0
Total Noncurrent Liabilities	9,837,202	2,151,139	2,002,586	13,990,927	0
Total Liabilities	10,441,125	2,598,530	3,191,905	16,231,560	75,133
Deferred Inflows of Resources:					
Pension	40,735	52,730	51,781	145,246	0
OPEB	18,119	23,455	23,033	64,607	0
Total Deferred Inflows of Resources	58,854	76,185	74,814	209,853	0
Net Position:					
Net Investment in Capital Assets	3,729,369	7,014,676	4,609,243	15,353,288	0
Unrestricted	1,249,738	(542,770)	5,774,306	6,481,274	258,479
Total Net Position	\$4,979,107	\$6,471,906	\$10,383,549	21,834,562	\$258,479
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				56,326	
Net Position of Business-Type Activities				\$21,890,888	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2019

	Business-Type Activities-Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Operating Revenues:					
Charges for Services	\$1,963,135	\$2,414,218	\$11,107,390	\$15,484,743	\$1,458,653
Other Revenues	21,819	16,580	64,183	102,582	0
Total Operating Revenues	<u>1,984,954</u>	<u>2,430,798</u>	<u>11,171,573</u>	<u>15,587,325</u>	<u>1,458,653</u>
Operating Expenses:					
Personal Services	1,026,552	1,235,949	1,329,967	3,592,468	0
Contractual Services	60,637	366,973	1,177,102	1,604,712	0
Materials and Supplies	32,366	644,795	9,092,147	9,769,308	0
Depreciation	330,958	422,256	310,067	1,063,281	0
Utilities	82,968	165,349	15,628	263,945	0
Claims	0	0	0	0	1,414,721
Other Expense	10,745	11,913	285,140	307,798	0
Total Operating Expenses	<u>1,544,226</u>	<u>2,847,235</u>	<u>12,210,051</u>	<u>16,601,512</u>	<u>1,414,721</u>
Operating Income (Loss)	<u>440,728</u>	<u>(416,437)</u>	<u>(1,038,478)</u>	<u>(1,014,187)</u>	<u>43,932</u>
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	77,530	77,530	7,895
Interest (Expense)	(4,497)	(13,424)	0	(17,921)	0
Total Non-Operating Revenues (Expenses)	<u>(4,497)</u>	<u>(13,424)</u>	<u>77,530</u>	<u>59,609</u>	<u>7,895</u>
Income (Loss) Before Contributions	436,231	(429,861)	(960,948)	(954,578)	51,827
Capital Grants and Contributions	<u>87,625</u>	<u>0</u>	<u>0</u>	<u>87,625</u>	<u>0</u>
Change in Net Position	523,856	(429,861)	(960,948)	(866,953)	51,827
Net Position - Beginning of Year	<u>4,455,251</u>	<u>6,901,767</u>	<u>11,344,497</u>	<u>22,701,515</u>	<u>206,652</u>
Net Position - End of Year	<u>\$4,979,107</u>	<u>\$6,471,906</u>	<u>\$10,383,549</u>	<u>21,834,562</u>	<u>\$258,479</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				<u>61,475</u>	
Change in Net Position - Total Business-Type Activities				<u>(\$805,478)</u>	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2019

	Business-Type Activities -Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,982,303	\$2,421,284	\$11,212,114	\$15,615,701	\$1,458,653
Cash Payments to Employees	(834,141)	(1,012,241)	(1,051,661)	(2,898,043)	0
Cash Payments to Suppliers	(525,904)	(1,061,469)	(9,987,989)	(11,575,362)	0
Cash Payments for Claims	0	0	0	0	(1,404,107)
Other Cash Payments	(10,745)	(11,913)	(285,140)	(307,798)	0
Net Cash Provided (Used) by Operating Activities	611,513	335,661	(112,676)	834,498	54,546
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(4,735,635)	(31,605)	0	(4,767,240)	0
Debt Proceeds	4,260,679	0	0	4,260,679	0
Debt Principal Payments	0	(288,912)	0	(288,912)	0
Debt Interest Payments	0	(17,145)	0	(17,145)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(474,956)	(337,662)	0	(812,618)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	99,047	99,047	7,895
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	99,047	99,047	7,895
Net Increase (Decrease) in Cash and Cash Equivalents	136,557	(2,001)	(13,629)	120,927	62,441
Cash and Cash Equivalents - Beginning of Year	2,092,511	577,496	6,577,396	9,247,403	271,171
Cash and Cash Equivalents - End of Year	2,229,068	575,495	6,563,767	9,368,330	333,612
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	440,728	(416,437)	(1,038,478)	(1,014,187)	43,932
Adjustments:					
Depreciation	330,958	422,256	310,067	1,063,281	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	(2,651)	(9,514)	40,541	28,376	0
(Increase) Decrease in Inventory	(1,902)	92,291	11,517	101,906	0
(Increase) Decrease in Prepaid Items	(10,654)	(10,291)	22,610	1,665	0
(Increase) Decrease in Deferred Outflows of Resources	(157,396)	(199,572)	(202,346)	(559,314)	0
Increase (Decrease) in Retainage Payable	(381,397)	0	0	(381,397)	0
Increase (Decrease) in Payables	44,020	33,648	262,761	340,429	10,614
Increase (Decrease) in Accrued Liabilities	10,722	14,006	33,503	58,231	0
Increase (Decrease) in Deferred Inflows of Resources	(127,526)	(169,962)	(159,457)	(456,945)	0
Increase (Decrease) in Net Pension Liability	393,574	494,899	508,219	1,396,692	0
Increase (Decrease) in Net OPEB Liability	73,037	84,337	98,387	255,761	0
Net Cash Provided (Used) by Operating Activities	\$611,513	\$335,661	(\$112,676)	\$834,498	\$54,546
Schedule of Noncash Capital Activities:					
During the fiscal year, these amounts were received representing noncash contributions of:					
Capital Assets	\$87,625	\$0	\$0	\$87,625	\$0

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2019

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	<u>\$186,841</u>	<u>\$204,254</u>
Total Assets	<u>186,841</u>	<u>204,254</u>
Liabilities:		
Intergovernmental Payable	<u>0</u>	<u>204,254</u>
Total Liabilities	<u>0</u>	<u>\$204,254</u>
Net Position:		
Held in Trust	<u>186,841</u>	
Total Net Position	<u>\$186,841</u>	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended December 31, 2019

	Private Purpose Trust
Additions:	
Investment Earnings	\$6,529
Other	2,438
	<hr/>
Total Additions	8,967
	<hr/>
Deductions:	
General Government	342
	<hr/>
Total Deductions	342
	<hr/>
Change in Net Position	8,625
	<hr/>
Net Position - Beginning of Year	178,216
	<hr/>
Net Position - End of Year	\$186,841
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Note 1 - Description of the City

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of two insurance purchasing pools, which are described in Note 12.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

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

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

Joint Venture

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

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2019, the City's outstanding debt was \$0. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$189,955 at December 31, 2017 (latest information available). Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2019 are:

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

Basis of Presentation - Fund Accounting

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

Fund Accounting

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

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

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

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

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

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

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

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

Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the City are included on the statement of net position.

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Basis of Accounting

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

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

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources including pension and OPEB on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB are explained in Notes 13 and 14.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include income and property taxes, grants and other taxes, special assessments, OPEB and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance year 2020 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

position and the governmental fund financial statements. Grants and other taxes and special assessments have been recorded as deferred inflows on the governmental fund financial statements. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide state of net position. (See Notes 13 and 14)

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

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

Budgetary Data

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary schedule reflect the amounts in the original and final amended official certificate of estimated resources issued during 2019.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the item level. The appropriation ordinance may be amended

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations at the legal level of budgetary control may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

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

Equity in Pooled Cash and Investments

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2019, interest revenue credited to the general fund amounted to \$118,440 and \$3,932 to other governmental funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. The City maintains segregated depository accounts for municipal court deposits.

The City is part of the Ohio Municipal League (OML) Joint Self-Insurance Pool. The money held by the fiscal agent is presented as "cash and cash equivalents with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OML is described in Note 12.

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

Inventories of Materials and Supplies

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

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

Capital Assets

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

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

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

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

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

Compensated Absences

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

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

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental funds; however, they are reported in the government-wide financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2019, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Accrued Liabilities and Long-Term Obligations

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

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

Interfund Activity

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. As of December 31, 2019, the City had \$4,438 in restricted cash.

Fund Balance

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

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

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

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

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

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

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Estimates

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

Contributed Capital

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Net Position

Net position represents the difference between assets, and deferred outflows of resources and liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes consist primarily of net position restricted for income tax operations, City administrative operations and trust fund resources. Of the City's \$4,350,767 in restricted net position, none was restricted by enabling legislation.

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

Bond Premium and Discount

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

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

Operating Revenues and Expenses

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

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

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

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

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, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Cash with Fiscal Agent

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2019 was \$333,612. This amount is not included in the City's depository balance below.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2019, \$8,907,282 of the City's bank balance of \$14,509,146 was exposed to custodial credit risk because it was uninsured and collateralized.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of December 31, 2019, the City had no investments.

Note 4 - Interfund Transactions

Interfund transfers for the year ended December 31, 2019, consisted of the following, as reported on the fund statements:

	Transfers	
	In	Out
General Fund	\$0	\$405,000
Other Governmental Funds	453,742	48,742
Total All Funds	\$453,742	\$453,742

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Note 5 - Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2019 were levied after October 1, 2018 on assessed values as of January 1, 2018, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

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

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

Real Property	\$122,421,430
Public Utility	<u>2,250,110</u>
Total Valuation	<u><u>\$124,671,540</u></u>

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

The City receives property taxes from Richland County. The County Treasurer collects property taxes on behalf of all taxing districts in the counties. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2019, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2019 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is a deferred inflow.

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.50% 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 0.75% for general use financing of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations are required to pay their estimated tax quarterly and file a declaration annually. Income taxes collected are used for general fund purposes (1%), police and court facility construction (.3%), and street and sidewalk improvements and repairs (.2%) as approved by the voters.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Note 7 - Receivables

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

Note 8 – Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$406,004	\$0	\$0	\$406,004
Construction in Progress	742,125	236,348	0	978,473
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	12,123,624	0	57,121	12,066,503
Equipment	6,729,645	30,260	11,570	6,748,335
Infrastructure	22,057,930	0	0	22,057,930
Totals at Historical Cost	<u>\$42,059,328</u>	<u>\$266,608</u>	<u>\$68,691</u>	<u>\$42,257,245</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$2,372,172	\$304,489	\$57,121	\$2,619,540
Equipment	4,946,247	324,079	11,570	5,258,756
Infrastructure	11,527,238	465,942	0	11,993,180
Total Accumulated Depreciation	<u>\$18,845,657</u>	<u>\$1,094,510</u>	<u>\$68,691</u>	<u>\$19,871,476</u>
Governmental Activities Capital Assets, Net	<u>\$23,213,671</u>	<u>(\$827,902)</u>	<u>\$0</u>	<u>\$22,385,769</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

General Government	\$45,376
Public Safety	153,715
Leisure Time Activities	13,531
Community Development	96,935
Public Health and Welfare	2,939
Transportation and Street Repair	782,014
Total Depreciation Expense	<u>\$1,094,510</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Business-Type Activities	Beginning			Ending
<i>Capital Assets, not being depreciated:</i>	Balance	Additions	Deletions	Balance
Land	\$245,327	\$0	\$0	\$245,327
Construction in Progress	5,061,397	3,570,666	8,509,139	122,924
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	16,207,599	8,509,139	0	24,716,738
Equipment	15,023,454	1,505,605	686,786	15,842,273
Infrastructure	19,228,430	0	43,278	19,185,152
Totals at Historical Cost	<u>55,766,207</u>	<u>13,585,410</u>	<u>9,239,203</u>	<u>60,112,414</u>
Less Accumulated Depreciation:				
Buildings and Improvements	9,084,624	442,156	0	9,526,780
Equipment	13,969,445	266,623	507,576	13,728,492
Infrastructure	11,776,790	354,502	1,082	12,130,210
Total Accumulated Depreciation	<u>34,830,859</u>	<u>1,063,281</u>	<u>508,658</u>	<u>35,385,482</u>
Business-Type Activities Capital Assets, Net	<u>\$20,935,348</u>	<u>\$12,522,129</u>	<u>\$8,730,545</u>	<u>\$24,726,932</u>

Note 9 – Compensated Absences

Employees earn vacation and sick leave at different rates which are affected by length of service. Employees may carry over 80 hours vacation for use in the following year. Sick leave accrual is continuous, without limit.

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

Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2019:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds</u>						
Park Improvement Bond	3.00%	\$0	\$100,000	(\$16,667)	\$83,333	\$33,333
Municipal Justice Center Improvements	4.10%	5,400,000	0	(180,000)	5,220,000	190,000
Premium on General Obligations Bonds		107,138	0	(5,952)	101,186	0
Fire Station USDA Bond	3.50%	48,000	0	(48,000)	0	0
Total General Obligation Bonds		<u>5,555,138</u>	<u>100,000</u>	<u>(250,619)</u>	<u>5,404,519</u>	<u>223,333</u>
<u>Capital Leases</u>						
Ambulance Lease		0	200,000	0	200,000	26,379
Total Capital Leases		<u>0</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>	<u>26,379</u>
Net Pension Liability:						
OPERS		1,236,265	718,886	0	1,955,151	0
OP&F		5,005,705	1,818,672	0	6,824,377	0
Total Net Pension Liability		<u>6,241,970</u>	<u>2,537,558</u>	<u>0</u>	<u>8,779,528</u>	<u>0</u>
Net OPEB Liability:						
OPERS		865,810	86,477	0	952,287	0
OP&F		4,621,075	0	(3,859,723)	761,352	0
Total Net OPEB Liability		<u>5,486,885</u>	<u>86,477</u>	<u>(3,859,723)</u>	<u>1,713,639</u>	<u>0</u>
Compensated Absences		546,640	71,358	(69,887)	548,111	70,165
Total Governmental Activities		<u>\$17,830,633</u>	<u>\$2,995,393</u>	<u>(\$4,180,229)</u>	<u>\$16,645,797</u>	<u>\$319,877</u>
	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities						
<u>OWDA and OPWC Loans Payable:</u>						
West Main Street Sanitary Improvements	2.41%	\$0	\$33,879	\$0	\$33,879	\$0
WWTP Improvements - 2018	1.00%	4,564,860	4,226,800	0	8,791,660	445,416
WTP Upgrade	2.75%	690,654	0	(270,616)	420,038	278,109
OPWC	0.00%	146,363	0	(18,296)	128,067	18,296
Total Loans Payable		<u>5,401,877</u>	<u>4,260,679</u>	<u>(288,912)</u>	<u>9,373,644</u>	<u>741,821</u>
Net Pension Liability:						
OPERS		1,990,455	1,396,692	0	3,387,147	0
Total Net Pension Liability		<u>1,990,455</u>	<u>1,396,692</u>	<u>0</u>	<u>3,387,147</u>	<u>0</u>
Net OPEB Liability:						
OPERS		1,394,003	255,761	0	1,649,764	0
Total Net OPEB Liability		<u>1,394,003</u>	<u>255,761</u>	<u>0</u>	<u>1,649,764</u>	<u>0</u>
Compensated Absences		372,032	113,100	(77,915)	407,217	85,024
Total Business-Type Activities		<u>\$9,158,367</u>	<u>\$6,026,232</u>	<u>(\$366,827)</u>	<u>\$14,817,772</u>	<u>\$826,845</u>

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

General obligation bonds payable

General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. In September, 2011, the City issued \$6,385,000 in General Obligation Bonds to finance improvements to the Municipal Justice Center. The bonds were issued at an interest rate of 4.1% and will mature on December 1, 2036. These bonds are being paid from the Police and Court Construction capital projects fund.

In 2019, the City issued \$100,000 in a Park Improvement bond for the purpose of paying part of the cost of the Black Fork Commons Restroom project. The bonds were issued at an interest rate of 3.00% and will mature on June 15, 2022. The bond is being paid from the Park Fund.

In 2018, the City issued \$48,000 in a Fire Station USDA Bond to assist in acquiring, constructing, enlarging, improving, and/or extending its fire city station. The bonds were issued at an interest rate of 3.50%. The bond is being paid from the Fire Equipment Fund.

OPWC loans payable

The City has entered into a debt financing arrangement through the Ohio Public Works Commission (OPWC) to fund construction projects. This loan is being paid from the water fund. The OPWC loan is interest free.

OWDA loans payable

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

In 2019, the City issued an OWDA Loan in the amount of \$33,879 for the West Main Street sanitary improvements. The loan has an interest rate of 2.41% and will mature July 1, 2030. The full amount of the loan was not disbursed as of year end.

In 2018, the City issued an OWDA Loan in the amount of \$4,564,860 for water pollution control improvements. The loan has an interest rate of 1.00% and will mature July 1, 2039. In 2019, the City issued an additional \$4,226,800 for water pollution control improvements and the full amount of the loan was not dispersed as of year end.

Compensated absences

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

Net Pension and OPEB liabilities

Net pension liability and Net other postemployment benefits (OPEB) liability represents the long-term portion of the accrued liability associated with OPERS and OP&F pension liability. These items will be repaid from the funds from which the employees work to whom the liability is associated with or the General Fund if no such funds are available.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2019, are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	General		OWDA and	
	Obligation Bonds		OPWC Loans	
	Principal	Interest	Principal	Interest
2020	\$223,333	\$213,088	\$296,405	\$9,653
2021	233,333	204,466	160,225	1,951
2022	236,667	195,453	18,296	0
2023	225,000	186,400	18,296	0
2024	240,000	177,400	18,296	0
2025-2029	1,465,000	724,200	36,587	0
2030-2034	1,830,000	405,690	0	0
2035-2036	850,000	52,685	0	0
Total	<u>\$5,303,333</u>	<u>\$2,159,382</u>	<u>\$548,105</u>	<u>\$11,604</u>

Note 11 – Capital Leases

In 2019, the City entered into a capital lease for an ambulance. The City's lease obligations meet the criteria of a capital asset and has been recorded on the government-wide statements. The leased assets have been capitalized for the amount of the present value of the minimum lease payments at the inception of the lease. 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 is as follows:

Fiscal Year Ending December 31,	Long-Term Debt
2020	\$31,679
2021	31,679
2022	31,679
2023	31,679
2024	31,680
2025-2026	63,358
Total Minimum Lease Payments	221,754
Less: Amount Representing Interest	(21,754)
Present Value of Minimum Lease Payments	<u>\$200,000</u>

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2019, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

A summary of the City’s insurance coverage at December 31, 2019, follows:

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

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing Preferred Provider Organizations (PPO) programs to the employees. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Mutual Health Services, located in Akron, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is \$740 for single coverage and \$1,630 for family coverage.

The claims liability of \$75,133 reported in the internal service fund at December 31, 2019, is based on the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30 “Risk Financing Omnibus”, which requires that a liability for claims be reported at the estimated ultimate cost of settling the claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund’s claims liability amounts for the years ended December 31, 2019 and 2018 were as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2019	\$64,519	\$1,321,605	(\$1,310,991)	\$75,133
2018	40,362	1,660,415	(1,636,258)	64,519

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 2018 to 2019.

Note 13 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability and the net OPEB liability represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees may pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. While employees may elect the member-directed plan or the combined plan, substantially all employees are in the traditional plan; therefore, the following disclosure focuses on the traditional plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

<u>Group A</u>	<u>Group B</u>	<u>Group C</u>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<u>State and Local</u>	<u>State and Local</u>	<u>State and Local</u>
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<u>Public Safety</u>	<u>Public Safety</u>	<u>Public Safety</u>
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
<u>Law Enforcement</u>	<u>Law Enforcement</u>	<u>Law Enforcement</u>
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>
Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.00%.

Funding Policy

The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

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City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
2019 Statutory Maximum Contribution Rates			
Employer	14.00%	18.10%	18.10%
Employee (a)	10.00%	(b)	(c)
2019 Actual Contribution Rates			
Employer:			
Pension (d)	14.00%	18.10%	18.10%
Post-employment Health Care Benefits (d)	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Employer	<u>14.00%</u>	<u>18.10%</u>	<u>18.10%</u>
Employee	<u>10.00%</u>	<u>12.00%</u>	<u>13.00%</u>

- (a) Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.
- (b) This rate is determined by OPERS' Board and has no maximum rate established by ORC.
- (c) This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2% greater than the Public Safety rate.
- (d) These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4% for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2019, the City's contractually required contribution was \$386,755, of this amount \$36,973 is reported in accrued wages and benefits.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description

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

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

City of Shelby, Ohio
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The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% of the allowable average annual salary is paid after 33 years of service credit (see OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

Under the COLA method, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3.00% or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy

The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2019 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
2019 Actual Contribution Rates		
Employer:		
Pension	19.00%	23.50%
Post-Employment Health Care Benefits	<u>0.50%</u>	<u>0.50%</u>
Total Employer	<u>19.50%</u>	<u>24.00%</u>
Employee	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$410,731 for 2019, of this amount \$42,694 is reported as accrued wages and benefits.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018 to December 31, 2018. The City's

City of Shelby, Ohio
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proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share of the City's defined benefit pension plans:

	OPERS		
	<u>Traditional Plan</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$5,342,298	\$6,824,377	\$12,166,675
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01950600%	0.08360500%	
Prior Measurement Date	<u>0.02056800%</u>	<u>0.08156000%</u>	
Change in Proportionate Share	<u>-0.00106200%</u>	<u>0.00204500%</u>	
Pension Expense	\$1,062,254	\$872,350	\$1,934,604

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS		
	<u>Traditional Plan</u>	<u>OP&F</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$246	\$280,386	\$280,632
Changes of assumptions	465,060	180,924	645,984
Net difference between projected and actual earnings on pension plan investments	725,100	840,758	1,565,858
Changes in employer proportionate share of net pension liability	0	185,138	185,138
Contributions subsequent to the measurement date	<u>386,755</u>	<u>410,731</u>	<u>797,486</u>
Total Deferred Outflows of Resources	<u>\$1,577,161</u>	<u>\$1,897,937</u>	<u>\$3,475,098</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$70,147	\$6,373	\$76,520
Changes in employer proportionate share of net pension liability	<u>158,939</u>	<u>188,650</u>	<u>347,589</u>
Total Deferred Inflows of Resources	<u>\$229,086</u>	<u>\$195,023</u>	<u>\$424,109</u>

\$797,486 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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City of Shelby, Ohio
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Year Ending December 31:	OPERS		
	Traditional Plan	OP&F	Total
2020	\$380,280	\$378,793	\$759,073
2021	176,547	194,945	371,492
2022	67,268	263,872	331,140
2023	337,225	423,773	760,998
2024	0	30,800	30,800
Total	\$961,320	\$1,292,183	\$2,253,503

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2018, are presented below.

	OPERS Traditional Plan
Wage Inflation	3.25%
Projected Salary Increases	3.25% to 10.75% (includes wage inflation at 3.25%)
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3.00% Simple
Post-January 7, 2013 Retirees	3.00% Simple through 2018, then 2.15% Simple
Investment Rate of Return	7.20%
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality

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improvement scale to all of the above described tables. The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 2.94% for 2018.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.79%
Domestic Equities	19.00%	6.21%
Real Estate	10.00%	4.90%
Private Equity	10.00%	10.81%
International Equities	20.00%	7.83%
Other Investments	18.00%	5.50%
Total	100.00%	5.95%

Discount Rate

The discount rate used to measure the total pension liability was 7.20% for the Traditional Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability calculated using the discount rate of 7.20%, and the expected net pension liability if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Proportionate share of the net pension liability	\$7,892,128	\$5,342,298	\$3,223,367

Changes since the prior Measurement Date on to Report Date

OPERS Board adopted a change in the investment return assumption, reducing it from 7.50% to 7.20%.

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2019 (December 31, 2018 measurement date), is based on the results of an actuarial valuation date of January 1, 2018, rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2018:

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Investment Rate of Return	8.00%
Salary Increases	3.75% to 10.50%
Payroll Growth	Inflation rate of 2.75% plus productivity increase rate of 0.50%
Cost of Living Adjustments	3.00% Simple; 2.20% Simple for increased based on the lesser of the increase in CPI and 3.00%

Healthy Mortality

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

City of Shelby, Ohio
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Age	Police	Fire
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

Disabled Mortality

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

The actuarial assumptions used in the valuation are based on the results of a five-year experience review covering the period 2012-2016. The experience study was performed by OP&F's prior actuary and the assumptions were effective January 1, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as a baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.80%
Domestic Equity	16.00%	5.50%
Non-US Equity	16.00%	5.90%
Private Markets	8.00%	8.40%
Core Fixed Income*	23.00%	2.60%
High Yield Fixed Income	7.00%	4.80%
Private Credit	5.00%	7.50%
U.S. Inflation Linked Bonds*	17.00%	2.30%
Master Limited Partnerships	8.00%	6.40%
Real Assets	8.00%	7.00%
Private Real Estate	12.00%	6.10%
Total	120.00%	

Note: Assumptions are geometric

** levered 2x*

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on the relationship between asset

City of Shelby, Ohio
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classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

Discount Rate

Total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F’s fiduciary net position was projected to be available to make all future benefit payment of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate. To illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower, 7.00%, or one percentage point higher, 9.00%, than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of the net pension liability	\$8,970,173	\$6,824,377	\$5,031,254

Changes in Benefit Terms and Assumptions since prior measurement date and to report date

There have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation studies as of the pension plan for the measurement date.

Note 14 - Defined Benefit Other Postemployment Benefits Plans

See note 13 for a description of the net OPEB liability.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Health Care Plan Description

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post

City of Shelby, Ohio
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Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. During 2019, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.00% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.00%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$0 for 2019.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Health Care Plan Description

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. Beginning January 1, 2019 OP&F changed its retiree health care model to a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the

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stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

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

Funding Policy

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

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.50% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

On January 1, 2019, OP&F changed its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

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The City's contractually required contribution to OP&F was \$9,766 for 2019.

Net OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018 to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS Traditional Plan	OP&F	Total
Proportionate Share of the Net OPEB Liability	\$2,602,051	\$761,352	\$3,363,403
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.01995800%	0.08360500%	
Prior Measurement Date	<u>0.02081000%</u>	<u>0.08156000%</u>	
Change in Proportionate Share	<u>-0.00085200%</u>	<u>0.00204500%</u>	
OPEB Expense	\$175,199	(\$3,720,004)	(\$3,544,805)

At December 31, 2019, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS Traditional Plan	OP&F	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$881	\$0	\$881
Changes of assumptions	83,893	394,648	478,541
Net difference between projected and actual earnings on OPEB plan investments	119,289	25,772	145,061
Changes in employer proportionate share of net OPEB liability	0	169,191	169,191
Contributions subsequent to the measurement date	<u>0</u>	<u>9,766</u>	<u>9,766</u>
Total Deferred Outflows of Resources	<u>\$204,063</u>	<u>\$599,377</u>	<u>\$803,440</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$7,060	\$20,398	\$27,458
Changes of assumptions	0	210,778	210,778
Changes in employer proportionate share of net OPEB liability	<u>94,840</u>	<u>0</u>	<u>94,840</u>
Total Deferred Inflows of Resources	<u>\$101,900</u>	<u>\$231,176</u>	<u>\$333,076</u>

\$9,766 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Year Ending December 31:	OPERS		Total
	Traditional Plan	OP&F	
2020	\$32,665	\$62,202	\$94,867
2021	(9,313)	62,202	52,889
2022	18,717	62,202	80,919
2023	60,094	69,997	130,091
2024	0	57,709	57,709
Thereafter	0	44,123	44,123
Total	\$102,163	\$358,435	\$460,598

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25%
Projected Salary	3.25% to 10.75% (including wage inflation)
Single Discount Rate:	
Current measurement date	3.96%
Prior Measurement date	3.85%
Investment Rate of Return	6.00%
Municipal Bond Rate	3.71%
Health Care Cost Trend Rate	10.00% initial, 3.25% ultimate in 2029
Actuarial Cost Method	Individual Entry Age, Normal

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality

City of Shelby, Ohio
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For The Year Ended December 31, 2019

improvement scale to all of the above described tables. The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and healthcare related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a loss of 5.60% for 2018.

The allocation of investment assets within the OPERS Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System’s primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit. The table on the following page displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34%	2.42%
Domestic Equities	21%	6.21%
Real Estate Investment Trust	6%	5.98%
International Equities	22%	7.83%
Other investments	17%	5.57%
Total	100%	5.16%

Discount Rate

A single discount rate of 3.96% was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined

City of Shelby, Ohio
Notes to the Basic Financial Statements
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contribution rate. Based on these assumptions, the OPEB plan’s fiduciary net position and future contributions were sufficient to finance the health care costs through the year 2031. As a result, the long term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the OPEB liability calculated using the single discount rate of 3.96%, and the expected net OPEB liability if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
Proportionate share of the net OPEB liability	\$3,328,994	\$2,602,051	\$2,023,941

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.00% lower or 1.00% higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
Proportionate share of the net OPEB liability	\$2,501,137	\$2,602,051	\$2,718,280

Changes since prior Measurement Date and to Report Date

OPERS Board adopted a change in the investment return assumption, reducing it from 6.50% to 6.00%. In January 2020, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare-eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018 and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00%
Payroll Growth	Inflation rate of 2.75% plus productivity increase rate of 0.50%
Single discount rate:	
Current measurement date	4.66%
Prior measurement date	3.24%
Stipend Increase Rate	The stipend is not assured to increase over the projection period

Healthy Mortality

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

City of Shelby, Ohio
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Disabled Mortality

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

The most recent experience study was completed for the five year period ended December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as a baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.80%
Domestic Equity	16.00%	5.50%
Non-US Equity	16.00%	5.90%
Private Markets	8.00%	8.40%
Core Fixed Income*	23.00%	2.60%
High Yield Fixed Income	7.00%	4.80%
Private Credit	5.00%	7.50%
U.S. Inflation Linked Bonds*	17.00%	2.30%
Master Limited Partnerships	8.00%	6.40%
Real Assets	8.00%	7.00%
Private Real Estate	12.00%	6.10%
Total	120.00%	

Note: Assumptions are geometric

** levered 2x*

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

City of Shelby, Ohio
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Discount Rate

Total OPEB liability was calculated using the discount rate of 4.66%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payment of current plan members. Therefore, a municipal bond rate of 4.13% at December 31, 2018 and 3.16% at December 31, 2017 was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 4.66%.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate. To illustrate the potential impact, the following table presents the net OPEB liability calculated using the discount rate of 4.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 3.66%, or one percentage point higher, 5.66%, than the current rate:

	1% Decrease (3.66%)	Current Discount Rate (4.66%)	1% Increase (5.66%)
Proportionate share of the net OPEB liability	\$927,534	\$761,352	\$621,856

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The net OPEB liability for OP&F is no sensitive to changes in the healthcare care cost trend rate because it is based on a medical benefit that is a flat dollar amount.

Changes since prior measurement date and to report date

Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%.

Note 15 - Contingencies

Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2019.

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Contracts

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

Litigation

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

Contingent Liability

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's project share was 5,000 kilowatts (kW) of a total 771,281 kW, giving the City a 0.65 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share of the impaired costs at March 31, 2014 was \$870,487. The City received a credit of \$226,124 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of \$644,363. On May 31, 2017, the City repaid the full AMPGS net impaired costs liability due.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

The City does have a potential PHFU Liability of \$232,580, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the City's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

Note 16 - Fund Balances

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

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

Fund Balances	General	Other Governmental Funds	Total
Nonspendable:			
Inventory	\$33,811	\$124,772	\$158,583
Prepays	40,263	23,415	63,678
Unclaimed funds	2,856	0	2,856
Muni Park Trust	0	20,000	20,000
Total Nonspendable	76,930	168,187	245,117
Restricted for:			
Street	0	190,350	190,350
State Highway	0	18,439	18,439
Street Sales Tax	0	15,069	15,069
Health	0	338,376	338,376
Park	0	202,651	202,651
Rehab Escrow CDBG	0	13,397	13,397
Court Probation	0	34,810	34,810
Law Enforcement Trust	0	15,471	15,471
Court IDAT	0	38,783	38,783
Court Enforcement and Education	0	16,898	16,898
DARE	0	2,948	2,948
Police Computer	0	6,218	6,218
Court IDAM	0	43,737	43,737
Home Program	0	725	725
Police Pension	0	93,319	93,319
Fire Pension	0	120,061	120,061
Shade Tree Trust	0	6,346	6,346
Fire Damage	0	2,000	2,000
Debt Service	0	512,645	512,645
Capital Projects	0	2,056,443	2,056,443
Muni Park Trust	0	6,076	6,076
Total Restricted	0	3,734,762	3,734,762
Assigned to:			
Encumbrances	51,758	0	51,758
Budgetary Variance	596,015	0	596,015
Police Equipment	0	18,715	18,715
Total Assigned	647,773	18,715	666,488
Unassigned (Deficit)	504,520	0	504,520
Total Fund Balance	\$1,229,223	\$3,921,664	\$5,150,887

Note 17 – Tax Abatements

As of December 31, 2019, the City provides tax abatements through the Community Reinvestment Area (CRA) and Ohio Enterprise Zone Area (EZA) Program:

City of Shelby, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2019

The Ohio Community Reinvestment Area program (established by Ordinance 66-98) which is an economic development tool administered by the City that provides real property tax exemptions for property owners who renovate existing or construct new buildings. Under Ohio Revised Code section 3765 to 3735.70, a city, village or county can petition the Ohio Department of Development to confirm that investment in a particular geographical area. Once the Department has confirmed the investment in the area, the community may offer real estate tax exemptions to taxpayers who are willing to invest in the area. Up to 12 years may be exempt for commercial and industrial remodeling and up to 15 years may be exempt for new construction. State law requires reimbursement agreements with school districts for tax revenue losses for CRA in place after 1994. It is the City’s policy to have reimbursement agreements with school districts for any CRA prior to 1994. Payments in lieu of taxes paid by the property owner directly to the school districts as required by the agreement are not reduced from the total amount of taxes abated.

The Ohio Enterprise Zone Areas (established by Ordinance 13-88) are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investments. EZAs are not part of the traditional zoning program, which limits the use of land, instead they allow local officials to negotiate with businesses to encourage new business investment in the zone. The EZA serves as an additional economic development tool for communities attempting to retain and expand their economic base. The EZA is a contract between the City and the company. The zone's geographic area is identified by the local communities involved in the creation of the zone. Once a zone is defined, the local legislative authority participating in the creation must petition the director of the Development Services Agency. The director must then certify the area for it to become an active Enterprise Zone. Tax incentives are negotiated at the local level, and an enterprise zone agreement must be in place before the project begins. Businesses interested in pursuing these incentives should contact the local Enterprise Zone Manager.

Tax Abatement Programs	of Taxes Abated
Community Urban Redevelopment	\$703
Community Reinvestment Area	11,248
Enterprise Zone Area	61,969
	\$73,920

The abatements will be terminated if the property is deemed delinquent, behind on payments, or the terms and conditions of the CRA or EZA are not adhered to and no recapture provisions noted.

Note 18 – Implementation of New Accounting Principles

For fiscal year 2019, the City has postponed implementation of Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations, GASB No. 84, Fiduciary Activities, GASB No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, and GASB No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. The City did not implement these statements due to the GASB postponing the implementation by 12 months because of the covid-19 pandemic.

Note 19 – Subsequent Event

The City has evaluated subsequent events through the date of the “Independent Auditors Report,” the date on which the combined financial statements were available to be issued.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City’s investment portfolio has incurred a significant decline in fair value, in 2020, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City’s future operating costs, revenues, the impact of the investments of the pension and other employee benefit plan in which the City participates and any recovery from emergency funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Public Employees Retirement System - Traditional Plan
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.01950600%	0.02056800%	0.02129100%	0.02143600%	0.02328000%	0.02328000%
City's Proportionate Share of the Net Pension Liability	\$5,342,298	\$3,226,720	\$4,834,825	\$3,712,985	\$2,807,828	\$2,744,409
City's Covered-Employee Payroll	\$2,634,693	\$2,718,123	\$2,763,883	\$3,099,067	\$2,863,583	\$3,328,000
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	202.77%	118.71%	174.93%	119.81%	98.05%	82.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end

See accompanying notes to the required supplementary information

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability - 0561P	0.04171000%	0.03999600%	0.03908800%	0.04074200%	0.04379640%	0.04379640%
Liability - 0561F	0.04189500%	0.04156400%	0.04025800%	0.04211700%	0.04418610%	0.04418610%
City's Proportionate Share of the Net Pension Liability	\$6,824,377	\$5,005,705	\$5,025,696	\$5,330,378	\$4,557,860	\$4,285,024
City's Covered-Employee Payroll	\$2,048,942	\$1,975,663	\$1,906,684	\$1,811,389	\$1,808,453	\$2,118,167
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	333.07%	253.37%	263.58%	294.27%	252.03%	202.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.07%	70.91%	68.36%	66.77%	72.20%	73.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Public Employees Retirement System- Traditional Plan
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$386,755	\$368,857	\$353,356	\$331,666	\$371,888	\$343,630
Contributions in Relation to the Contractually Required Contribution	<u>(386,755)</u>	<u>(368,857)</u>	<u>(353,356)</u>	<u>(331,666)</u>	<u>(371,888)</u>	<u>(343,630)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,762,536	\$2,634,693	\$2,718,123	\$2,763,883	\$3,099,067	\$2,863,583
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$410,731	\$389,299	\$375,376	\$362,270	\$363,908	\$368,201
Contributions in Relation to the Contractually Required Contribution	<u>(410,731)</u>	<u>(389,299)</u>	<u>(375,376)</u>	<u>(362,270)</u>	<u>(363,908)</u>	<u>(368,201)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,943,829	\$2,048,942	\$1,975,663	\$1,906,684	\$1,811,389	\$1,808,453
Contributions as a Percentage of Covered-Employee Payroll	21.13%	19.00%	19.00%	19.00%	20.09%	20.36%

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 Ohio Public Employees Retirement System - Traditional Plan
 Last Three Fiscal Years (1)

	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.01995800%	0.02081000%	0.02172953%
City's Proportionate Share of the Net OPEB Liability	\$2,602,051	\$2,259,813	\$2,194,756
City's Covered-Employee Payroll	\$2,634,693	\$2,718,123	\$2,763,883
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	98.76%	83.14%	79.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.33%	54.14%	54.04%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end

See accompanying notes to the required supplementary information

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 Ohio Police and Fire Pension Fund
 Last Three Fiscal Years (1)

	2019	2018	2017
City's Proportion of the Net OPEB Liability - 0561P	0.04171000%	0.03999600%	0.03908800%
City's Proportion of the Net OPEB Liability - 0561F	0.04189500%	0.04156400%	0.04025800%
City's Proportionate Share of the Net OPEB Liability	\$761,352	\$4,621,075	\$3,766,376
City's Covered-Employee Payroll	\$2,048,942	\$1,975,663	\$1,906,684
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	37.16%	233.90%	197.54%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.57%	14.13%	15.96%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end

See accompanying notes to the required supplementary information

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Public Employees Retirement System - Traditional Plan
 Last Four Fiscal Years (1)

	2019	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,762,536	\$2,634,693	\$2,718,123	\$2,763,883
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available

See accompanying notes to the required supplementary information

City of Shelby, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Police and Fire Pension Fund
 Last Four Fiscal Years (1)

	2019	2018	2017	2016
Contractually Required Contribution to OPEB	\$9,766	\$9,270	\$31,855	\$61,958
Contributions to OPEB in Relation to the Contractually Required Contribution	(9,766)	(9,270)	(31,855)	(61,958)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,943,829	\$2,048,942	\$1,975,663	\$1,906,684
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.50%	0.45%	1.61%	3.25%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available

See accompanying notes to the required supplementary information

City of Shelby, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2019

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Property and Other Taxes	\$587,941	\$611,985	\$575,796	(\$36,189)
Charges for Services	1,020,888	1,062,638	999,800	(62,838)
Investment Earnings	107,871	112,283	105,643	(6,640)
Intergovernmental	390,979	406,969	382,903	(24,066)
Fines, Licenses & Permits	203,819	212,155	199,609	(12,546)
Other Revenues	206,830	215,289	202,558	(12,731)
Total Revenues	2,518,328	2,621,319	2,466,309	(155,010)
Expenditures:				
Current:				
General Government	1,230,595	1,239,626	1,089,093	150,533
Public Safety	3,558,736	3,584,850	3,149,528	435,322
Community Development	43,738	44,059	38,709	5,350
Transportation and Street Repair	39,994	40,287	35,395	4,892
Total Expenditures	4,873,063	4,908,822	4,312,725	596,097
Excess of Revenues Over (Under) Expenditures	(2,354,735)	(2,287,503)	(1,846,416)	441,087
Other Financing Sources (Uses):				
Transfers In	2,372,170	2,469,182	2,323,169	(146,013)
Transfers (Out)	(468,920)	(472,361)	(415,000)	57,361
Total Other Financing Sources (Uses)	1,903,250	1,996,821	1,908,169	(88,652)
Net Change in Fund Balance	(451,485)	(290,682)	61,753	352,435
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	788,066	788,066	788,066	0
Fund Balance End of Year	\$336,581	\$497,384	\$849,819	\$352,435

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2019

Note 1 – Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the year.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (GAAP).
4. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2019

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	\$184,891
Revenue Accruals	(2,713,644)
Expenditure Accruals	356,964
Transfers In	2,323,169
Transfers (Out)	(10,000)
Encumbrances	(79,627)
Budget Basis	<u>\$61,753</u>

Note 2 – Net Pension Liability

Ohio Police and Fire Pension Fund Changes in Assumptions and Benefit Terms

Changes in assumptions:

2019: There have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

2018: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date.

- Reduction in actuarial assumed rate of return from 8.25% to 8.00%
- Decrease salary increases from 3.75% to 3.25%
- Change in payroll growth from 3.75% to 3.25%
- Reduce DROP interest rate from 4.5% to 4.0%
- Reduce CPI-based COLA from 2.6% to 2.2%
- Inflation component reduced from 3.25% to 2.75%

2017-2014: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

Changes in benefit terms:

2019-2014: There were no changes in benefit terms for the period.

Ohio Public Employees Retirement System Changes in Assumptions and Benefit Terms

Changes in assumptions:

2019: OPERS Board adopted a change in the investment return assumption, reducing it from 7.50% to 7.20%.

2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2017: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date

City of Shelby, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2019

- Reduction in actuarial assumed rate of return from 8.00% to 7.50%
- Decrease in wage inflation from 3.75% to 3.25%
- Change in future salary increases from a range of 4.25%-10.02% to 3.25%-10.75%

2014-2016: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

Changes in benefit terms:

2019-2014: There were no changes in benefit terms for the period.

Note 3 - Net OPEB Liability

Ohio Police and Fire Pension Fund Changes in Assumptions and Benefit Terms

Changes in assumptions:

2019: Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%.

2018: The single discount rate changed from 3.79% to 3.24%

Changes in benefit terms:

2019: See above regarding change to stipend-based model.

2018: There were no changes in benefit terms for the period.

Ohio Public Employees Retirement System Changes in Assumptions and Benefit Terms

Changes in assumptions:

2019: OPERS Board adopted a change in the investment return assumption, reducing it from 6.50% to 6.00%. In January 2020, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare-eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time.

2018: The single discount rate changed from 4.23% to 3.85%.

Changes in benefit terms:

2019-2018: There were no changes in benefit terms for the period.

OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Shelby
Richland County
43 West Main Street
Shelby, Ohio 44875

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Shelby, Richland County, Ohio, (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 17, 2020; wherein we noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies. We consider findings 2019-001 and 2019-002 to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. We did not subject the City's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

September 17, 2020

CITY OF SHELBY
RICHLAND COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2019

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2019-001

Financial Reporting – Significant Deficiency

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The City did not have sufficient internal controls in place to ensure receivables were properly reported and as a result, the following adjustments were made to the financial statements:

- \$120,807 increase in accounts receivable and charges for services revenue in the Sewer Fund.
- \$14,651 increase in accounts receivable and charges for services revenue in the Water Fund.
- \$135,458 decrease in accounts receivable and charges for services revenue in the Electric Fund.

Additionally, one misstatement not requiring adjustment to the financial statements was brought to management's attention.

By not ensuring proper financial statement presentation the City is unable to report accurate financial activity to its constituents.

We recommend the City implement additional procedures to provide assurance over the completeness and accuracy of information recorded in their accounting records and reported within the financial statements. Such procedures may include additional reviews of the financial statements including the notes to the financial statements by a member of management and an analytical comparison of the current year annual report to the prior year annual report for obvious errors or omissions.

Officials' Response: See Corrective Action Plan.

**CITY OF SHELBY
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2019-002

**Municipal Court – Monthly Bank Reconciliations
Significant Deficiency**

The Municipal Court maintains two bank accounts separate from the City's Treasury through which the collection and disbursement of all moneys for the Municipal Court are made. Monthly bank reconciliations should be performed by the Municipal Court to determine if all receipts and disbursements have been properly posted. Reconciling items should be investigated at the time of the reconciliation and resolved in a timely manner. Documentation supporting all reconciling items should be maintained with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by management and evidence of these reviews should be documented.

The December 2019 reconciliations completed for the criminal and civil bank accounts showed unreconciled balances of \$3,621 and (\$3,282), respectively. In addition, management did not review reconciliations during 2019.

When bank reconciliations are not properly and timely performed, monthly balances may be understated or overstated, errors cannot be found and corrected in a timely manner, and management cannot be assured that the accounting system reflects the proper financial activities of the Municipal Court. Furthermore, lack of management review of monthly bank reconciliations increases the likelihood of errors, irregularities, unauthorized adjustments or the occurrence of theft going undetected.

The Clerk of Courts should reconcile all bank accounts to the accounting system on a timely basis. In this process all reconciling items or errors should be identified and included on the face of the reconciliation. All unreconciled balances should be researched in order to find the known source of the error and should be corrected on the Court's ledgers following the completion of the reconciliation. As a monitoring control, the monthly bank reconciliation, including all supporting reports and bank statements, should be reviewed and approved by management. Evidence of these reviews and approvals should be documented.

Officials' Response: See Corrective Action Plan.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Material Weakness – Financial Statement Presentation (Finding first occurred in fiscal year 2014.)	Not Corrected	Finding is being repeated in the current audit as Finding 2019-001. The City’s financial statements had material errors resulting in material audit adjustments. See Officials’ Response to the finding.
2018-002	Significant Deficiency - Municipal Court Monthly Bank Reconciliations (Finding first occurred in fiscal year 2017.)	Not Corrected	Finding is being repeated in the current audit as Finding 2019-002. Monthly municipal court bank reconciliations were not properly completed during 2019. See Officials’ Response to the finding.

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CORRECTIVE ACTION PLAN

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	The Director of Finance will provide the GAAP Converter with the appropriate method to allocate accounts receivable and will review the GAAP Converter's calculations prior to the issuance of financial reports.	January 2021	Brian Crum, Director of Finance
2019-002	The court will maintain monthly spreadsheets for reconciliations for both bank account, to be reviewed by the Judge upon completion each month.	October 2020	Shannon Small, Clerk of Courts

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF SHELBY

RICHLAND COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 10/20/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov