

**CITY OF SHELBY**  
Richland County, Ohio



**Basic Financial Statements**

**December 31, 2011**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Shelby, Richland County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

September 13, 2012

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and FEMA Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*."

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Plattenburg & Associates, Inc.*

Plattenburg & Associates, Inc.  
June 25, 2012

**City of Shelby, Ohio**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2011**  
**(Unaudited)**

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The City of Shelby's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

**Financial Highlights**

- The City's total net assets increased \$468,912. Net assets of governmental activities increased \$552,278, net assets of business-type activities decreased by \$83,366.
- The General Fund reported an increase in fund balance of \$312,421.
- Business-type operations reflected an operating income (loss) of \$204,752 .

**Overview of the Financial Statements**

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

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

**Government-wide Financial Statements**

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

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

**City of Shelby, Ohio**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2011**  
**(Unaudited)**

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

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

**Fund Financial Statements**

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The City's major governmental funds are the General, FEMA, and the Police and Court Construction funds.

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

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



**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

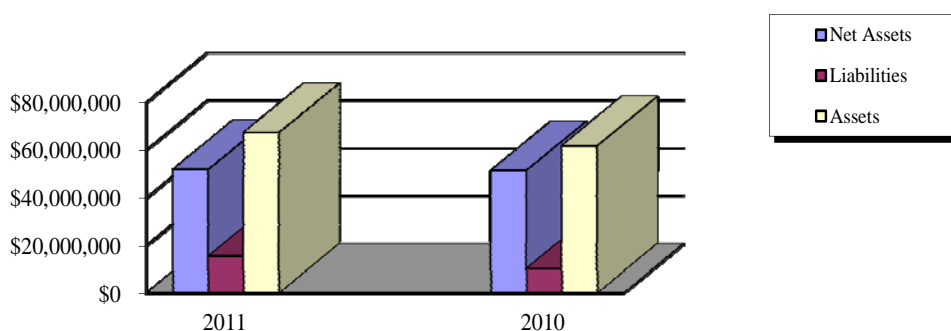
**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting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

**The City as a Whole**

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

**Table 1  
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and Other Assets	\$13,417,928	\$7,459,391	\$8,952,755	\$9,186,310	\$22,370,683	\$16,645,701
Capital Assets	16,898,173	16,540,280	27,972,842	28,426,924	44,871,015	44,967,204
<b>Total Assets</b>	<b>30,316,101</b>	<b>23,999,671</b>	<b>36,925,597</b>	<b>37,613,234</b>	<b>67,241,698</b>	<b>61,612,905</b>
<b>Liabilities:</b>						
Long-Term Liabilities	7,493,851	1,125,642	5,602,166	3,823,430	13,096,017	4,949,072
Other Liabilities	1,329,167	1,933,224	1,038,121	3,421,128	2,367,288	5,354,352
<b>Total Liabilities</b>	<b>8,823,018</b>	<b>3,058,866</b>	<b>6,640,287</b>	<b>7,244,558</b>	<b>15,463,305</b>	<b>10,303,424</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	15,865,840	15,816,469	22,644,427	22,189,936	38,510,267	38,006,405
Restricted	3,986,606	4,086,046	0	0	3,986,606	4,086,046
Unrestricted	1,640,637	1,038,290	7,640,883	8,178,740	9,281,520	9,217,030
<b>Total Net Assets</b>	<b>\$21,493,083</b>	<b>\$20,940,805</b>	<b>\$30,285,310</b>	<b>\$30,368,676</b>	<b>\$51,778,393</b>	<b>\$51,309,481</b>



Total net assets of the City as a whole increased \$468,912. Net assets of the City's governmental activities increased \$552,278, while the net assets of the City's business-type activities decreased \$83,366 from 2010. The City had an unrestricted net assets balance of \$9,281,520 that may be used to meet the government's ongoing obligations to citizens and creditors.

**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

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Assets and long-term liabilities both increased due to the bond proceeds the City received due to an issuance of \$6,385,000 for the construction of a new Justice Center. Other Liabilities decreased due to the City not re-issuing short-term electric notes in 2011 (they issued long-term electric system revenue bonds in 2011), while the accounts payable also decrease from 2010 to 2011.

Table 2 shows the changes in net assets for the year ended December 31, 2011 and revenue and expense comparisons to 2010.

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**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

**Table 2  
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Program Revenues:</b>						
Charges for Services	\$868,251	\$864,972	\$13,023,694	\$15,141,496	\$13,891,945	\$16,006,468
Operating Grants and Contributions	1,914,315	1,459,498	176,544	53,636	2,090,859	1,513,134
Capital Grants and Contributions	135,668	5,645	0	0	135,668	5,645
<b>Total Program Revenues</b>	<b>2,918,234</b>	<b>2,330,115</b>	<b>13,200,238</b>	<b>15,195,132</b>	<b>16,118,472</b>	<b>17,525,247</b>
<b>General Revenues:</b>						
Income Taxes	3,040,428	2,826,743	0	0	3,040,428	2,826,743
Property Taxes	642,603	673,331	0	0	642,603	673,331
Excise Taxes	360,742	420,675	0	0	360,742	420,675
Grants and Entitlements	689,335	645,851	0	0	689,335	645,851
Investment Earnings	15,822	46,300	10,324	29,132	26,146	75,432
Other Revenues	59,597	175,078	215,166	62,045	274,763	237,123
<b>Total General Revenues</b>	<b>4,808,527</b>	<b>4,787,978</b>	<b>225,490</b>	<b>91,177</b>	<b>5,034,017</b>	<b>4,879,155</b>
<b>Total Revenues</b>	<b>7,726,761</b>	<b>7,118,093</b>	<b>13,425,728</b>	<b>15,286,309</b>	<b>21,152,489</b>	<b>22,404,402</b>
<b>Program Expenses:</b>						
General Government	932,947	910,453	0	0	932,947	910,453
Public Safety	3,245,390	3,259,757	0	0	3,245,390	3,259,757
Leisure Time Activities	80,782	81,926	0	0	80,782	81,926
Community Development	1,617,244	1,045,972	0	0	1,617,244	1,045,972
Transportation and Street Repair	949,972	1,147,815	0	0	949,972	1,147,815
Public Health and Welfare	261,318	285,986	0	0	261,318	285,986
Other	36,336	42,995	0	0	36,336	42,995
Interest and Fiscal Charges	50,494	31,637	0	0	50,494	31,637
Sewer	0	0	1,546,341	1,351,953	1,546,341	1,351,953
Water	0	0	2,145,267	1,849,866	2,145,267	1,849,866
Electric	0	0	9,817,486	11,016,469	9,817,486	11,016,469
<b>Total Program Expenses</b>	<b>7,174,483</b>	<b>6,806,541</b>	<b>13,509,094</b>	<b>14,218,288</b>	<b>20,683,577</b>	<b>21,024,829</b>
<b>Change in Net Assets</b>	<b>552,278</b>	<b>311,552</b>	<b>(83,366)</b>	<b>1,068,021</b>	<b>468,912</b>	<b>1,379,573</b>
<b>Net Assets Beginning of Year</b>	<b>20,940,805</b>	<b>20,629,253</b>	<b>30,368,676</b>	<b>29,300,655</b>	<b>51,309,481</b>	<b>49,929,908</b>
<b>Net Assets End of Year</b>	<b>\$21,493,083</b>	<b>\$20,940,805</b>	<b>\$30,285,310</b>	<b>\$30,368,676</b>	<b>\$51,778,393</b>	<b>\$51,309,481</b>

***Governmental Activities***

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

Total revenues increased from 2010 to 2011 mainly due to an increase in grant (operating) monies received. Total expenses increased from 2010 to 2011 due to an increase in community development projects (grant monies from FEMA) within the City.

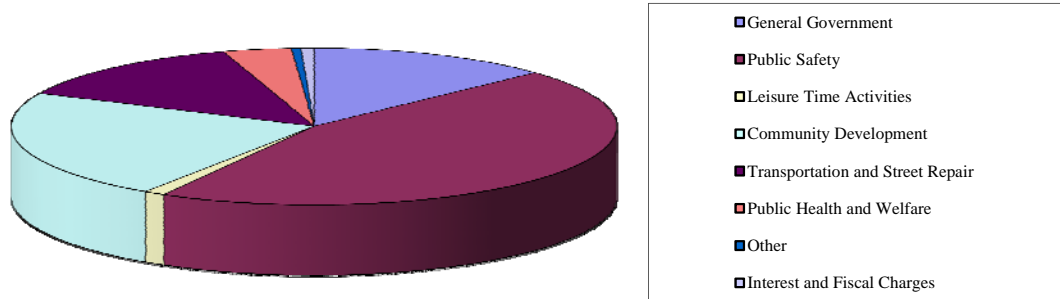
**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

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Governmental Activities  
Program Expenses for 2011

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<u>Program Expenses</u>	<u>Percentage</u>
General Government	13.00%
Public Safety	45.24%
Leisure Time Activities	1.13%
Community Development	22.54%
Transportation and Street Repair	13.24%
Public Health and Welfare	3.64%
Other	0.51%
Interest and Fiscal Charges	0.70%
Other	100.00%



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

***Business-Type Activities***

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of \$13,209,018 and expenses of \$13,004,266 for fiscal year 2011. Business activities receive no support from tax revenues. The business activities net assets at the end of the year was \$30,285,310, which decrease \$83,366 (or less than 0.3%) from 2010.

**The City's Funds**

The City has three major governmental funds: the General, FEMA, and Police and Court Construction Funds. Assets of the major governmental funds comprised \$8,115,681 (65%), of the total \$12,412,322 governmental funds assets.

**General Fund:** Fund balance at December 31, 2011 was \$1,136,096. The General fund balance increased from 2010 due to the City continued effort to keep expenses in-check, while having an increase in overall revenues.

**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

**FEMA Fund:** Fund balance at December 31, 2011 was \$51,865 an increase in fund balance of \$49,294 from 2010. The fund balance increase due to the City receiving more FEMA grant monies in 2011, when compared to 2010.

**Police and Court Construction Fund:** Fund balance at December 31, 2011 was \$5,969,203. The fund balance is mainly due to an issuance of \$6,385,000 in bonds for the construction of a new Justice Center for the City.

**General Fund Budgeting Highlights**

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

As the City completed the year, its General Fund balance reported an actual fund balance of \$160,070, on a Non-GAAP Budgetary Basis.

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

**Capital Assets and Debt Administration**

**Capital Assets**

At year end, the City had \$44,871,015 invested in land, buildings and improvements, equipment and infrastructure. Table 3 shows 2011 balances compared to 2010:

**Table 3  
Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$215,712	\$215,712	\$233,440	\$233,440	\$449,152	\$449,152
Construction in Progress	260,500	0	407,823	0	668,323	0
Buildings and Improvements	4,167,398	3,848,635	13,836,733	13,733,874	18,004,131	17,582,509
Equipment	3,824,993	3,676,879	28,526,276	28,206,306	32,351,269	31,883,185
Infrastructure	20,168,422	19,804,291	23,228,230	23,238,660	43,396,652	43,042,951
Accumulated Depreciation	(11,738,852)	(11,005,237)	(38,259,660)	(36,985,356)	(49,998,512)	(47,990,593)
Total Net Capital Assets	\$16,898,173	\$16,540,280	\$27,972,842	\$28,426,924	\$44,871,015	\$44,967,204

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

**City of Shelby, Ohio**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2011**  
**(Unaudited)**

**Debt**

The City had \$7,065,214 in bonds and loans outstanding for Governmental Activities and \$5,328,415 in loans and revenue bonds outstanding for Business-Type Activities.

**Table 4**  
**Outstanding Debt at Year End**

		2011	2010
Governmental Activities:			
Special Assessment Bonds:			
Street Improvement - Fox Run 7	4.24%	\$144,531	\$165,178
Total Special Assessment Bonds		144,531	165,178
General Obligation Bonds:			
2003 Various Purpose Bonds	4.25%	141,040	276,331
2007 Various Purpose Bonds	4.75%	155,000	175,000
2011 Municipal Justice Center Improvements	2.00%	6,385,000	0
Premium on Bonds		150,295	1,709
Total General Obligation Bonds		6,831,335	453,040
OPWC Loan:			
Wareham Road	0.00%	89,348	105,593
Total Governmental Activities Debt		\$7,065,214	\$723,811
Business Type Activities:			
OPWC Loan:			
Wastewater treatment plant expansion	3.00%	\$28,571	\$85,714
OWDA Loans:			
EQ basin	1.00%	658,392	842,321
WTP upgrade	2.75%	2,391,452	2,608,953
Total OWDA Loans		3,049,844	3,451,274
Revenue Bonds:			
Electric System Revenue Bonds	1.00%	2,250,000	0
Total Business-Type Activities Debt		5,328,415	3,536,988
Total Debt		\$12,393,629	\$4,260,799

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

**City of Shelby, Ohio  
Management's Discussion and Analysis  
For The Year Ended December 31, 2011  
(Unaudited)**

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**Economic Outlook**

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

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

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

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

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

**Contacting the City's Finance Department**

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

City of Shelby, Ohio  
Statement of Net Assets  
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Equity in Pooled Cash and Investments	\$10,237,777	\$6,010,489	\$16,248,266
Cash and Cash Equivalents with Fiscal Agent	695,786	0	695,786
<b>Receivables:</b>			
Taxes	1,331,064	0	1,331,064
Accounts	1,977	1,389,876	1,391,853
Intergovernmental	640,472	0	640,472
Special Assessments	22,393	0	22,393
Internal Balances	80,887	(80,887)	0
Prepays	36,161	130,708	166,869
Inventory	143,478	950,305	1,093,783
Deferred Bond Issuance Costs	227,933	0	227,933
Investment in Joint Venture	0	552,264	552,264
Nondepreciable Capital Assets	476,212	641,263	1,117,475
Depreciable Capital Assets, Net	16,421,961	27,331,579	43,753,540
<b>Total Assets</b>	<b>30,316,101</b>	<b>36,925,597</b>	<b>67,241,698</b>
<b>Liabilities:</b>			
Accounts Payable	160,855	786,367	947,222
Accrued Wages and Benefits	283,953	165,098	449,051
Accrued Interest Payable	30,385	38,008	68,393
Contracts Payable	0	48,648	48,648
Unearned Revenue	630,758	0	630,758
Claims Payable	223,216	0	223,216
<b>Long-Term Liabilities:</b>			
Due Within One Year	351,937	968,734	1,320,671
Due In More Than One Year	7,141,914	4,633,432	11,775,346
<b>Total Liabilities</b>	<b>8,823,018</b>	<b>6,640,287</b>	<b>15,463,305</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	15,865,840	22,644,427	38,510,267
<b>Restricted for:</b>			
Debt Service	1,065,507	0	1,065,507
Capital Projects	1,169,037	0	1,169,037
Human Services Programs	324,498	0	324,498
Community Development Projects	661,387	0	661,387
Mini Park Trust Nonexpendable	20,000	0	20,000
Mini Park Trust Expendable	5,005	0	5,005
Street Maintenance, Construction and Repair	461,957	0	461,957
Other Purposes	279,215	0	279,215
Unrestricted	1,640,637	7,640,883	9,281,520
<b>Total Net Assets</b>	<b>\$21,493,083</b>	<b>\$30,285,310</b>	<b>\$51,778,393</b>

See accompanying notes to the basic financial statements.



City of Shelby, Ohio  
Statement of Activities  
For the Fiscal Year Ended December 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$932,947	\$436,171	\$0	\$0
Public Safety	3,245,390	343,871	21,843	107,777
Leisure Time Activities	80,782	9,743	8,027	0
Community Development	1,617,244	37,380	1,276,904	853
Transportation and Street Repair	949,972	9,473	555,802	27,038
Public Health and Welfare	261,318	31,613	51,739	0
Other	36,336	0	0	0
Interest and Fiscal Charges	50,494	0	0	0
<b>Total Governmental Activities</b>	<b>7,174,483</b>	<b>868,251</b>	<b>1,914,315</b>	<b>135,668</b>
<b>Business-Type Activities:</b>				
Sewer	1,546,341	1,526,766	176,544	0
Water	2,145,267	1,844,201	0	0
Electric	9,817,486	9,652,727	0	0
<b>Total Business-Type Activities</b>	<b>13,509,094</b>	<b>13,023,694</b>	<b>176,544</b>	<b>0</b>
<b>Totals</b>	<b>\$20,683,577</b>	<b>\$13,891,945</b>	<b>\$2,090,859</b>	<b>\$135,668</b>

General Revenues:

- Income Taxes
- Property Taxes Levied for:
  - General Purposes
  - Special Revenue Purposes
- Other Taxes:
  - Excise Taxes
- Grants and Entitlements not Restricted to Specific Programs
- Investment Earnings
- Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$496,776)	\$0	(\$496,776)
(2,771,899)	0	(2,771,899)
(63,012)	0	(63,012)
(302,107)	0	(302,107)
(357,659)	0	(357,659)
(177,966)	0	(177,966)
(36,336)	0	(36,336)
(50,494)	0	(50,494)
(4,256,249)	0	(4,256,249)
0	156,969	156,969
0	(301,066)	(301,066)
0	(164,759)	(164,759)
0	(308,856)	(308,856)
(4,256,249)	(308,856)	(4,565,105)
3,040,428	0	3,040,428
222,574	0	222,574
420,029	0	420,029
360,742	0	360,742
689,335	0	689,335
15,822	10,324	26,146
59,597	215,166	274,763
4,808,527	225,490	5,034,017
552,278	(83,366)	468,912
20,940,805	30,368,676	51,309,481
<u>\$21,493,083</u>	<u>\$30,285,310</u>	<u>\$51,778,393</u>

City of Shelby, Ohio  
Balance Sheet  
Governmental Funds  
December 31, 2011

	General	FEMA	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Investments	\$801,422	\$86,492	\$6,032,881	\$3,316,982	\$10,237,777
<b>Receivables:</b>					
Taxes	755,250	0	0	575,814	1,331,064
Accounts	1,977	0	0	0	1,977
Intergovernmental	381,943	0	0	258,529	640,472
Special Assessments	821	0	0	21,572	22,393
Prepays	23,507	0	0	12,654	36,161
Inventory	31,388	0	0	112,090	143,478
<b>Total Assets</b>	<b>1,996,308</b>	<b>86,492</b>	<b>6,032,881</b>	<b>4,297,641</b>	<b>12,413,322</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts Payable	32,770	34,627	63,678	29,780	160,855
Accrued Wages and Benefits	263,219	0	0	20,734	283,953
Deferred Revenue	564,223	0	0	681,729	1,245,952
<b>Total Liabilities</b>	<b>860,212</b>	<b>34,627</b>	<b>63,678</b>	<b>732,243</b>	<b>1,690,760</b>
<b>Fund Balances:</b>					
Nonspendable	55,831	0	0	144,744	200,575
Restricted	0	51,865	5,969,203	3,420,654	9,441,722
Assigned	116,964	0	0	0	116,964
Unassigned	963,301	0	0	0	963,301
<b>Total Fund Balances</b>	<b>1,136,096</b>	<b>51,865</b>	<b>5,969,203</b>	<b>3,565,398</b>	<b>10,722,562</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$1,996,308</b>	<b>86,492</b>	<b>6,032,881</b>	<b>\$4,297,641</b>	<b>\$12,413,322</b>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
 Reconciliation of Total Governmental Fund Balance to  
 Net Assets of Governmental Activities  
 December 31, 2011

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Total Governmental Fund Balance		\$10,722,562
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		16,898,173
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income Taxes	\$189,105	
Delinquent Property Taxes	52,168	
Intergovernmental	351,528	
Other	<u>22,393</u>	
		615,194
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Internal Service Net Assets	\$472,570	
Allocation to Business-Type Activities	<u>80,887</u>	
		553,457
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(30,385)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(428,637)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		
		227,933
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(7,065,214)</u>
Net Assets of Governmental Activities		<u>\$21,493,083</u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended December 31, 2011

	General	FEMA	Police and Court Construction	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$3,121,355	\$0	\$0	\$955,587	\$4,076,942
Fines, Licenses and Permits	221,994	0	0	96,824	318,818
Charges for Services	376,100	0	0	140,123	516,223
Investment Earnings	17,847	0	0	2,117	19,964
Intergovernmental	720,836	1,175,855	0	904,700	2,801,391
Special Assessments	0	0	0	33,210	33,210
Other Revenues	9,276	0	0	50,321	59,597
<b>Total Revenues</b>	<b>4,467,408</b>	<b>1,175,855</b>	<b>0</b>	<b>2,182,882</b>	<b>7,826,145</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	1,071,652	0	0	0	1,071,652
Public Safety	2,722,792	0	0	399,179	3,121,971
Leisure Time Activities	0	0	0	71,173	71,173
Community Development	71,133	1,126,561	0	350,676	1,548,370
Transportation and Street Repair	36,160	0	0	426,877	463,037
Public Health and Welfare	0	0	0	259,241	259,241
Other	0	0	0	36,336	36,336
Capital Outlay	0	0	340,151	730,005	1,070,156
<b>Debt Service:</b>					
Principal Retirement	0	0	0	192,183	192,183
Interest and Fiscal Charges	0	0	0	25,807	25,807
Bond Issuance Cost	0	0	224,448	0	224,448
<b>Total Expenditures</b>	<b>3,901,737</b>	<b>1,126,561</b>	<b>564,599</b>	<b>2,491,477</b>	<b>8,084,374</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>565,671</b>	<b>49,294</b>	<b>(564,599)</b>	<b>(308,595)</b>	<b>(258,229)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Capital Assets	0	0	0	2,250	2,250
Issuance of Long-Term Capital-Related Debt	0	0	6,385,000	0	6,385,000
Premium on Debt Issuance	0	0	148,802	0	148,802
Transfers In	0	0	0	253,250	253,250
Transfers (Out)	(253,250)	0	0	0	(253,250)
<b>Total Other Financing Sources (Uses)</b>	<b>(253,250)</b>	<b>0</b>	<b>6,533,802</b>	<b>255,500</b>	<b>6,536,052</b>
<b>Net Change in Fund Balance</b>	<b>312,421</b>	<b>49,294</b>	<b>5,969,203</b>	<b>(53,095)</b>	<b>6,277,823</b>
<b>Fund Balance Beginning of Year, Restated</b>	<b>819,616</b>	<b>2,571</b>	<b>0</b>	<b>3,617,011</b>	<b>4,439,198</b>
<b>Change in Nonspendable Inventory</b>	<b>4,059</b>	<b>0</b>	<b>0</b>	<b>1,482</b>	<b>5,541</b>
<b>Fund Balance End of Year</b>	<b>\$1,136,096</b>	<b>\$51,865</b>	<b>\$5,969,203</b>	<b>\$3,565,398</b>	<b>\$10,722,562</b>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended December 31, 2011

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Net Change in Fund Balance - Total Governmental Funds \$6,277,823

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

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

Capital assets used in governmental activities	\$1,140,308	
Depreciation Expense	<u>(777,265)</u>	
		363,043

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (5,150)

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

Income Taxes	(\$27,101)	
Delinquent Property Taxes	(6,068)	
Interest	(4,142)	
Intergovernmental	(53,014)	
Other	<u>(9,059)</u>	
		(99,384)

In the statement of activities, certain costs and proceeds associated with long-term debt obligations issued during the year are accrued and amortized over the life of the debt obligation. In governmental funds these costs and proceeds are recognized as financing sources and uses.

Bond Issuance Costs	\$224,448	
Premium on Bonds Issued	<u>(148,802)</u>	
		75,646

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 192,183

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. (24,399)

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

Compensated Absences	(\$26,806)	
Amortization of Bond Issuance Cost	(504)	
Amortization of Bond Premium	216	
Change in Inventory	<u>5,541</u>	
		(21,553)

(Continued)

City of Shelby, Ohio  
Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended December 31, 2011

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

Change in Net Assets - Internal Service Funds	(168,549)	
Change in portion of Internal Service Fund Net Assets allocated to Business-Type Activities	<u>347,618</u>	179,069

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

	<u>(6,385,000)</u>	
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Change in Net Assets of Governmental Activities	<u><u>\$552,278</u></u>	
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See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended December 31, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$2,540,300	\$2,540,300	\$2,455,238	(\$85,062)
Fines, Licenses and Permits	225,525	228,225	220,676	(7,549)
Intergovernmental	553,142	744,642	714,179	(30,463)
Charges for Services	365,000	380,000	376,100	(3,900)
Investment Earnings	45,000	45,000	18,141	(26,859)
Other Revenues	39,200	39,200	8,232	(30,968)
<b>Total Revenues</b>	<b>3,768,167</b>	<b>3,977,367</b>	<b>3,792,566</b>	<b>(184,801)</b>
Expenditures:				
Current:				
General Government	983,527	1,866,734	1,773,765	92,969
Public Safety	2,913,756	2,913,756	2,805,380	108,376
Community Development	85,030	85,030	74,100	10,930
Transportation and Street Repair	40,250	40,250	38,312	1,938
<b>Total Expenditures</b>	<b>4,022,563</b>	<b>4,905,770</b>	<b>4,691,557</b>	<b>214,213</b>
Excess of Revenues Over (Under) Expenditures	(254,396)	(928,403)	(898,991)	29,412
Other Financing Sources (Uses):				
Transfers (Out)	(308,250)	(253,750)	(253,250)	500
<b>Total Other Financing Sources (Uses)</b>	<b>(308,250)</b>	<b>(253,750)</b>	<b>(253,250)</b>	<b>500</b>
Net Change in Fund Balance	(562,646)	(1,182,153)	(1,152,241)	29,912
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,312,311	1,312,311	1,312,311	0
<b>Fund Balance End of Year</b>	<b>\$749,665</b>	<b>\$130,158</b>	<b>\$160,070</b>	<b>\$29,912</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)  
For the Fiscal Year Ended December 31, 2011

	FEMA Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$1,322,511	\$1,662,511	\$1,175,855	(\$486,656)
Other Revenues	25,000	50,000	0	(50,000)
Total Revenues	<u>1,347,511</u>	<u>1,712,511</u>	<u>1,175,855</u>	<u>(536,656)</u>
Expenditures:				
Current:				
Community Development	1,420,642	1,239,642	1,200,366	39,276
Total Expenditures	<u>1,420,642</u>	<u>1,239,642</u>	<u>1,200,366</u>	<u>39,276</u>
Net Change in Fund Balance	(73,131)	472,869	(24,511)	(497,380)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	<u>74,554</u>	<u>74,554</u>	<u>74,554</u>	<u>0</u>
Fund Balance End of Year	<u><u>\$1,423</u></u>	<u><u>\$547,423</u></u>	<u><u>\$50,043</u></u>	<u><u>(\$497,380)</u></u>

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
<b>Current Assets:</b>					
Equity in Pooled Cash and Investments	\$943,094	\$839,214	\$4,228,181	\$6,010,489	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	695,786
<b>Receivables:</b>					
Accounts	97,292	208,482	1,084,102	1,389,876	0
Prepays	13,252	26,087	91,369	130,708	0
Inventory	27,669	142,450	780,186	950,305	0
<b>Total Current Assets</b>	<b>1,081,307</b>	<b>1,216,233</b>	<b>6,183,838</b>	<b>8,481,378</b>	<b>695,786</b>
<b>Noncurrent Assets:</b>					
Investment in Joint Venture	0	0	552,264	552,264	0
<b>Capital Assets:</b>					
Nondepreciable Capital Assets	341,918	249,975	49,370	641,263	0
Depreciable Capital Assets, Net	7,020,247	9,890,542	10,420,790	27,331,579	0
<b>Total Noncurrent Assets</b>	<b>7,362,165</b>	<b>10,140,517</b>	<b>11,022,424</b>	<b>28,525,106</b>	<b>0</b>
<b>Total Assets</b>	<b>8,443,472</b>	<b>11,356,750</b>	<b>17,206,262</b>	<b>37,006,484</b>	<b>695,786</b>
<b>Liabilities:</b>					
<b>Current Liabilities:</b>					
Accounts Payable	25,919	51,135	709,313	786,367	0
Accrued Wages and Benefits	33,511	45,999	85,588	165,098	0
Compensated Absences	11,750	14,435	54,683	80,868	0
Accrued Interest Payable	3,292	32,882	1,834	38,008	0
Contracts Payable	0	48,648	0	48,648	0
Claims Payable	0	0	0	0	223,216
Long-Term Liabilities Due Within One Year	214,344	223,522	450,000	887,866	0
<b>Total Current Liabilities</b>	<b>288,816</b>	<b>416,621</b>	<b>1,301,418</b>	<b>2,006,855</b>	<b>223,216</b>
<b>Long-Term Liabilities:</b>					
Compensated Absences	28,339	41,027	123,517	192,883	0
Bonds, Notes & Loans Payable	472,619	2,167,930	1,800,000	4,440,549	0
<b>Total Long-Term Liabilities</b>	<b>500,958</b>	<b>2,208,957</b>	<b>1,923,517</b>	<b>4,633,432</b>	<b>0</b>
<b>Total Liabilities</b>	<b>789,774</b>	<b>2,625,578</b>	<b>3,224,935</b>	<b>6,640,287</b>	<b>223,216</b>
<b>Net Assets:</b>					
Invested in Capital Assets, Net of Related Debt	6,675,202	7,749,065	8,220,160	22,644,427	0
Unrestricted	978,496	982,107	5,761,167	7,721,770	472,570
<b>Total Net Assets</b>	<b>\$7,653,698</b>	<b>\$8,731,172</b>	<b>\$13,981,327</b>	<b>\$30,366,197</b>	<b>\$472,570</b>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(80,887)	
<b>Net Assets of Business-Type Activities</b>				<b>\$30,285,310</b>	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Operating Revenues:					
Charges for Services	\$1,526,766	\$1,844,201	\$9,652,727	\$13,023,694	\$1,428,736
Other Revenues	209	3,069	182,046	185,324	0
<b>Total Operating Revenues</b>	<b>1,526,975</b>	<b>1,847,270</b>	<b>9,834,773</b>	<b>13,209,018</b>	<b>1,428,736</b>
Operating Expenses:					
Personal Services	667,660	902,279	1,843,875	3,413,814	0
Contractual Services	198,631	142,988	694,037	1,035,656	0
Materials and Supplies	114,450	416,759	6,156,159	6,687,368	0
Depreciation	345,923	340,683	601,084	1,287,690	0
Utilities	131,780	116,635	78,950	327,365	0
Claims	0	0	0	0	1,613,305
Other Expenses	5,220	64,051	183,102	252,373	0
<b>Total Operating Expenses</b>	<b>1,463,664</b>	<b>1,983,395</b>	<b>9,557,207</b>	<b>13,004,266</b>	<b>1,613,305</b>
Operating Income	63,311	(136,125)	277,566	204,752	(184,569)
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	10,324	10,324	16,020
Interest (Expense)	(7,044)	(67,269)	(30,351)	(104,664)	0
Gain (Loss) in Investment in Joint Venture	0	0	(52,546)	(52,546)	0
Operating Grants	176,544	0	0	176,544	0
Excise Tax Revenue	0	0	71,140	71,140	0
Excise Tax (Expense)	0	0	(41,298)	(41,298)	0
<b>Total Non-Operating Revenues (Expenses)</b>	<b>169,500</b>	<b>(67,269)</b>	<b>(42,731)</b>	<b>59,500</b>	<b>16,020</b>
Change in Net Assets	232,811	(203,394)	234,835	264,252	(168,549)
Net Assets Beginning of Year	7,420,887	8,934,566	13,746,492	30,101,945	641,119
Net Assets End of Year	<u>\$7,653,698</u>	<u>\$8,731,172</u>	<u>\$13,981,327</u>	<u>\$30,366,197</u>	<u>\$472,570</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(347,618)	
Change in Net Assets - Total Business-Type Activities				<u>\$30,018,579</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, 2011

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Electric	Total Business-Type Activities	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,531,725	\$1,857,450	\$9,887,712	\$13,276,887	\$1,428,736
Cash Payments to Employees	(658,266)	(896,230)	(1,858,704)	(3,413,200)	0
Cash Payments to Suppliers	(422,764)	(694,243)	(6,796,042)	(7,913,049)	0
Cash Payments for Claims	0	0	0	0	(1,454,101)
Net Cash Provided (Used) by Operating Activities	450,695	266,977	1,232,966	1,950,638	(25,365)
Cash Flows from Noncapital Financing Activities:					
Operating Grants Received	176,544	0	0	176,544	0
Cash Payments for Excise Taxes	0	0	(41,298)	(41,298)	0
Cash Received for Other Local Taxes	0	0	71,140	71,140	0
Net Cash Provided (Used) by Noncapital Financing Activities	176,544	0	29,842	206,386	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(342,343)	(65,905)	(425,360)	(833,608)	0
Debt Proceeds	0	0	2,250,000	2,250,000	0
Debt Principal Payments	(241,072)	(217,501)	(2,700,000)	(3,158,573)	0
Debt Interest Payments	(7,964)	(70,260)	(34,142)	(112,366)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(591,379)	(353,666)	(909,502)	(1,854,547)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	10,324	10,324	16,020
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	10,324	10,324	16,020
Net Increase (Decrease) in Cash and Cash Equivalents	35,860	(86,689)	363,630	312,801	(9,345)
Cash and Cash Equivalents Beginning of Year	907,234	925,903	3,864,551	5,697,688	705,131
Cash and Cash Equivalents End of Year	943,094	839,214	4,228,181	\$6,010,489	695,786
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	63,311	(136,125)	277,566	\$204,752	(184,569)
Adjustments:					
Depreciation	345,923	340,683	601,084	1,287,690	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	4,750	10,180	52,939	67,869	0
(Increase) Decrease in Inventory	3,239	3,352	2,378	8,969	0
(Increase) Decrease in Prepaids	1,336	1,501	66,517	69,354	0
Increase (Decrease) in Payables	22,742	41,337	250,407	314,486	159,204
Increase (Decrease) in Accrued Liabilities	9,394	6,049	(17,925)	(2,482)	0
Net Cash Provided (Used) by Operating Activities	\$450,695	\$266,977	\$1,232,966	\$1,950,638	(\$25,365)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
December 31, 2011

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$199,415
Restricted Cash and Investments	<u>5,243</u>
Total Assets	<u><u>204,658</u></u>
Liabilities:	
Other Liabilities	5,243
Intergovernmental Payable	<u>199,415</u>
Total Liabilities	<u><u>\$204,658</u></u>

See accompanying notes to the basic financial statements.

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Note 1 - Description of the City**

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

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

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

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Reporting Entity**

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

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

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

**Joint Venture**

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2011, the outstanding debt was \$23,633,931. 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 \$552,264 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 are:

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



**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**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.

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

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

**Fund Accounting**

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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***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 are the City's major governmental funds:

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

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

*FEMA Fund* - To account for FEMA grant monies the City receives and disburses.

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

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

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

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

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Basis of Accounting**

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue in the governmental funds.

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Budgetary Data**

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

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

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2011.

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Equity in Pooled Cash and Investments**

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2011, interest revenue credited to the general fund amounted to \$17,847 and \$2,117 from other governmental funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the basic financial statements as "restricted cash and investments" since it is not required to be deposited into the City treasury. The City maintains segregated depository accounts for municipal court deposits and retainage due to contractors (no retainage for 2011).

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

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

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

**Inventories of Materials and Supplies**

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

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

Inventory consists of expendable supplies held for consumption.

**Capital Assets**

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

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

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

**Compensated Absences**

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

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

**Prepayments**

Payments made to vendors for services that will benefit beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**Accrued Liabilities and Long-Term Obligations**

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

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

**Interfund Activity**

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

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

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



**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Fund Balance**

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

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

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

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

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

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

The City applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The City considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

**Estimates**

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

**Contributed Capital**

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of net assets restricted for income tax operations, City administrative operations and trust fund resources. Of the City's \$3,986,606 in restricted net assets, none was restricted by enabling legislation.

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

**Unamortized Issuance Costs/Bond Premium and Discount**

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

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

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

**Operating Revenues and Expenses**

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

**Note 3 - Equity in Pooled Cash and Investments**

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

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

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

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

**Cash in Segregated Accounts**

At December 31, 2011, the City had \$5,243 in segregated accounts for municipal court deposits. These accounts were covered by the FDIC or pooled collateral held by the depository institution. These amounts are not included in the City's depository balance below.

**Cash with Fiscal Agent**

The City is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at December 31, 2011 was \$695,786. This amount is not included in the City's depository balance below.

**Deposits**

At December 31, 2011, \$10,099,956 of the City's bank balance of \$17,254,459 was exposed to custodial risk as discussed below, while \$7,154,503 was covered by the FDIC.

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Investments**

As of December 31, 2011, the City had no investments.

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

Credit Risk – It is the City’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations.

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

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

**Note 4 - Interfund Transactions**

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Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund statements:

Transfers from the general fund to:

Other governmental funds	\$253,250
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide statements.

**Note 5 - Property Taxes**

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Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2011 were levied after October 1, 2010 on assessed values as of January 1, 2010, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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Tangible personal property tax revenues received in 2011 (other than public utility property) represent the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010 on values as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. House Bill No. 66 was to hold governments harmless by replacing a portion of the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2012, the City will be fully reimbursed for the lost revenue. In calendar years 2013-2017, the reimbursements will be phased out.

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

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Note 6 - Local Income Tax**

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

**Note 7 - Receivables**

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Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenue.

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

**Governmental Activities:**

Taxes (income, real and other taxes)	\$1,331,064
Accounts	1,977
Special Assessments	22,393
Intergovernmental	640,472

**Business-Type Activities:**

Accounts	1,389,876
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Receivables have been disaggregated on the face of the basic financial statements. All receivables, except for special assessments which are collected over the life of the assessment, are expected to be collected within the subsequent year.

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

**Note 8 – Capital Assets**

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$215,712	\$0	\$0	\$215,712
Construction in Progress	0	260,500	0	260,500
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	3,848,635	318,763	0	4,167,398
Equipment	3,676,879	196,914	48,800	3,824,993
Infrastructure	19,804,291	364,131	0	20,168,422
Totals at Historical Cost	<u>\$27,545,517</u>	<u>\$1,140,308</u>	<u>\$48,800</u>	<u>\$28,637,025</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$1,729,847	\$131,578	\$0	\$1,861,425
Equipment	2,669,304	197,322	43,650	2,822,976
Infrastructure	6,606,086	448,365	0	7,054,451
Total Accumulated Depreciation	<u>\$11,005,237</u>	<u>\$777,265</u>	<u>\$43,650</u>	<u>\$11,738,852</u>
Governmental Activities Capital Assets, Net	<u>\$16,540,280</u>	<u>\$363,043</u>	<u>\$5,150</u>	<u>\$16,898,173</u>
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$233,440	\$0	\$0	\$233,440
Construction in Progress	0	407,823	0	407,823
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	13,733,874	102,859	0	13,836,733
Equipment	28,206,306	323,970	4,000	28,526,276
Infrastructure	23,238,660	0	10,430	23,228,230
Totals at Historical Cost	<u>\$65,412,280</u>	<u>\$834,652</u>	<u>\$14,430</u>	<u>\$66,232,502</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$5,946,671	\$325,494	\$0	\$6,272,165
Equipment	24,212,271	503,254	4,000	24,711,525
Infrastructure	6,826,414	458,942	9,386	7,275,970
Total Accumulated Depreciation	<u>\$36,985,356</u>	<u>\$1,287,690</u>	<u>\$13,386</u>	<u>\$38,259,660</u>
Business-Type Activities Capital Assets, Net	<u>\$28,426,924</u>	<u>(\$453,038)</u>	<u>\$1,044</u>	<u>\$27,972,842</u>



**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

General Government	\$32,224
Public Safety	109,160
Leisure Time Activities	9,609
Community Development	68,838
Public Health and Welfare	2,089
Transportation and Street Repair	<u>555,345</u>
Total Depreciation Expense	<u><u>\$777,265</u></u>

**Note 9 – Compensated Absences**

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

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

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**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

**Note 10 - Long-Term Obligations**

The following activity occurred in the City's long-term obligations during 2011:

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
<u>General Obligation Bonds</u>						
Street Improvement - Series 2007	4.25%	\$276,331	\$0	(\$135,291)	\$141,040	\$141,040
Fire Truck - Series 2008	4.75%	175,000	0	(20,000)	155,000	20,000
Municipal Justice Center Improvements	2.00%	0	6,385,000	0	6,385,000	100,000
Premium on General Obligations Bonds		1,709	148,802	(216)	150,295	0
Total General Obligation Bonds		<u>453,040</u>	<u>6,533,802</u>	<u>(155,507)</u>	<u>6,831,335</u>	<u>261,040</u>
<u>Special Assessment Bonds</u>						
Street Improvement - Fox Run 7	4.24%	165,178	0	(20,647)	144,531	20,647
Total Special Assessment Bonds		<u>165,178</u>	<u>0</u>	<u>(20,647)</u>	<u>144,531</u>	<u>20,647</u>
<u>OPWC Loan Payable:</u>						
Wareham Road	0.00%	105,593	0	(16,245)	89,348	16,245
Total Bonds and Loans Payable		<u>723,811</u>	<u>6,533,802</u>	<u>(192,399)</u>	<u>7,065,214</u>	<u>297,932</u>
Compensated Absences		<u>401,831</u>	<u>100,928</u>	<u>(74,122)</u>	<u>428,637</u>	<u>54,005</u>
Total Governmental Activities		<u>\$1,125,642</u>	<u>\$6,634,730</u>	<u>(\$266,521)</u>	<u>\$7,493,851</u>	<u>\$351,937</u>
<b>Business-Type Activities</b>						
<u>OPWC Loan Payable:</u>						
Wastewater Treatment Plant Expansion	0.00%	\$85,714	\$0	(\$57,143)	\$28,571	\$28,571
<u>OWDA Loans Payable:</u>						
EQ Basin	1.00%	842,321	0	(183,929)	658,392	185,773
WTP Upgrade	2.75%	2,608,953	0	(217,501)	2,391,452	223,522
<u>Revenue Bond:</u>						
Electric System Revenue Bonds	1.00%	0	2,250,000	0	2,250,000	450,000
Total Loans Payable		<u>3,536,988</u>	<u>2,250,000</u>	<u>(458,573)</u>	<u>5,328,415</u>	<u>887,866</u>
Compensated Absences		<u>286,442</u>	<u>59,954</u>	<u>(72,645)</u>	<u>273,751</u>	<u>80,868</u>
Total Business-Type Activities		<u>\$3,823,430</u>	<u>\$2,309,954</u>	<u>(\$531,218)</u>	<u>\$5,602,166</u>	<u>\$968,734</u>

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

**General obligation bonds payable** - General obligation bonds are bonds for which the full faith and credit of the City are pledged for repayment. In September, 2011, the City issued \$6,385,000 in General Obligation Bonds to finance improvements to the Municipal Justice Center. The bonds were issued at an interest rate of 2.00% and will mature on December 1, 2036.

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

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

**Revenue bonds payable** - In 2011, the City issued \$2,250,000 in Electric system Revenue Bonds. The bonds were issued at an interest rate of 1.00% and will mature on December 1, 2016.

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

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2011, are as follows:

Year Ending December 31	Governmental Activities					
	General		Special		OPWC	
	Obligation Bonds		Assessment Bonds		Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$261,040	\$298,982	\$20,647	\$5,925	\$16,245	\$0
2013	155,000	251,650	20,647	5,066	16,245	0
2014	155,000	247,850	20,648	4,159	16,245	0
2015	160,000	244,225	20,647	3,291	16,245	0
2016	175,000	239,125	20,647	2,414	16,245	0
2017-2021	945,000	1,091,550	41,295	2,186	8,123	0
2022-2026	1,255,000	882,600	0	0	0	0
2027-2031	1,575,000	605,800	0	0	0	0
2032-2036	2,000,000	253,175	0	0	0	0
Total	\$6,681,040	\$4,114,957	\$144,531	\$23,041	\$89,348	\$0

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

Year Ending December 31	Business-Type Activities					
	OPWC Loan		ODWA Loans		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$28,571	\$0	\$409,295	\$70,359	\$450,000	\$41,518
2013	0	0	417,346	62,308	450,000	31,219
2014	0	0	425,588	54,067	450,000	23,414
2015	0	0	338,078	45,630	450,000	15,610
2016	0	0	249,327	38,435	450,000	7,805
2017-2021	0	0	1,210,210	84,717	0	0
2022-2026	0	0	0	0	0	0
2027-2031	0	0	0	0	0	0
2032-2036	0	0	0	0	0	0
Total	\$28,571	\$0	\$3,049,844	\$355,516	\$2,250,000	\$119,566

**Note 11 - Notes Payable**

The City had the following short-term note activity during 2011 for the electric enterprise fund.

	Rate	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-Type Activities</b>					
Electric Fund:					
Electric System Improvements	1.50%	\$2,700,000	\$0	(\$2,700,000)	\$0
Total Business-Type Activities		\$2,700,000	\$0	(\$2,700,000)	\$0

**Note 12 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, 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.

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**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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A summary of the City’s insurance coverage at December 31, 2011, follows:

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

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

The claims liability of \$223,216 reported in the hospitalization internal service fund at December 31, 2011, 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, 2011 and 2010 were as follows:

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2011	\$64,012	\$1,613,305	(\$1,454,101)	\$223,216
2010	124,241	1,725,000	(1,785,229)	64,012

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 2010 to 2011.

**Note 13 – Pension Plans**

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**Ohio Public Employees Retirement System**

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members and employer contributions rates were consistent across all three plans. Plan members are required to contribute 10% of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 14% of covered payroll. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2011, 2010 and 2009 were \$488,322, \$480,474, and \$479,078, respectively. The full amount has been contributed for 2010 and 2009 and 88% has been contributed for 2011.

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers (the City) are required to contribute 19.5% for police officers and 24.0% for firefighters. The City's contributions to OP&F for the years ending December 31, 2011, 2010 and 2009 were \$371,771, \$352,312, and \$334,885, respectively. The full amount has been contributed for 2010 and 2009 and 70% has been contributed for 2011.

**Note 14 – Post Employment Benefits**

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**Ohio Public Employees Retirement System**

Plan Description

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

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

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determined the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to the health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's required contributions for the current year, which were used to fund postemployment benefits, were \$139,514 for 2011, \$36,255 for the period January 1 through February 28, 2010, and \$138,626 for the period March 1 through December 31, 2010 and \$64,699 for the period of January 1 through March 31, 2009 and \$137,375 for the period of April 1 through December 31, 2009. The full amount (actual) has been contributed for 2009 and 2010 and 88% has been contributed for 2011.

OPERS Retirement Board Implements its Health Care Preservation Plan

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



**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Ohio Police and Fire Pension Fund**

Plan Description

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

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

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

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

Funding Policy

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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

Information from City's Records

The City's required contributions to OP&F were \$63,308 for police and \$53,055 for fire for the year ending December 31, 2011; \$61,296 for police and \$49,219 for fire for the year ending December 31, 2010; and \$58,371 for police and \$46,760 for fire for the year ending December 31, 2009, respectively, was allocated to the healthcare plan. The actual contributions for 2009 and 2010 were 100% and 70% has been contributed for 2011.

**Note 15 - Budgetary Basis of Accounting**

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

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

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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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 and FEMA funds.

**Net Change in Fund Balance**

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	<u>General</u>	<u>FEMA</u>
GAAP Basis	\$312,421	\$49,294
Revenue Accruals	2,343,925	0
Expenditure Accruals	(840,870)	(37,355)
Transfer Out	(2,475,775)	0
Encumbrances	(142,723)	(36,450)
Funds Budgeted Elsewhere	(349,219)	0
Budget Basis	<u>(\$1,152,241)</u>	<u>(\$24,511)</u>

**Note 16 - Contingencies**

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**Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2011.

**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 2011.

**Litigation**

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

**Contingent Liability**

In November 2009, participants in the American Municipal Power Generating Station (AMPGS) voted to terminate the development of the approximately 1,000MW coal-fired generating station that was to be located on the Ohio River in Meigs County, Ohio. The City was one of about 70 Ohio municipalities committed to the project. The City and other members were to participate in

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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the project through “take or pay” contracts. Shelby’s commitment was for 5,000 kW.

Due to the termination of the construction of the project, AMP, Inc.’s statements reflect stranded costs of approximately \$121,000,000, including \$35,000,000 for plant assets held for future use, and \$86,000,000 in abandoned construction costs. AMP, Inc. asserts that there are three main ways to recover these stranded costs: a development fee charged to the AMP Fremont Energy Center (another AMP project) of approximately \$35,000,000, recovery of plant held for future use including land and other assets, valued on the books at \$35,000,000, and the outcome of a pending lawsuit against AMPGS’s Engineer, Procure and Construct (EPC) contractor in which AMPGS is seeking \$97,000,000 in damages. The participants in the project will be ultimately responsible for the remaining stranded costs based on their kW commitment.

At the current time, AMP, Inc. estimates that the maximum potential contingent liability for the City of Shelby is \$817,776, while the minimum exposure is \$0. Based on information provided by AMP, Inc. and the City’s law director’s assessment of the lawsuit against the EPC contractor, the City believes that, although it is probable that a liability has been incurred as of December 31, 2011, the amount of the loss can not be reasonably estimated. Therefore, there is no accrual reflected on the balance sheet as of December 31, 2011 for any amount that may be required to be paid in the future to cover any AMPGS stranded costs.

If the City is required to pay the entire potential liability of \$817,776, it would not create a hardship for the City, as the Electric Fund has unrestricted net assets of over \$5,000,000 and equity in pooled cash and investments at year end of over \$4,000,000. The City does not, at this time, intend to recover the amount through rate increases.

**Note 17 – Change in Accounting Principles and Restatement of Fund Balance**

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**Change in Accounting Principles**

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the City is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

**Restatement of Fund Balance**

The implementation of GASB 54 had the following effects on fund balance of the following major and non-major (other governmental) funds of the City as they were previously reported.

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

	General Fund	Other Governmental Funds
Fund Balance, December 31, 2010 *	\$672,518	\$3,764,109
Change in Fund Structure	147,098	(147,098)
Fund Balance, December 31, 2010 - Restated	<u>\$819,616</u>	<u>\$3,617,011</u>

\* - includes adjustments for major funds

**Note 18 - Fund Balances**

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

Fund Balances	General	FEMA	Police and Court Construction	Other Governmental Funds	Total
<b>Nonspendable:</b>					
Inventory	\$31,388	\$0	\$0	\$112,090	\$143,478
Prepays	23,507	0	0	12,654	36,161
Unclaimed Monies	936	0	0	0	936
Muni Park Trust	0	0	0	20,000	20,000
<b>Total Nonspendable</b>	55,831	0	0	144,744	200,575
<b>Restricted for:</b>					
Public Safety	0	0	0	232,031	232,031
Public Health and Welfare	0	0	0	290,086	290,086
Street Repair and Maintenance	0	0	0	220,945	220,945
Community Development	0	51,865	0	25,051	76,916
Debt Service	0	0	0	837,762	837,762
Capital Projects	0	0	5,969,203	1,260,299	7,229,502
Leisure Time Activities	0	0	0	549,475	549,475
Other Purposes	0	0	0	5,005	5,005
<b>Total Restricted</b>	0	51,865	5,969,203	3,420,654	9,441,722
<b>Assigned to:</b>					
General Government	12,451	0	0	0	12,451
Public Safety	101,546	0	0	0	101,546
Community Development	2,967	0	0	0	2,967
<b>Total Assigned</b>	116,964	0	0	0	116,964
<b>Unassigned (Deficit)</b>	963,301	0	0	0	963,301
<b>Total Fund Balance</b>	<u>\$1,136,096</u>	<u>\$51,865</u>	<u>\$5,969,203</u>	<u>\$3,565,398</u>	<u>\$10,722,562</u>

**City of Shelby, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2011**

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**Note 19 – Subsequent Events**

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

**CITY OF SHELBY**



**Single Audit Reports**

**December 31, 2011**

**PLATTENBURG**  
Certified Public Accountants

**CITY OF SHELBY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/Pass - Through Grantor, Program Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA</u>	<u>Disbursements</u>
<u>United States Department of Housing Urban Development</u>			
Passed Through Ohio Housing and Community Partnerships:			
Community Development Block Grant-States Program	A-C-09-176-1	14.228	16,923
Home Investment Partnerships Program	A-C-09-176-2	14.239	34,445
			<u>51,368</u>
<u>United States Department of Justice- Office of Justice Program</u>			
Passed through Ohio Department of Public Safety			
Justice Assistance Grant	2010-JG-LLE-5160	16.738	6,305
Justice Assistance Grant	2007-JG-LSS-9277	16.738	25,000
			<u>31,305</u>
Bullet Proof Vest Grant		16.607	683
			<u>31,988</u>
<u>United States Department of Homeland Security</u>			
Passed through FEMA			
Assistance to Firefighters Grant	EMW-2004-FG-08308	97.044	51,775
Assistance to Firefighters Grant	EMW-2010-FO-02727	97.044	30,467
			<u>82,242</u>
Passed Through Department of Public Safety, Ohio Emergency Management Agency:			
Hazard Mitigation Grant	FEMA-DR-1720-10-R-OH	97.039	737,713
Public Assistance Program	FEMA-1729-0-DR-139-72102	97.036	84,280
			<u>904,235</u>
 TOTALS			 <u><u>\$987,591</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs.

The schedule has been prepared on the cash basis of accounting.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2012 wherein we noted the City adopted GASB Statement No. 54 as disclosed in Note 17. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated June 25, 2012.

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

*Plattenburg & Associates, Inc.*

Plattenburg & Associates, Inc.  
June 25, 2012

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

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

Compliance

We have audited the City of Shelby's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

## Internal Control over Compliance

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

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

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

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012, which contained unqualified opinions on those financial statements wherein we noted the City adopted GASB Statement No. 54 as disclosed in Note 17. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

*Plattensburg & Associates, Inc.*

Plattensburg & Associates, Inc.  
June 25, 2012

**CITY OF SHELBY, OHIO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2011**

**Section I – Summary of Auditor’s Results**

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

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

None

**Section III – Federal Award Findings and Questioned Costs**

None

**CITY OF SHELBY  
DECEMBER 31, 2011**

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

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





# Dave Yost • Auditor of State

CITY OF SHELBY

RICHLAND COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 25, 2012