

**CITY OF SHELBY**  
**BASIC**  
**FINANCIAL STATEMENTS**  
*FOR THE FISCAL YEAR ENDED*  
*DECEMBER 31, 2003*

**LARRY PAXTON, FINANCE DIRECTOR**





**Auditor of State  
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the City of Shelby, Richland County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 29, 2004

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**CITY OF SHELBY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio, (the “City”), as of and for the year ended December 31, 2003, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Richland County, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2004 on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mayor and Members of Council  
City of Shelby

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Trimble, Julian & Grube, Inc.  
June 2, 2004

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

The discussion and analysis of the City of Shelby's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$1,094,597. Net assets of governmental activities increased \$470,523 or 2.33% from fiscal year 2002. Net assets of business-type activities increased \$624,074 or 2.31% from fiscal year 2002.
- General revenues accounted for \$4,728,132 or 74.78% of total governmental activities revenue. Program specific revenues accounted for \$1,594,870 or 25.22% of total governmental activities revenue.
- Governmental activities capital assets, net-increased \$836,989.
- The City had \$5,354,150 in expenses related to governmental activities; \$1,594,870 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,759,280, was offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,728,132.
- The general fund, the City's only major government fund, had revenues of \$3,127,987 in 2003. This represents a decrease of \$206,006 or 6.18% from 2002 revenues. The expenditures of the general fund, which totaled \$3,097,257 in 2003, increased \$160,782 from 2002. Also, the general fund's operating transfers out decreased by \$24,000 in 2003. The fund balance in the general fund decreased from \$883,054 in 2002 to \$458,966 in 2003.
- Net assets for the business-type activities, which are made up of the Water, Sewer and Electric enterprise funds, increased in 2003 by \$624,074 or 7.31%. This increase in net assets was due primarily to capital contributions from other funds of \$498,329.
- In the general fund, the actual revenues came in \$371,232 lower than they were in the original budget and actual expenditures were \$193,417 less than the amount in the original budget. The general fund maintained a negative variance of \$435,082 in revenues and a positive variance of \$257,267 in expenditures versus the final budgeted amounts.

#### **Using this Annual Financial Report**

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

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

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

#### **Reporting the City as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The City's only major governmental fund is the general fund. The analysis of the City's major governmental and proprietary funds begins on page 9.

##### *Governmental Funds*

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

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

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

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

#### ***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its 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. The basic proprietary fund financial statements can be found on pages 21 - 24 of this report.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 25 of this report.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26 - 54 of this report.

#### **Government-Wide Financial Analysis**

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2003 compared to 2002.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

**Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Assets</u>						
Current and other assets	\$ 6,963,655	\$ 7,500,388	\$ 7,904,656	\$ 7,617,475	\$ 14,868,311	\$ 15,117,863
Capital assets	<u>15,816,956</u>	<u>14,979,967</u>	<u>24,649,330</u>	<u>24,792,928</u>	<u>40,466,286</u>	<u>39,772,895</u>
Total assets	<u>22,780,611</u>	<u>22,480,355</u>	<u>32,553,986</u>	<u>32,410,403</u>	<u>55,334,597</u>	<u>54,890,758</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	674,038	695,389	423,836	355,753	1,097,874	1,051,142
Other liabilities	<u>1,450,780</u>	<u>1,599,696</u>	<u>4,444,693</u>	<u>4,993,267</u>	<u>5,895,473</u>	<u>6,592,963</u>
Total liabilities	<u>2,124,818</u>	<u>2,295,085</u>	<u>4,868,529</u>	<u>5,349,020</u>	<u>6,993,347</u>	<u>7,644,105</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	15,450,166	14,575,934	24,649,330	24,792,928	40,099,496	39,368,862
Restricted	4,586,875	4,941,085	-	-	4,586,875	4,941,085
Unrestricted	<u>618,752</u>	<u>668,251</u>	<u>3,036,127</u>	<u>2,268,455</u>	<u>3,654,879</u>	<u>2,936,706</u>
Total net assets	<u>\$20,655,793</u>	<u>\$20,185,270</u>	<u>\$27,685,457</u>	<u>\$27,061,383</u>	<u>\$48,341,250</u>	<u>\$47,246,653</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$48,341,250. At year-end, net assets were \$20,655,793 and \$27,685,457 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 73.13% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, was \$15,450,166 and \$24,649,330 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$4,586,875 or 9.49%, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$618,752 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the comparative analysis of changes in net assets for fiscal year 2003 compared to 2002.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
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**Change in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 571,796	\$ 689,109	\$ 12,340,106	\$ 11,989,813	\$ 12,911,902	\$ 12,678,922
Operating grants and contributions	478,641	340,381	-	-	478,641	340,381
Capital grants and contributions	544,433	64,340	-	-	544,433	64,340
General revenues:						
Property taxes	1,292,383	1,311,672	-	-	1,292,383	1,311,672
Income taxes	2,600,476	3,075,317	-	-	2,600,476	3,075,317
Excise taxes	-	-	427,114	439,088	427,114	439,088
Unrestricted grants	705,732	656,772	-	-	705,732	656,772
Interest	50,852	54,449	36,534	59,103	87,386	113,552
Other	78,689	81,975	44,597	39,092	123,286	121,067
Total revenues	<u>6,323,002</u>	<u>6,274,015</u>	<u>12,848,351</u>	<u>12,527,096</u>	<u>19,171,353</u>	<u>18,801,111</u>
Expenses:						
General government	1,200,767	1,413,349	-	-	1,200,767	1,413,349
Security of persons and property	2,532,745	2,613,201	-	-	2,532,745	2,613,201
Public health and welfare	319,224	303,871	-	-	319,224	303,871
Transportation	1,019,090	1,069,234	-	-	1,019,090	1,069,234
Community environment	199,259	420,554	-	-	199,259	420,554
Leisure time activity	71,327	84,124	-	-	71,327	84,124
Other	1,036	3,867	-	-	1,036	3,867
Interest and fiscal charges	10,702	15,021	-	-	10,702	15,021
Investment in joint venture	-	-	57,120	57,120	57,120	57,120
Sewer	-	-	993,353	940,306	993,353	940,306
Water	-	-	1,428,375	1,334,325	1,428,375	1,334,325
Electric	-	-	10,243,758	9,852,729	10,243,758	9,852,729
Total expenses	<u>5,354,150</u>	<u>5,923,221</u>	<u>12,722,606</u>	<u>12,184,480</u>	<u>18,076,756</u>	<u>18,107,701</u>
Increase in net assets before transfers and capital contributions	968,852	350,794	125,745	342,616	1,094,597	693,410
Transfers	-	(90,000)	-	90,000	-	-
Capital contributions	<u>(498,329)</u>	<u>(1,080,819)</u>	<u>498,329</u>	<u>1,080,819</u>	<u>-</u>	<u>-</u>
Increase/(decrease) in net assets	<u>\$ 470,523</u>	<u>\$ (820,025)</u>	<u>\$ 624,074</u>	<u>\$ 1,513,435</u>	<u>\$ 1,094,597</u>	<u>\$ 693,410</u>

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

**Governmental Activities**

Governmental activities net assets increased \$470,523 in 2003. This increase is a result of decreasing revenues and controlled expenses. The most significant decrease in revenues is in income taxes due to a weakening economy in the Richland County area. In addition, governmental capital assets, net, increased by \$836,989.

Security of persons and property, which supports the operations of the police and fire departments, accounted for \$2,532,745 or 47.30% of total expenses of the City. These expenses were partially funded by \$202,544 in direct charges to users of the services. General government expenses, which includes city council, the mayor's office, the finance department, civil service and building and zoning programs, totaled \$1,200,767 or 22.43% of total expenses. General government expenses were partially funded by \$304,914 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$478,641 in operating grants and contributions and \$544,433 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$466,441 or 97.45%, subsidized transportation programs.

General revenues totaled \$4,728,132, and amounted to 74.78% of total revenues. These revenues primarily consist of property and income tax revenue of \$3,892,859, or 82.33% of total general revenues. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$705,732 or 14.93% of the total.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003 compared to 2002. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities**

	2003		2002	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Expenses:				
General government	\$ 1,200,767	\$ 895,853	\$ 1,413,349	\$ 1,241,395
Security of persons and property	2,532,745	2,229,971	2,613,201	2,141,488
Public health and welfare	319,224	289,977	303,871	280,123
Transportation	1,019,090	128,982	1,069,234	760,080
Community environment	199,259	143,064	420,554	326,979
Leisure time activity	71,327	59,695	84,124	68,354
Other	1,036	1,036	3,867	(4,049)
Interest and fiscal charges	10,702	10,702	15,021	15,021
Total expenses	\$ 5,354,150	\$ 3,759,280	\$ 5,923,221	\$ 4,829,391

The dependence upon general revenues for governmental activities is apparent, with 70.21% and 81.53% of expenses supported through taxes and other general revenues during 2003 and 2002, respectively.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

**Business-Type Activities**

Business-type activities include the Sewer, Water and Electric enterprise funds. These programs had program revenues of \$12,340,106, general revenues of \$508,245 and expenses of \$12,722,606 for fiscal year 2003. The Sewer and Water fund received \$203,529 and \$294,800, respectively, in capital contributions from other funds.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$4,810,481 which is \$276,666 below last year's total of \$5,087,147. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

	<u>Fund Balance</u> <u>December 31, 2003</u>	<u>Fund Balance</u> <u>December 31, 2002</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 458,966	\$ 883,054	\$ (424,088)
Other Nonmajor Governmental Funds	<u>4,351,515</u>	<u>4,204,093</u>	<u>147,422</u>
 Total	 <u>\$ 4,810,481</u>	 <u>\$ 5,087,147</u>	 <u>\$ (276,666)</u>

**General Fund**

The City's general fund balance decreased \$424,088, due to a 5.48% increase in expenditures. The decrease in fund balance can be attributed primarily to the overall increase in operating expenses, which included salaries, wages and fringe benefits. The table that follows assists in illustrating the financial activities and fund balances of the general fund.

	<u>2003</u>	<u>2002</u>	<u>Percent</u> <u>Change</u>
<b>Revenues</b>			
Taxes	\$ 1,949,962	\$ 2,135,691	(8.70) %
Charges for services	292,000	256,000	14.06 %
Licenses and permits	12,014	14,420	(16.69) %
Fines and forfeitures	198,578	251,868	(21.16) %
Investment income	31,693	50,410	(37.13) %
Intergovernmental	617,119	573,792	7.55 %
Other revenues	<u>26,621</u>	<u>51,812</u>	(48.62) %
 Total	 <u>\$ 3,127,987</u>	 <u>\$ 3,333,993</u>	 (6.18) %

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

	<u>2003</u>	<u>2002</u>	<u>Percentage Change</u>
<b>Expenditures</b>			
General government	\$ 973,710	\$ 955,826	1.87 %
Security of persons and property	2,120,235	1,977,337	7.23 %
Principal retirement and interest	<u>3,312</u>	<u>3,312</u>	- %
Total	<u>\$ 3,097,257</u>	<u>\$ 2,936,475</u>	5.48 %

***Budgeting Highlights - General Fund***

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

Budgetary information is presented for the general fund, the City's only major governmental fund. Total actual revenues of \$3,139,345 were lower than final budgeted revenues by \$435,082. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$257,267 lower than the final budgeted amounts.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

***Water Fund***

The water fund had operating revenues of \$1,401,549 in 2003. This represents a decrease of \$57,192 from 2002 operating revenues. The operating expenses of the water fund, which totaled \$1,360,793 in 2003, decreased \$26,468 from 2002. The increase in net assets for the water fund was \$269,070 or 2.93%.

***Sewer Fund***

The sewer fund had operating revenues of \$709,984 in 2003. This represents an increase of \$58,009 from 2002 operating revenues. The operating expenses of the sewer fund, which totaled \$987,599 in 2003, increased \$47,293 from 2002. The decrease in net assets for the sewer fund was \$(78,949) or 1.54%.

***Electric Fund***

The electric fund had operating revenues of \$10,273,170 in 2003. This represents an increase of \$354,981 from 2002 operating revenues. The operating expenses of the electric fund, which totaled \$9,750,102 in 2003, increased \$441,509 from 2002. The increase in net assets for the electric fund was \$425,382 or 3.33%.

**CITY OF SHELBY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2003, the City had \$40,466,286 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles, infrastructure and construction in progress. Of this total, \$15,816,956 was reported in governmental activities and \$24,649,330 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

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

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 211,404	\$ 211,404	\$ 155,800	\$ 155,800	\$ 367,204	\$ 367,204
Land improvements	367,338	358,634	511,031	532,059	878,369	890,693
Buildings and improvements	604,764	567,359	12,947,957	12,925,301	13,552,721	13,492,660
Furniture, fixtures and equipment	434,423	370,018	3,800,151	4,136,929	4,234,574	4,506,947
Vehicles	569,507	730,755	541,893	595,607	1,111,400	1,326,362
Infrastructure	13,177,325	12,741,797	5,522,342	5,333,502	18,699,667	18,075,299
Construction in progress	452,195	-	1,170,156	1,113,730	1,622,351	1,113,730
Increase in net assets	<u>\$ 15,816,956</u>	<u>\$ 14,979,967</u>	<u>\$ 24,649,330</u>	<u>\$ 24,792,928</u>	<u>\$ 40,466,286</u>	<u>\$ 39,772,895</u>

***Debt Administration***

At December 31, 2003 the City had \$126,783 in special assessment bonds and OPWC notes of \$240,007 outstanding. Of this total, \$51,389 is due within one year and \$315,401 is due within greater than one year. The following table is a comparison of the bonds and notes outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2003	Governmental Activities 2002
Long-Term Obligations:		
<u>Special Assessment Bonds:</u>		
Riverview Estates	\$ -	\$ 135,000
Street Improvement	126,783	-
Total Special Assessment Bonds	<u>126,783</u>	<u>135,000</u>
<u>OPWC Notes:</u>		
Wareham Road	211,185	227,430
Auburn Street	28,822	38,430
Total OPWC Notes	<u>240,007</u>	<u>265,860</u>
Total	<u>\$ 366,790</u>	<u>\$ 400,860</u>

## CITY OF SHELBY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

	Business-Type Activities <u>2003</u>	Business-Type Activities <u>2002</u>
OPWC Note:		
Wastewater Treatment Plant	\$ 20,435	\$ -

The City has one special assessment bond outstanding at December 31, 2003 in the amount of \$126,783. The City issued \$126,783 in special assessment bonds on September 5, 2003, for water and sewer improvements along State Route 39. These bonds bear an annual interest rate of 3.10% and mature on December 1, 2008. Special assessment bonds in the amount of \$610,000 were issued on August 19, 1998 for the Riverview Estates project and bear an annual interest rate of 4.50%. These bonds matured on December 1, 2003. The bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the projects. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The City has three Ohio Public Works Commission (OPWC) notes outstanding at December 31, 2003 in the amount of \$240,007 in governmental activities and \$20,435 in business-type activities. On July 1, 1997, the City issued \$96,073 in OPWC notes to finance the Auburn Street Storm Sewer Replacement Project. These notes are scheduled to retire on January 1, 2007. The City issued \$394,200 in OPWC notes on July 7, 1997 to finance the Wareham Road Area Storm Sewer Replacement Project. These notes are scheduled to mature on July 1, 2016. During 2003, the City received \$20,435, in OPWC notes from available borrowings of \$400,000, to finance the wastewater plant expansion. The OPWC notes are interest free.

#### **For the Future**

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

The unemployment rate for the City is currently 7.8%, as compared to the state's average unemployment rate of 6.1% and the national average of 6.0%.

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

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

In 2003 the City issued \$3,750,000 of bond anticipation notes for refinancing of renovations of the Electric Generation Plant. In fiscal year 2004, the City plans to reissue \$3,250,000 of bond anticipation notes for the Electric Generation Plant improvements.

#### **Contacting the City's Financial Management**

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

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF SHELBY, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 4,601,907	\$ 4,823,518	\$ 9,425,425
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	682,326	-	682,326
Real and other taxes . . . . .	1,003,557	5,251	1,008,808
Accounts . . . . .	551	1,197,667	1,198,218
Special assessments . . . . .	20,688	-	20,688
Due from other governments . . . . .	546,913	-	546,913
Prepayments . . . . .	35,138	99,140	134,278
Materials and supplies inventory. . . . .	72,575	846,548	919,123
Investment in joint venture. . . . .	-	932,532	932,532
Capital assets:			
Land and construction in progress. . . . .	663,599	1,325,956	1,989,555
Depreciable capital assets, net . . . . .	15,153,357	23,323,374	38,476,731
Total capital assets. . . . .	<u>15,816,956</u>	<u>24,649,330</u>	<u>40,466,286</u>
 Total assets. . . . .	 <u>22,780,611</u>	 <u>32,553,986</u>	 <u>55,334,597</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	136,144	555,570	691,714
Retainage payable . . . . .	11,363	-	11,363
Accrued wages and benefits . . . . .	26,400	28,028	54,428
Due to other governments . . . . .	205,240	114,991	320,231
Internal balance . . . . .	8,571	(8,571)	-
Deferred revenue. . . . .	896,143	-	896,143
Accrued interest payable. . . . .	1,260	4,675	5,935
Claims payable. . . . .	165,659	-	165,659
Note payable. . . . .	-	3,750,000	3,750,000
Long-term liabilities:			
Due within one year. . . . .	113,704	61,122	174,826
Due in more than one year . . . . .	560,334	362,714	923,048
 Total liabilities . . . . .	 <u>2,124,818</u>	 <u>4,868,529</u>	 <u>6,993,347</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	15,450,166	24,649,330	40,099,496
Restricted for:			
Capital projects. . . . .	2,696,822	-	2,696,822
Debt service . . . . .	941,202	-	941,202
Other purposes . . . . .	948,851	-	948,851
Unrestricted. . . . .	618,752	3,036,127	3,654,879
 Total net assets . . . . .	 <u>\$ 20,655,793</u>	 <u>\$ 27,685,457</u>	 <u>\$ 48,341,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government . . . . .	\$ 1,200,767	\$ 304,914	\$ -	\$ -
Security of persons and property. . . . .	2,532,745	202,544	4,815	95,415
Public health and welfare . . . . .	319,224	29,247	-	-
Transportation . . . . .	1,019,090	-	466,441	423,667
Community environment. . . . .	199,259	23,459	7,385	25,351
Leisure time activity. . . . .	71,327	11,632	-	-
Other . . . . .	1,036	-	-	-
Interest and fiscal charges. . . . .	10,702	-	-	-
<b>Total governmental activities . . . . .</b>	<b>5,354,150</b>	<b>571,796</b>	<b>478,641</b>	<b>544,433</b>
<b>Business-Type Activities:</b>				
Sewer . . . . .	993,353	709,614	-	-
Water . . . . .	1,428,375	1,400,072	-	-
Electric . . . . .	10,300,878	10,230,420	-	-
<b>Total business-type activities . . . . .</b>	<b>12,722,606</b>	<b>12,340,106</b>	<b>-</b>	<b>-</b>
<b>Total primary government. . . . .</b>	<b>\$ 18,076,756</b>	<b>\$ 12,911,902</b>	<b>\$ 478,641</b>	<b>\$ 544,433</b>

**General Revenues:**

Property taxes levied for:	
General purposes. . . . .	
Special revenue . . . . .	
Income taxes levied for:	
General purposes. . . . .	
Special revenue . . . . .	
Capital projects . . . . .	
Other local taxes . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
<b>Total general revenues . . . . .</b>	
Capital contributions. . . . .	
Change in net assets. . . . .	
Net assets at beginning of year . . . . .	
Net assets at end of year . . . . .	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (895,853)	\$ -	\$ (895,853)
(2,229,971)	-	(2,229,971)
(289,977)	-	(289,977)
(128,982)	-	(128,982)
(143,064)	-	(143,064)
(59,695)	-	(59,695)
(1,036)	-	(1,036)
(10,702)	-	(10,702)
<u>(3,759,280)</u>	<u>-</u>	<u>(3,759,280)</u>
-	(283,739)	(283,739)
-	(28,303)	(28,303)
-	(70,458)	(70,458)
-	(382,500)	(382,500)
<u>(3,759,280)</u>	<u>(382,500)</u>	<u>(4,141,780)</u>
714,993	-	714,993
577,390	-	577,390
1,252,158	-	1,252,158
167,933	-	167,933
1,180,385	-	1,180,385
-	427,114	427,114
705,732	-	705,732
50,852	36,534	87,386
78,689	44,597	123,286
<u>4,728,132</u>	<u>508,245</u>	<u>5,236,377</u>
<u>(498,329)</u>	<u>498,329</u>	<u>-</u>
470,523	624,074	1,094,597
<u>20,185,270</u>	<u>27,061,383</u>	<u>47,246,653</u>
<u>\$ 20,655,793</u>	<u>\$ 27,685,457</u>	<u>\$ 48,341,250</u>

**CITY OF SHELBY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 170,637	\$ 4,162,842	\$ 4,333,479
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	341,163	341,163	682,326
Real and other taxes. . . . .	356,162	647,395	1,003,557
Accounts . . . . .	-	551	551
Special assessments. . . . .	-	20,688	20,688
Due from other governments . . . . .	290,700	256,213	546,913
Prepayments. . . . .	23,558	11,580	35,138
Materials and supplies inventory . . . . .	24,834	47,741	72,575
	<u>\$ 1,207,054</u>	<u>\$ 5,488,173</u>	<u>\$ 6,695,227</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 27,101	\$ 109,043	\$ 136,144
Retainage payable. . . . .	-	11,363	11,363
Accrued wages and benefits payable . . . . .	20,882	5,518	26,400
Due to other governments. . . . .	101,195	104,045	205,240
Deferred revenue . . . . .	598,910	906,689	1,505,599
	<u>748,088</u>	<u>1,136,658</u>	<u>1,884,746</u>
<b>Fund Balances:</b>			
Reserved for encumbrances. . . . .	79,743	482,993	562,736
Reserved for prepayments . . . . .	23,558	11,580	35,138
Reserved for materials and supplies inventory . . . . .	24,834	47,741	72,575
Unreserved, undesignated, reported in:			
General fund. . . . .	330,831	-	330,831
Special revenue funds. . . . .	-	646,664	646,664
Debt service fund . . . . .	-	921,774	921,774
Capital projects funds. . . . .	-	2,240,763	2,240,763
	<u>458,966</u>	<u>4,351,515</u>	<u>4,810,481</u>
<b>Total liabilities and fund balances.</b> . . . . .	<u>\$ 1,207,054</u>	<u>\$ 5,488,173</u>	<u>\$ 6,695,227</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2003

<b>Total governmental fund balances</b>		\$ 4,810,481
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,816,956
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 102,163	
Income tax	172,343	
Special assessments	20,688	
Intergovernmental revenues	<u>314,262</u>	
Total		609,456
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of assets. The net assets of the internal service fund, including internal balances of \$8,571, are:		94,198
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(1,260)	
Street improvement bonds	(126,783)	
OPWC notes	(240,007)	
Compensated absences	<u>(307,248)</u>	
Total		<u>(675,298)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 20,655,793</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Municipal income taxes . . . . .	\$ 1,248,269	\$ 1,344,429	\$ 2,592,698
Property and other taxes . . . . .	701,693	551,909	1,253,602
Charges for services . . . . .	292,000	101,256	393,256
Licenses and permits . . . . .	12,014	29,247	41,261
Fines and forfeitures . . . . .	198,578	28,506	227,084
Intergovernmental . . . . .	617,119	1,065,335	1,682,454
Special assessments . . . . .	-	141,427	141,427
Investment income . . . . .	31,693	14,289	45,982
Rental income . . . . .	-	3,235	3,235
Other . . . . .	26,621	33,392	60,013
Total revenues . . . . .	<u>3,127,987</u>	<u>3,313,025</u>	<u>6,441,012</u>
<b>Expenditures:</b>			
Current:			
General government . . . . .	973,710	194,540	1,168,250
Security of persons and property . . . . .	2,120,235	291,530	2,411,765
Public health and welfare . . . . .	-	314,850	314,850
Transportation . . . . .	-	683,975	683,975
Community environment . . . . .	-	159,876	159,876
Leisure time activity . . . . .	-	70,542	70,542
Capital outlay . . . . .	-	1,860,227	1,860,227
Other . . . . .	-	1,036	1,036
Debt service:			
Principal retirement . . . . .	3,173	160,853	164,026
Interest and fiscal charges . . . . .	139	9,775	9,914
Total expenditures . . . . .	<u>3,097,257</u>	<u>3,747,204</u>	<u>6,844,461</u>
Excess of revenues over (under) expenditures . . . . .	<u>30,730</u>	<u>(434,179)</u>	<u>(403,449)</u>
<b>Other financing sources (uses):</b>			
Proceeds from sale of bonds . . . . .	-	126,783	126,783
Transfers in . . . . .	1,082	455,900	456,982
Transfers out . . . . .	<u>(455,900)</u>	<u>(1,082)</u>	<u>(456,982)</u>
Total other financing sources (uses) . . . . .	<u>(454,818)</u>	<u>581,601</u>	<u>126,783</u>
Net change in fund balances . . . . .	(424,088)	147,422	(276,666)
<b>Fund balances at beginning of year . . . . .</b>	<u>883,054</u>	<u>4,204,093</u>	<u>5,087,147</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 458,966</u>	<u>\$ 4,351,515</u>	<u>\$ 4,810,481</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

<b>Net change in fund balances - total governmental funds</b>	\$	(276,666)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,538,465) exceeded depreciation expense (\$691,134) in the current period.		847,331
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(10,342)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(119,686)
Proceeds of bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(126,783)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		164,026
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(788)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(15,892)
An internal service fund is used by management to charge the costs of health insurance to individual funds is not reported in the government-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, including internal balances of \$8,571 is allocated among the governmental activities.		9,323
<b>Change in net assets of governmental activities.</b>	<b>\$</b>	<b>470,523</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 1,393,340	\$ 1,418,694	\$ 1,245,930	\$ (172,764)
Property and other taxes . . . . .	732,079	738,210	696,442	(41,768)
Charges for services . . . . .	326,518	332,454	292,000	(40,454)
Licenses and permits . . . . .	13,434	13,678	12,014	(1,664)
Fines and forfeitures . . . . .	222,052	226,089	198,578	(27,511)
Intergovernmental . . . . .	711,257	724,189	636,067	(88,122)
Investment income . . . . .	35,439	36,084	31,693	(4,391)
Other . . . . .	76,458	85,029	26,621	(58,408)
Total revenues . . . . .	<u>3,510,577</u>	<u>3,574,427</u>	<u>3,139,345</u>	<u>(435,082)</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,094,909	1,125,559	1,022,303	103,256
Security of persons and property . . . . .	2,361,548	2,394,748	2,240,737	154,011
Total expenditures . . . . .	<u>3,456,457</u>	<u>3,520,307</u>	<u>3,263,040</u>	<u>257,267</u>
Excess of revenues over (under) expenditures . . . . .	<u>54,120</u>	<u>54,120</u>	<u>(123,695)</u>	<u>(177,815)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	1,082	1,082	1,082	-
Transfers out . . . . .	<u>(455,900)</u>	<u>(455,900)</u>	<u>(455,900)</u>	<u>-</u>
Total other financing sources (uses) . . . . .	<u>(454,818)</u>	<u>(454,818)</u>	<u>(454,818)</u>	<u>-</u>
Net change in fund balance . . . . .	(400,698)	(400,698)	(578,513)	(177,815)
<b>Fund balance at beginning of year . . . . .</b>	473,257	473,257	473,257	-
<b>Prior year encumbrances appropriated . . . . .</b>	172,223	172,223	172,223	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 244,782</u>	<u>\$ 244,782</u>	<u>\$ 66,967</u>	<u>\$ (177,815)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31,2003

	<b>Business Type Activities - Enterprise Funds</b>				<b>Governmental Activities - Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Total</b>	
<b>Assets:</b>					
<b>Current Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 278,950	\$ 1,357,598	\$ 3,186,970	\$ 4,823,518	\$ 268,428
Receivables (net of allowance for uncollectibles):					
Real and other taxes. . . . .	-	-	5,251	5,251	-
Accounts . . . . .	83,837	179,650	934,180	1,197,667	-
Prepayments. . . . .	9,460	12,630	77,050	99,140	-
Materials and supplies inventory . . . . .	18,259	78,092	750,197	846,548	-
Total current assets . . . . .	<u>390,506</u>	<u>1,627,970</u>	<u>4,953,648</u>	<u>6,972,124</u>	<u>268,428</u>
<b>Noncurrent Assets:</b>					
Investment in joint venture . . . . .	-	-	932,532	932,532	-
Capital assets:					
Land and construction in progress . . . . .	272,380	77,130	976,446	1,325,956	-
Depreciable capital assets, net . . . . .	4,503,359	7,885,934	10,934,081	23,323,374	-
Total capital assets . . . . .	<u>4,775,739</u>	<u>7,963,064</u>	<u>11,910,527</u>	<u>24,649,330</u>	<u>-</u>
Total noncurrent assets . . . . .	<u>4,775,739</u>	<u>7,963,064</u>	<u>12,843,059</u>	<u>25,581,862</u>	<u>-</u>
Total assets . . . . .	<u>5,166,245</u>	<u>9,591,034</u>	<u>17,796,707</u>	<u>32,553,986</u>	<u>268,428</u>
<b>Liabilities:</b>					
<b>Current Liabilities:</b>					
Accounts payable. . . . .	9,575	18,916	527,079	555,570	-
Accrued wages and benefits . . . . .	4,124	5,972	17,932	28,028	-
Due to other governments . . . . .	16,372	23,437	75,182	114,991	-
Claims payable. . . . .	-	-	-	-	165,659
Accrued interest payable. . . . .	-	-	4,675	4,675	-
Note payable. . . . .	-	-	3,750,000	3,750,000	-
Total current liabilities. . . . .	<u>30,071</u>	<u>48,325</u>	<u>4,374,868</u>	<u>4,453,264</u>	<u>165,659</u>
<b>Long-term liabilities:</b>					
Note payable . . . . .	20,435	-	-	20,435	-
Compensated absences . . . . .	74,558	92,492	236,351	403,401	-
Total long-term liabilities . . . . .	<u>94,993</u>	<u>92,492</u>	<u>236,351</u>	<u>423,836</u>	<u>-</u>
Total liabilities . . . . .	<u>125,064</u>	<u>140,817</u>	<u>4,611,219</u>	<u>4,877,100</u>	<u>165,659</u>
<b>Net assets:</b>					
Invested in capital assets. . . . .	4,775,739	7,963,064	11,910,527	24,649,330	-
Unrestricted . . . . .	<u>265,442</u>	<u>1,487,153</u>	<u>1,274,961</u>	<u>3,027,556</u>	<u>102,769</u>
Total net assets . . . . .	<u>\$ 5,041,181</u>	<u>\$ 9,450,217</u>	<u>\$ 13,185,488</u>	<u>27,676,886</u>	<u>\$ 102,769</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				8,571	
Net assets of business-type activities				<u>\$ 27,685,457</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<u>Business-Type Activities - Enterprise Funds</u>				<b>Governmental</b>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<b>Activities - Internal Service Fund</b>
<b>Operating revenues:</b>					
Charges for services . . . . .	\$ 709,614	\$ 1,400,072	\$ 10,230,420	\$ 12,340,106	\$ 868,350
Other . . . . .	370	1,477	42,750	44,597	-
Total operating revenues . . . . .	<u>709,984</u>	<u>1,401,549</u>	<u>10,273,170</u>	<u>12,384,703</u>	<u>868,350</u>
<b>Operating expenses:</b>					
Personal services . . . . .	412,328	618,854	1,945,323	2,976,505	-
Contract services . . . . .	136,465	176,843	675,420	988,728	-
Materials and supplies . . . . .	68,646	95,126	5,575,048	5,738,820	-
Utilities . . . . .	89,230	84,907	153,354	327,491	-
Depreciation . . . . .	161,799	305,990	760,909	1,228,698	-
Claims. . . . .	-	-	-	-	852,132
Other . . . . .	119,131	79,073	640,048	838,252	-
Total operating expenses. . . . .	<u>987,599</u>	<u>1,360,793</u>	<u>9,750,102</u>	<u>12,098,494</u>	<u>852,132</u>
Operating income (loss) . . . . .	<u>(277,615)</u>	<u>40,756</u>	<u>523,068</u>	<u>286,209</u>	<u>16,218</u>
<b>Nonoperating revenues (expenses):</b>					
Interest expense and fiscal charges . . . . .	-	-	(70,987)	(70,987)	-
Loss on sale of capital assets . . . . .	(7,362)	(69,467)	(2,000)	(78,829)	-
Interest revenue. . . . .	2,499	2,981	31,054	36,534	1,676
Investment in joint venture . . . . .	-	-	(49,506)	(49,506)	-
Other local tax revenue. . . . .	-	-	427,114	427,114	-
Excise tax expense . . . . .	-	-	(433,361)	(433,361)	-
Total nonoperating revenues (expenses) . . . . .	<u>(4,863)</u>	<u>(66,486)</u>	<u>(97,686)</u>	<u>(169,035)</u>	<u>1,676</u>
Net income (loss) before contributions	(282,478)	(25,730)	425,382	117,174	17,894
Capital contributions. . . . .	<u>203,529</u>	<u>294,800</u>	<u>-</u>	<u>498,329</u>	<u>-</u>
Changes in net assets . . . . .	(78,949)	269,070	425,382	615,503	17,894
<b>Net assets at beginning of year . . . . .</b>	<u>5,120,130</u>	<u>9,181,147</u>	<u>12,760,106</u>		<u>84,875</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 5,041,181</u>	<u>\$ 9,450,217</u>	<u>\$ 13,185,488</u>		<u>\$ 102,769</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>8,571</u>	
Changes in net assets of business-type activities				<u>\$ 624,074</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, 2003

	<u>Business-Type Activities - Enterprise Funds</u>				<b>Governmental</b>
	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Total</b>	<b>Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>					
Cash received from customers . . . . .	\$ 703,005	\$ 1,385,911	\$ 10,156,783	\$ 12,245,699	\$ 868,350
Cash received from other operations. . . . .	370	1,477	42,750	44,597	-
Cash payments for personal services . . . . .	(441,978)	(619,594)	(1,973,108)	(3,034,680)	-
Cash payments for contract services . . . . .	(133,994)	(188,312)	(530,997)	(853,303)	-
Cash payments for materials and supplies . . . . .	(74,813)	(138,318)	(5,657,556)	(5,870,687)	-
Cash payments for utilities. . . . .	(89,230)	(84,907)	(153,354)	(327,491)	-
Cash payments for claims . . . . .	-	-	-	-	(821,601)
Cash payments for other expenses. . . . .	(119,131)	(79,073)	(640,048)	(838,252)	-
Net cash provided by (used in) operating activities .	(155,771)	277,184	1,244,470	1,365,883	46,749
<b>Cash flows from noncapital financing activities:</b>					
Cash received from other local taxes . . . . .	-	-	428,110	428,110	-
Cash payments for excise taxes . . . . .	-	-	(433,361)	(433,361)	-
Net cash used in noncapital financing activities . . . . .	-	-	(5,251)	(5,251)	-
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets . . . . .	(223,964)	(421,912)	(518,053)	(1,163,929)	-
Capital contributions . . . . .	203,529	294,800	-	498,329	-
Proceeds from the sale of notes. . . . .	20,435	-	3,750,000	3,770,435	-
Principal retirement. . . . .	-	-	(4,250,000)	(4,250,000)	-
Interest and fiscal charges. . . . .	-	-	(72,250)	(72,250)	-
Net cash used in capital and related financing activities . . . . .	-	(127,112)	(1,090,303)	(1,217,415)	-
<b>Cash flows from investing activities:</b>					
Interest received. . . . .	2,499	2,981	31,054	36,534	1,676
Net cash provided by investing activities . . . . .	2,499	2,981	31,054	36,534	1,676
Net increase (decrease) in cash and cash equivalents . .	(153,272)	153,053	179,970	179,751	48,425
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>432,222</u>	<u>1,204,545</u>	<u>3,007,000</u>	<u>4,643,767</u>	<u>220,003</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 278,950</u>	<u>\$ 1,357,598</u>	<u>\$ 3,186,970</u>	<u>\$ 4,823,518</u>	<u>\$ 268,428</u>

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**CITY OF SHELBY, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<u>Business-Type Activities - Enterprise Funds</u>				<b>Governmental</b>
	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<b>Activities - Internal Service Fund</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss) . . . . .	\$ (277,615)	\$ 40,756	\$ 523,068	\$ 286,209	\$ 16,218
Adjustments:					
Depreciation . . . . .	161,799	305,990	760,909	1,228,698	-
Changes in assets and liabilities:					
(Increase) in materials and supplies inventory . . . . .	(7,536)	(58,382)	(3,420)	(69,338)	-
(Increase) in receivables . . . . .	(6,609)	(14,161)	(73,637)	(94,407)	-
Decrease (Increase) in prepayments . . . . .	2,075	(3,159)	6,897	5,813	-
Increase in accounts payable . . . . .	1,765	6,880	58,438	67,083	-
Decrease in accrued wages and benefits . . . . .	(7,031)	(13,484)	(41,699)	(62,214)	-
Decrease in due to other governments. . . . .	(4,039)	(11,029)	(28,541)	(43,609)	-
Increase (decrease) in compensated absences payable . . . . .	(18,580)	23,773	42,455	47,648	-
Increase in claims payable . . . . .	-	-	-	-	30,531
Net cash provided by (used in) operating activities . .	<u>\$ (155,771)</u>	<u>\$ 277,184</u>	<u>\$ 1,244,470</u>	<u>\$ 1,365,883</u>	<u>\$ 46,749</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF SHELBY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2003

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 162,708
Cash in segregated accounts . . . . .	<u>7,521</u>
Total assets . . . . .	<u>170,229</u>
 <b>Liabilities:</b>	
Due to other governments . . . . .	7,521
Restricted/refundable deposits. . . . .	<u>162,708</u>
Total liabilities . . . . .	<u><u>\$ 170,229</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## **CITY OF SHELBY, OHIO**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

#### **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 also the keeper of all public funds collected by the City as well as investing and disbursing of those funds. All contracts and agreements or obligations receiving or disbursing City moneys are all certified by the Director of Finance before entered into.

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

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

##### A. Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units, but is a member of one insurance purchasing pool which is described in Note 14.

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

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

##### JOINT VENTURE WITH EQUITY INTEREST

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-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$932,532 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the City's Auditor.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2003 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>

**B. Basis of Presentation - Fund Accounting**

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

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

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

**C. Fund Accounting**

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

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

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

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

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

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

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

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

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

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

**D. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

**E. Basis of Accounting**

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

**F. Budgetary Data**

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

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

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2003.

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

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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

**G. Health Care**

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

**H. Cash and Cash Equivalents**

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

During fiscal year 2003, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal 2003, interest revenue credited to the general fund amounted to \$31,693 which includes \$28,175 assigned from other City funds.

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

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

An analysis of the Finance Director's investment account at year-end is provided in Note 4.

**I. Inventories of Materials and Supplies**

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

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

Inventory consists of expendable supplies held for consumption.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

**J. Capital Assets**

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

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

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

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

**K. Compensated Absences**

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

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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

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

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

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

**L. Prepayments**

Payments made to vendors for services that will benefit beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**M. Accrued Liabilities and Long-Term Obligations**

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

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

**N. Interfund Balances**

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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

**O. Interfund Activity**

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

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

**P. Fund Balance Reserves**

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

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

**Q. Estimates**

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

**R. Contributed Capital**

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

**S. Net Assets**

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

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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

**T. Operating Revenues and Expenses**

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

**U. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principle**

During fiscal year 2003, the City switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at December 31, 2002.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

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

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

*Deposits:* At year-end, the carrying amount of the City's deposits, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$2,281,721 and the bank balance was \$2,120,889. Of the bank balance:

1. \$320,069 was covered by federal depository insurance; and
2. \$1,800,820 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category			Fair
	1	2	3	Value
Repurchase agreements	\$ -	\$ -	\$ 7,313,933	\$ 7,313,933

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 9,595,654	\$ -
Investments of the cash management pool:		
Repurchase agreements	(7,313,933)	7,313,933
GASB Statement No. 3	\$ 2,281,721	\$ 7,313,933

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported on the fund statements:

Transfers to general fund from:	
Nonmajor governmental funds	\$ 1,082
Transfers to nonmajor governmental funds from:	
General fund	<u>455,900</u>
Total	<u>\$ 456,982</u>

All transfers were legal and in compliance with Ohio Revised Code and City Charter. The most significant transfers that occurred during the year were \$455,900 in transfers from the general fund to the nonmajor special revenue funds. These transfers were used to fund street projects and police and fire pension expenditures.

**NOTE 6 - PROPERTY TAXES**

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

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 6 - PROPERTY TAXES - (Continued)**

The full tax rate for all City operations for the year ended December 31, 2003, was \$5.60 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property for tax year 2002 are as follows:

Real property	\$ 122,432,120
Public utility property	2,110,580
Tangible personal property	<u>39,483,820</u>
Total assessed valuation	<u>\$ 164,026,520</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2003. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2004 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

**NOTE 7 - LOCAL INCOME TAX**

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

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2003, as well as intended to finance fiscal 2003 operations.

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

**Governmental Activities:**

Income taxes	\$ 682,326
Real and other taxes	1,003,557
Special assessments	20,688
Due from other governments	546,913

**Business-Type Activities:**

Accounts	1,197,667
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Receivables have been disaggregated on the face of the basic financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended December 31, 2003, was as follows:

	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/03</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 211,404	\$ -	\$ -	\$ 211,404
Construction in progress	<u>-</u>	<u>452,195</u>	<u>-</u>	<u>452,195</u>
Total capital assets, not being depreciated	<u>211,404</u>	<u>452,195</u>	<u>-</u>	<u>663,599</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	644,560	38,412	(2,304)	680,668
Buildings and improvements	1,103,648	55,547	(4,129)	1,155,066
Furniture, fixtures and equipment	1,169,798	150,819	(55,031)	1,265,586
Vehicles	1,868,995	28,735	(44,300)	1,853,430
Infrastructure	<u>15,980,623</u>	<u>812,757</u>	<u>-</u>	<u>16,793,380</u>
Total capital assets, being depreciated	<u>20,767,624</u>	<u>1,086,270</u>	<u>(105,764)</u>	<u>21,748,130</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(285,926)	(29,707)	2,303	(313,330)
Buildings and improvements	(536,289)	(14,148)	135	(550,302)
Furniture, fixtures and equipment	(799,780)	(80,067)	48,684	(831,163)
Vehicles	(1,138,240)	(189,983)	44,300	(1,283,923)
Infrastructure	<u>(3,238,826)</u>	<u>(377,229)</u>	<u>-</u>	<u>(3,616,055)</u>
Total accumulated depreciation	<u>(5,999,061)</u>	<u>(691,134)</u>	<u>95,422</u>	<u>(6,594,773)</u>
Total capital assets, being depreciated, net	<u>14,768,563</u>	<u>395,136</u>	<u>(10,342)</u>	<u>15,153,357</u>
Governmental activities capital assets, net	<u>\$ 14,979,967</u>	<u>\$ 847,331</u>	<u>\$ (10,342)</u>	<u>\$ 15,816,956</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS - (Continued)**

	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/03</u>
<b>Business-Type Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 155,800	\$ -	\$ -	\$ 155,800
Construction in progress	<u>1,113,730</u>	<u>187,136</u>	<u>(130,710)</u>	<u>1,170,156</u>
Total capital assets, not being depreciated	<u>1,269,530</u>	<u>187,136</u>	<u>(130,710)</u>	<u>1,325,956</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	707,049	3,000	-	710,049
Buildings and improvements	18,838,750	330,535	-	19,169,285
Furniture, fixtures and equipment	17,412,934	372,773	(151,049)	17,634,658
Vehicles	990,217	-	(157,173)	833,044
Infrastructure	<u>6,897,842</u>	<u>401,195</u>	<u>(35,000)</u>	<u>7,264,037</u>
Total capital assets, being depreciated	<u>44,846,792</u>	<u>1,107,503</u>	<u>(343,222)</u>	<u>45,611,073</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(174,990)	(24,028)	-	(199,018)
Buildings and improvements	(5,913,449)	(307,879)	-	(6,221,328)
Furniture, fixtures and equipment	(13,276,005)	(672,629)	114,127	(13,834,507)
Vehicles	(394,610)	(44,352)	147,811	(291,151)
Infrastructure	<u>(1,564,340)</u>	<u>(179,810)</u>	<u>2,455</u>	<u>(1,741,695)</u>
Total accumulated depreciation	<u>(21,323,394)</u>	<u>(1,228,698)</u>	<u>264,393</u>	<u>(22,287,699)</u>
Total capital assets, being depreciated, net	<u>23,523,398</u>	<u>(121,195)</u>	<u>(78,829)</u>	<u>23,323,374</u>
Business-type activities capital assets, net	<u>\$ 24,792,928</u>	<u>\$ 65,941</u>	<u>\$ (209,539)</u>	<u>\$ 24,649,330</u>

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

Governmental activities	
General government	\$ 34,309
Security of persons and property	146,285
Public health and welfare	425
Transportation	467,545
Community environment	41,050
Leisure time activity	<u>1,520</u>
Total depreciation expense - governmental activities	<u>\$ 691,134</u>

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

Capital assets consisting of police phone equipment have been capitalized in the amount of \$8,808. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2003 totaled \$3,173 paid by the general fund, which retired the lease.

**NOTE 11 - COMPENSATED ABSENCES**

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 12 - LONG-TERM OBLIGATIONS**

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

	Interest Rate	Balance Outstanding 12/31/02	Additions	Reductions	Balance Outstanding 12/31/03	Amounts Due in One Year
<b>Governmental Activities:</b>						
<u>Bonds Payable:</u>						
Special Assessment -	4.50%					
Riverview Estates		\$ 135,000	\$ -	\$ (135,000)	\$ -	\$ -
Street Improvement	3.10%	-	126,783	-	126,783	25,537
Total Bonds Payable		<u>135,000</u>	<u>126,783</u>	<u>(135,000)</u>	<u>126,783</u>	<u>25,537</u>
<u>OPWC Notes Payable:</u>						
Wareham Road	0.00%	227,430	-	(16,245)	211,185	16,245
Auburn Street	0.00%	38,430	-	(9,608)	28,822	9,607
Total OPWC Notes Payable		<u>265,860</u>	<u>-</u>	<u>(25,853)</u>	<u>240,007</u>	<u>25,852</u>
<u>Other Long-Term Obligations:</u>						
Capital Lease Obligation		3,173	-	(3,173)	-	-
Compensated Absences		291,356	30,049	(14,157)	307,248	62,315
Total Other Long-Term Obligations		<u>294,529</u>	<u>30,049</u>	<u>(17,330)</u>	<u>307,248</u>	<u>62,315</u>
Total Governmental Activities		<u>\$ 695,389</u>	<u>\$ 156,832</u>	<u>\$ (178,183)</u>	<u>\$ 674,038</u>	<u>\$ 113,704</u>
<b>Business-Type Activities:</b>						
<u>OPWC Note Payable:</u>						
Wastewater Treatment Plant						
Expansion	0.00%	\$ -	\$ 20,435	\$ -	\$ 20,435	\$ -
Compensated Absences		355,753	82,562	(34,914)	403,401	61,122
Total Business-Type Activities		<u>\$ 355,753</u>	<u>\$ 102,997</u>	<u>\$ (34,914)</u>	<u>\$ 423,836</u>	<u>\$ 61,122</u>

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

Street Improvements Bond: The Street improvements bond was issued on September 5, 2003, for the purpose of financing the cost of water and sewer improvements along State Route 39, under authority of the Ohio Revised Code. The bond proceeds and capital outlay expenditures have been recorded in the Special Assessment capital projects fund. Additions to water and sewer infrastructure will be recorded in the Water and Sewer Enterprise funds as capital contributions.

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

*OPWC Notes Payable:* The City has entered into debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund construction projects. These notes are retired through the General Bond Retirement debt service fund and the sewer fund. The OPWC notes are interest free. As of December 31, 2003, the future annual debt service principal and interest payments for the Wastewater Treatment Plant expansion note of \$20,435 was unavailable because monies related to the project is still being disbursed and the loan is not finalized.

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

- B.** Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2003, are as follows:

Year Ended	Street Improvement Bond			OPWC Notes		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 25,357	\$ 4,859	\$ 30,216	\$ 25,852	\$ -	\$ 25,852
2005	25,357	3,144	28,501	25,852	-	25,852
2006	25,357	2,358	27,715	25,853	-	25,853
2007	25,356	1,572	26,928	16,245	-	16,245
2008	25,356	786	26,142	16,245	-	16,245
2009 - 2013	-	-	-	81,225	-	81,225
2014 - 2016	-	-	-	48,735	-	48,735
Total	<u>\$ 126,783</u>	<u>\$ 12,719</u>	<u>\$ 139,502</u>	<u>\$ 240,007</u>	<u>\$ -</u>	<u>\$ 240,007</u>

**NOTE 13 - GENERAL OBLIGATION NOTES PAYABLE**

- A.** The City had the following general obligation note activity during fiscal year 2003 for Electric enterprise fund. These notes are reported as a liability in the Electric enterprise fund, the fund that received the proceeds.

	Issue Date	Maturity Date	Balance Outstanding 12/31/02	Additions	Reductions	Balance Outstanding 12/31/03
Electric System						
Improvements - 1.7%	12/01/02	12/01/03	\$4,250,000	\$ -	\$ (4,250,000)	\$ -
Electric System						
Improvements - 1.30%	11/26/03	11/18/04	-	3,750,000	-	3,750,000
Total			<u>\$4,250,000</u>	<u>\$ 3,750,000</u>	<u>\$ (4,250,000)</u>	<u>\$3,750,000</u>

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 13 - GENERAL OBLIGATION NOTES PAYABLE - (Continued)**

B. During 2002, the City issued \$200,000 in general obligation notes to finance water and sewer improvements on St. Rt. 39. The notes were retired during fiscal year 2003 with proceeds of the Street improvements bonds issued September 5, 2003, and special assessments collect by the City. The City had the following general obligation note activity during fiscal year 2003 in the governmental funds.

	Issue	Maturity	Balance			Balance
	Date	Date	Outstanding	Additions	Reductions	Outstanding
	<u>Date</u>	<u>Date</u>	<u>12/31/02</u>			<u>12/31/03</u>
Water and Sewer St. Rt. 39						
Improvements - 1.85%	09/24/02	09/24/03	<u>\$200,000</u>	<u>\$ -</u>	<u>\$(200,000)</u>	<u>\$ -</u>

**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits. A summary of the City's insurance coverage at December 31, 2003, follows:

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 14 - RISK MANAGEMENT - (Continued)**

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

The claims liability of \$165,659 reported in the Hospitalization internal service fund at December 31, 2003, 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, 2003 and 2002 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Fiscal Year</u>
2003	\$ 135,128	\$ 852,132	\$ (821,601)	\$ 165,659
2002	110,769	693,547	(669,188)	135,128

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal year 2002.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

#### NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$459,666, \$442,668, and \$418,376, respectively; 100% has been contributed for 2003, 2002 and 2001.

#### B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2003, 2002, and 2001 were \$282,859, \$274,868, and \$261,160, respectively; 70.21% has been contributed for 2003 and 100% for the years 2002 and 2001. \$84,267, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

#### NOTE 16 - POSTRETIREMENT BENEFIT PLANS

#### A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

## CITY OF SHELBY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

#### **NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$169,618.

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

As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively, at December 31, 2002 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 364,881.

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

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

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

The number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,527 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$57,421 and \$44,686, respectively. OP&F's total health care expense for the year ending December 31, 2002 (the latest information available), was \$141.028 million, which was net of member contributions of \$12.623 million.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

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

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

**CITY OF SHELBY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

**Net Change in Fund Balance**

	<u>General</u>
Budget basis	\$ (578,513)
Net adjustment for revenue accruals	(11,358)
Net adjustment for expenditure accruals	62,113
Net adjustment for other sources/uses	-
Adjustment for encumbrances	<u>103,670</u>
GAAP basis	<u>\$ (424,088)</u>

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

**B. Contracts**

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

**C. Litigation**

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

**CITY OF SHELBY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**NOTE 19 - CONTRACTUAL COMMITMENTS**

During 2003, the City entered several construction contracts for water and sewer projects.

The following is a list of the contracts outstanding:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed Amount</u>	<u>Outstanding 12/31/03</u>
North Third Street	\$ 61,258	\$ 58,195	\$ 3,063
Vertical Platform Lift	58,150	55,243	2,907
Salt Storage Building	108,200	88,008	20,192
High School Avenue Bridge	120,408	114,388	6,020
Clark and Whitney Avenue	14,353	13,636	717

**NOTE 20 - GOING CONCERN ISSUE**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which contemplates continuation of the City's general fund as a going concern. The City has seen a deteriorating fund balance in the general fund over the last four years. The City is currently projecting a \$0 balance at December 31, 2004. The City does have available the opportunity to advance monies from other funds but must address the future of its General Fund operations and making it fiscally sound. The City's management continues to work on a general fund operating expense containment plan for the remainder of the year (2004).



**SUPPLEMENTAL INFORMATION**

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the remaining aggregate fund information of the City of Shelby as of and for the year ended December 31, 2003, and have issued our report thereon dated June 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Shelby's statements consisting of the governmental activities, business-type activities, each major fund, and the remaining aggregate fund information of the City of Shelby are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the City of Shelby in a separate letter dated June 2, 2004.

Mayor and Members of Council  
City of Shelby

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shelby's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City of Shelby in a separate letter dated June 2, 2004.

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

Trimble, Julian & Grube, Inc.  
June 2, 2004



**Auditor of State  
Betty Montgomery**

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Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF SHELBY**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 10, 2004**