CITY OF SHELBY
RICHLAND COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

CITY OF SHELBY
RICHLAND COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street, 5th Floor
Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, Richland County, Ohio, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 17 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and restated January 1, 2018 net position due to a capital asset appraisal. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

September 24, 2019

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net position increased $4,012,828. Net position of governmental activities increased $4,173,943, net position of business-type activities decreased by $838,561.

- The General Fund reported a fund balance of $1,043,402.

- Business-type operations reflected an operating loss of $281,135.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

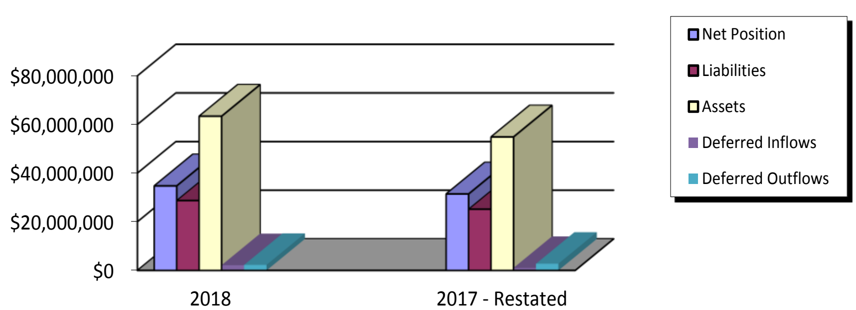
Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting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

The City as a Whole

As stated previously, the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2018 compared to 2017.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 - Restated	2018	2017 - Restated	2018	2017 - Restated
Assets:						
Current and Other Assets	$7,473,603	$6,384,785	$12,447,091	$11,441,880	$19,920,694	$17,826,665
Capital Assets	23,213,671	19,461,742	20,935,348	17,580,477	44,149,019	37,042,219
Total Assets	30,687,274	25,846,527	33,382,439	29,022,357	64,069,713	54,868,884
Deferred Outflows of Resources:						
OPEB	615,592	20,951	102,585	19,651	718,177	40,602
Pension	1,080,260	1,550,096	467,441	1,162,217	1,547,701	2,712,313
Total Deferred Outflows of Resources	1,695,852	1,571,047	570,026	1,181,868	2,265,878	2,752,915
Liabilities:						
Long-Term Liabilities	17,830,633	17,654,273	9,158,367	6,288,261	26,989,000	23,942,534
Other Liabilities	321,092	258,414	1,430,934	982,887	1,752,026	1,241,301
Total Liabilities	18,151,725	17,912,687	10,589,301	7,271,148	28,741,026	25,183,835
Deferred Inflows of Resources:						
Property Taxes	581,729	549,936	0	0	581,729	549,936
OPEB	142,296	0	142,604	0	284,900	0
Pension	769,650	391,168	524,194	75,596	1,293,844	466,764
Total Deferred Inflows of Resources	1,493,675	941,104	666,798	75,596	2,160,473	1,016,700
Net Position:						
Net Investment In Capital Assets	17,658,533	17,977,492	15,533,471	24,046,489	33,192,004	42,023,981
Restricted	4,586,236	3,692,861	0	0	4,586,236	3,692,861
Unrestricted	(9,507,043)	(13,106,570)	7,162,895	(1,189,008)	(2,344,148)	(14,295,578)
Total Net Position	$12,737,726	$8,563,783	$22,696,366	$22,857,481	$35,434,092	$31,421,264



The net pension liability (NPL) is the reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $49,590,286 to $31,421,264.

Total net position of the City as a whole increased $4,012,828. Net position of the City's governmental activities increased $4,173,943, while the net position of the City's business-type activities decreased $161,115 from 2017. The City had an unrestricted net position balance of ($2,344,148) that may be used to meet the government's ongoing obligations to citizens and creditors.

Long-Term Liabilities increased mainly due to the issuance of debt in 2018.

Table 2 shows the changes in net position for the year ended December 31, 2018 and revenue and expense comparisons to 2017.

This Space Intentionally Left Blank

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for Services	$1,449,491	$1,460,660	$16,377,514	$15,719,039	$17,827,005	$17,179,699
Operating Grants and Contributions	1,193,346	862,750	0	0	1,193,346	862,750
Capital Grants and Contributions	3,194,606	1,154,032	53,956	115,942	3,248,562	1,269,974
Total Program Revenues	5,837,443	3,477,442	16,431,470	15,834,981	22,268,913	19,312,423
General Revenues:						
Income Taxes	4,103,560	3,672,549	0	0	4,103,560	3,672,549
Property Taxes	601,349	651,288	0	0	601,349	651,288
Grants and Entitlements	241,063	304,819	0	0	241,063	304,819
Investment Earnings	61,242	21,871	67,661	17,524	128,903	39,395
Other Revenues	792,356	650,250	172,313	142,491	964,669	792,741
Total General Revenues	5,799,570	5,300,777	239,974	160,015	6,039,544	5,460,792
Total Revenues	11,637,013	8,778,219	16,671,444	15,994,996	28,308,457	24,773,215
Program Expenses:						
General Government	1,392,620	1,282,016	0	0	1,392,620	1,282,016
Public Safety	3,527,596	3,900,865	0	0	3,527,596	3,900,865
Leisure Time Activities	85,364	76,918	0	0	85,364	76,918
Community Development	463,630	167,125	0	0	463,630	167,125
Transportation and Street Repair	1,227,437	1,358,796	0	0	1,227,437	1,358,796
Public Health and Welfare	529,886	448,774	0	0	529,886	448,774
Other	16,612	25,223	0	0	16,612	25,223
Interest and Other Charges	219,925	235,037	0	0	219,925	235,037
Sewer	0	0	2,312,793	1,796,957	2,312,793	1,796,957
Water	0	0	2,804,849	2,390,500	2,804,849	2,390,500
Electric	0	0	11,714,917	11,982,906	11,714,917	11,982,906
Total Program Expenses	7,463,070	7,494,754	16,832,559	16,170,363	24,295,629	23,665,117
Change in Net Position	4,173,943	1,283,465	(161,115)	(175,367)	4,012,828	1,108,098
Net Position - Beginning of Year, Restated	8,563,783	N/A	22,857,481	N/A	31,421,264	N/A
Net Position - End of Year	$12,737,726	$8,563,783	$22,696,366	$22,857,481	$35,434,092	$31,421,264

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $22,564 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of $536,350. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

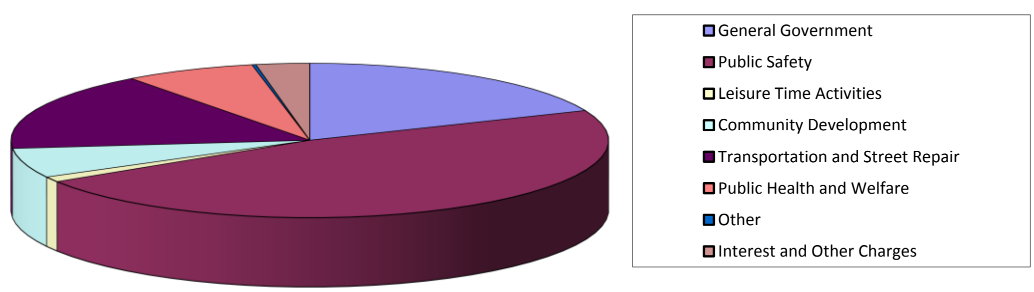
	Governmental Activities	Business-type Activities	Total
Total 2018 operating expenses under GASB 75	$7,463,060	$17,510,005	$24,973,065
OPEB expense under GASB 75	475,250	61,100	536,350
2018 contractually required contribution	9,270	0	9,270
Adjusted 2018 operating expenses	7,947,580	17,571,105	25,518,685
Total 2017 operating expenses under GASB 45	7,494,754	16,170,363	23,665,117
Change in operating expenses not related to OPEB	$452,826	$1,400,742	$1,853,568

Governmental Activities

The City of Shelby's income taxes and property taxes are the largest source of revenue. These revenues represent 81% of the City's governmental activities total general revenue.

Governmental Activities
Program Expenses for 2018

Program Expenses	Percentage
General Government	18.7%
Public Safety	47.3%
Leisure Time Activities	1.1%
Community Development	6.2%
Transportation and Street Repair	16.5%
Public Health and Welfare	7.1%
Other	0.2%
Interest and Other Charges	2.9%
Total	100.0%



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

Business-Type Activities

Business-type activities include Sewer, Water and Electric. These programs had operating revenues of $16,549,827 and operating expenses of $16,830,962 for fiscal year 2018. Business activities receive no support from tax revenues. The business activities (on the fund level) net position at the end of the year was $22,701,515, which decreased $182,430 from 2017.

The City's Funds

The City has one major governmental fund: the General Fund. Assets of the major governmental fund comprise $2,073,435 (29%), of the total $7,197,283 governmental funds' assets.

General Fund: Fund balance at December 31, 2018 was $1,043,402.

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 $654,380, on a Non-GAAP Budgetary Basis.

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

Capital Assets and Debt Administration

Capital Assets

At year end, the City had $44,149,019 invested in land, construction in progress, buildings and improvements, equipment and infrastructure. Table 3 shows 2018 balances compared to 2017:

Table 3
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 - Restated	2018	2017 - Restated	2018	2017 - Restated
Land	$406,004	$406,004	$245,327	$245,327	$651,331	$651,331
Construction in Progress	742,125	3,175,964	5,061,397	1,058,900	5,803,522	4,234,864
Buildings and Improvements	12,123,624	9,271,770	16,207,599	15,971,256	28,331,223	25,243,026
Equipment	6,729,645	6,187,079	15,023,454	14,948,044	21,753,099	21,135,123
Infrastructure	22,057,930	18,219,505	19,228,430	19,219,430	41,286,360	37,438,935
Accumulated Depreciation	(18,845,657)	(17,798,580)	(34,830,859)	(33,862,480)	(53,676,516)	(51,661,060)
Total Net Capital Assets	$23,213,671	$19,461,742	$20,935,348	$17,580,477	$44,149,019	$37,042,219

The City had a restatement of capital assets due to having an appraisal completed during the fiscal year. The assets were appraised from $49,290,710 to $37,042,219.
See Note 8 to the basic financial statements for further details on the City's capital assets.

Debt

The City had $5,555,138 in bonds and loans outstanding for Governmental Activities and $5,401,877 in loans outstanding for Business-Type Activities.

Table 4
Outstanding Debt at Year End

		2018	2017
Governmental Activities:			
Special Assessment Bonds:			
Street Improvement - Fox Run 7	4.25%	$0	$20,649
Total Special Assessment Bonds		0	20,649
General Obligation Bonds:			
Fire Station USDA Bond	3.50%	48,000	0
Fire Truck Series 2018	4.75%	0	25,000
2011 Municipal Justice Center Improvements	4.10%	5,400,000	5,570,000
Premium on Bonds		107,138	113,287
Total Governmental Activities Debt		5,555,138	5,728,936
Business-Type Activities:			
OWDA Loans:			
2018 WWTP Improvements	1.00%	4,564,860	0
OPWC - CP425	0.00%	146,363	164,659
WTP upgrade	2.75%	690,654	953,980
WWTP Improvements	1.00%	0	419,154
Total OWDA Loans		5,401,877	1,537,793
Total Business-Type Activities Debt		5,401,877	1,537,793
Total Debt		$10,957,015	$7,266,729

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

Economic Outlook

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

The City has proved to be forward thinking with an eye to preserving the past in 2018. Working in public/private partnership with the CIC, Shelby Foundation, Richland Community Development Group, The Richland Area Chamber of Commerce, and the Village of Plymouth, they signed an MOU to bring a full time Economic Development Liaison to work on behalf of the City and northern Richland County. Additionally the Historic Preservation Commission sought and received grant funding to retain Prospectus Architecture to work with the City to create a comprehensive historic preservation plan that will serve the historic downtown district as it is redeveloped. Additionally, again in a public/private partnership, Edge was retained to complete a Downtown corridor redevelopment plan that will likely be presented at the same time as the historic preservation plan will be completed. These strong moves will set the stage for new development on the Main St corridor. The City will continue to look for ways to partner with the private sector to move economic development forward.

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

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

The Black Fork Commons Park in the central business district continues to be an exciting opportunity to improve quality of life and traffic to the downtown area as an amphitheater is being constructed and should see completion before summer of 2019.

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

Contacting the City's Finance Department

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

This Space Intentionally Left Blank

City of Shelby, Ohio
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	$4,582,525	$8,861,568	$13,444,093
Restricted Cash	4,360	385,835	390,195
Cash and Cash Equivalents with Fiscal Agent	271,171	0	271,171
Receivables (Net):			
Taxes	1,930,888	0	1,930,888
Accounts	31,742	1,823,675	1,855,417
Interest	2,196	21,517	23,713
Intergovernmental	428,153	0	428,153
Internal Balances	5,149	(5,149)	0
Inventory	171,769	1,040,900	1,212,669
Investment in Joint Venture	0	189,955	189,955
Prepaid Items	45,650	128,790	174,440
Nondepreciable Capital Assets	1,148,129	5,306,724	6,454,853
Depreciable Capital Assets, Net	22,065,542	15,628,624	37,694,166
Total Assets	30,687,274	33,382,439	64,069,713
Deferred Outflows of Resources:			
Pension	1,080,260	467,441	1,547,701
OPEB	615,592	102,585	718,177
Total Deferred Outflows of Resources	1,695,852	570,026	2,265,878
Liabilities:			
Accounts Payable	42,575	928,804	971,379
Accrued Wages and Benefits	191,471	106,798	298,269
Retainage Payable	4,360	385,835	390,195
Accrued Interest Payable	18,167	9,497	27,664
Claims Payable	64,519	0	64,519
Long-Term Liabilities:			
Due Within One Year	297,887	366,827	664,714
Due In More Than One Year			
Net Pension Liability	6,241,970	1,990,455	8,232,425
Net OPEB Liability	5,486,885	1,394,003	6,880,888
Other Amounts	5,803,891	5,407,082	11,210,973
Total Liabilities	18,151,725	10,589,301	28,741,026
Deferred Inflows of Resources:			
Property Taxes	581,729	0	581,729
Pension	769,650	524,194	1,293,844
OPEB	142,296	142,604	284,900
Total Deferred Inflows of Resources	1,493,675	666,798	2,160,473
Net Position:			
Net Investment in Capital Assets	17,658,533	15,533,471	33,192,004
Restricted for:			
Debt Service	510,493	0	510,493
Capital Projects	2,619,944	0	2,619,944
Street Maintenance, Construction and Repair	377,503	0	377,503
Community Development Projects	324,965	0	324,965
Mini Park Trust Expendable	25,673	0	25,673
Human Services Programs	375,460	0	375,460
Other Purposes	352,198	0	352,198
Unrestricted	(9,507,043)	7,162,895	(2,344,148)
Total Net Position	$12,737,726	$22,696,366	$35,434,092

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2018

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental Activities:				
General Government	$1,392,620	$1,151,651	$0	$0
Public Safety	3,527,596	203,422	15,564	2,969,573
Leisure Time Activities	85,364	16,605	5,700	0
Community Development	463,630	42,620	373,570	0
Transportation and Street Repair	1,227,437	0	530,838	225,033
Public Health and Welfare	529,886	35,193	267,674	0
Other	16,612	0	0	0
Interest and Other Charges	219,925	0	0	0
Total Governmental Activities	7,463,070	1,449,491	1,193,346	3,194,606
Business-Type Activities:				
Sewer	2,312,793	2,182,246	0	0
Water	2,804,849	2,366,239	0	53,956
Electric	11,714,917	11,829,029	0	0
Total Business-Type Activities	16,832,559	16,377,514	0	53,956
Totals	$24,295,629	$17,827,005	$1,193,346	$3,248,562

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

Total General Revenues

Change in Net Position

Net Position - Beginning of Year, Restated

Net Position - End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
($240,969)	$0	($240,969)
(339,037)	0	(339,037)
(63,059)	0	(63,059)
(47,440)	0	(47,440)
(471,566)	0	(471,566)
(227,019)	0	(227,019)
(16,612)	0	(16,612)
(219,925)	0	(219,925)
(1,625,627)	0	(1,625,627)
0	(130,547)	(130,547)
0	(384,654)	(384,654)
0	114,112	114,112
0	(401,089)	(401,089)
(1,625,627)	(401,089)	(2,026,716)
4,103,560	0	4,103,560
195,274	0	195,274
406,075	0	406,075
241,063	0	241,063
61,242	67,661	128,903
371,864	0	371,864
420,492	172,313	592,805
5,799,570	239,974	6,039,544
4,173,943	(161,115)	4,012,828
8,563,783	22,857,481	31,421,264
$12,737,726	$22,696,366	$35,434,092

City of Shelby, Ohio
Balance Sheet
Governmental Funds
December 31, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	$858,322	$3,724,203	$4,582,525
Restricted Cash	0	4,360	4,360
Receivables (Net):			
Taxes	1,016,914	913,974	1,930,888
Accounts	26,745	4,997	31,742
Interest	2,196	0	2,196
Intergovernmental	106,140	322,013	428,153
Inventory	32,881	138,888	171,769
Prepaid Items	30,237	15,413	45,650
Total Assets	2,073,435	5,123,848	7,197,283
Liabilities:			
Accounts Payable	24,026	18,549	42,575
Accrued Wages and Benefits	172,640	18,831	191,471
Retainage Payable	0	4,360	4,360
Total Liabilities	196,666	41,740	238,406
Deferred Inflows of Resources:			
Property Taxes	189,165	448,046	637,211
Income Taxes	566,980	323,798	890,778
Grants and Other Taxes	77,222	244,631	321,853
Total Deferred Inflows of Resources	833,367	1,016,475	1,849,842
Fund Balances:			
Nonspendable	65,974	174,301	240,275
Restricted	0	3,871,677	3,871,677
Assigned	431,920	19,655	451,575
Unassigned	545,508	0	545,508
Total Fund Balances	1,043,402	4,065,633	5,109,035
Total Liabilities, Deferred Inflows and Fund Balances	$2,073,435	$5,123,848	$7,197,283

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
December 31, 2018

Total Governmental Fund Balances		$5,109,035
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		23,213,671
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Income Taxes	890,778	
Delinquent Property Taxes	55,482	
Intergovernmental	321,853	
		1,268,113
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position	206,652	
Allocation to Business-Type Activities	5,149	
		211,801
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(18,167)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(546,640)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	1,080,260	
Deferred inflows of resources related to pensions	(769,650)	
Deferred outflows of resources related to OPEB	615,592	
Deferred inflows of resources related to OPEB	(142,296)	
		783,906
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(6,241,970)	
Net OPEB Liability	(5,486,885)	
Bonds and Loans Payable	(5,555,138)	
		(17,283,993)
Net Position of Governmental Activities		$12,737,726

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, 2018

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property and Other Taxes	$570,806	$407,953	$978,759
Income Taxes	2,570,081	1,307,846	3,877,927
Charges for Services	989,560	179,745	1,169,305
Investment Earnings	58,559	2,683	61,242
Intergovernmental	238,283	1,484,417	1,722,700
Special Assessments	0	21,479	21,479
Fines, Licenses & Permits	181,751	87,783	269,534
Other Revenues	216,904	203,588	420,492
Total Revenues	4,825,944	3,695,494	8,521,438
Expenditures:			
Current:			
General Government	1,273,940	0	1,273,940
Public Safety	3,092,008	440,822	3,532,830
Leisure Time Activities	0	68,446	68,446
Community Development	44,112	230,228	274,340
Transportation and Street Repair	35,466	546,243	581,709
Public Health and Welfare	0	523,466	523,466
Other	0	16,612	16,612
Capital Outlay	0	1,126,616	1,126,616
Debt Service:			
Principal	0	215,649	215,649
Interest and Other Charges	0	226,771	226,771
Total Expenditures	4,445,526	3,394,853	7,840,379
Excess of Revenues Over (Under) Expenditures	380,418	300,641	681,059
Other Financing Sources (Uses):			
Issuance of Long-Term Capital-Related Debt	0	48,000	48,000
Transfers In	0	380,000	380,000
Transfers (Out)	(380,000)	0	(380,000)
Total Other Financing Sources (Uses)	(380,000)	428,000	48,000
Net Change in Fund Balance	418	728,641	729,059
Fund Balance - Beginning of Year	1,040,848	3,299,836	4,340,684
Change in Reserve for Inventory	2,136	37,156	39,292
Fund Balance - End of Year	$1,043,402	$4,065,633	$5,109,035

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, 2018

Net Change in Fund Balance - Total Governmental Funds		$729,059
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	4,799,006	
Depreciation Expense	(1,047,077)	
		3,751,929
Governmental funds report pension and OPEB contributions as expenditures. However in the Statement of Activites, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Pension contributions	530,620	
Pension Expense	(764,328)	
OPEB Contributions	9,270	
OPEB Expense	(475,250)	
		(699,688)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income Taxes	225,633	
Delinquent Property Taxes	(5,546)	
Intergovernmental	64,201	
Other	(10,827)	
		273,461
Repayment of bond and loans principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		215,649
In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.		697
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	(50,206)	
Amortization of Bond Premium	6,149	
Change in Inventory	39,292	
		(4,765)
The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
Change in Net Position - Internal Service Funds	(23,084)	
Change in portion of Internal Service Fund Net Position allocated to Business-Type Activities	(21,315)	
		(44,399)
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.		(48,000)
Change in Net Position of Governmental Activities		$4,173,943

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2018

	Business-Type Activities -Enterprise Funds				
	Sewer	Water	Electric	Total Business-Type Activities	Governmental Activities- Internal Service Fund
Current Assets:					
Equity in Pooled Cash and Investments	$1,706,676	$577,496	$6,577,396	$8,861,568	$0
Restricted Cash	385,835	0	0	385,835	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	271,171
Receivables (Net):					
Accounts	249,293	273,551	1,300,831	1,823,675	0
Interest	0	0	21,517	21,517	0
Inventory	100,098	365,658	575,144	1,040,900	0
Prepaid Items	13,785	31,626	83,379	128,790	0
Total Current Assets	2,455,687	1,248,331	8,558,267	12,262,285	271,171
Noncurrent Assets:					
Investment in Joint Venture	0	0	189,955	189,955	0
Capital Assets:					
Nondepreciable Capital Assets	5,061,397	193,443	51,884	5,306,724	0
Depreciable Capital Assets, Net	3,001,209	7,759,989	4,867,426	15,628,624	0
Total Noncurrent Assets	8,062,606	7,953,432	5,109,265	21,125,303	0
Total Assets	10,518,293	9,201,763	13,667,532	33,387,588	271,171
Deferred Outflows of Resources:					
Pension	130,657	172,555	164,229	467,441	0
OPEB	28,674	37,869	36,042	102,585	0
Total Deferred Outflows of Resources	159,331	210,424	200,271	570,026	0
Liabilities:					
Current Liabilities:					
Accounts Payable	61,917	39,566	827,321	928,804	0
Accrued Wages and Benefits	28,113	37,802	40,883	106,798	0
Compensated Absences	10,061	19,237	48,617	77,915	0
Retainage Payable	385,835	0	0	385,835	0
Accrued Interest Payable	0	9,497	0	9,497	0
Claims Payable	0	0	0	0	64,519
Long-Term Liabilities Due Within One Year	0	288,912	0	288,912	0
Total Current Liabilities	485,926	395,014	916,821	1,797,761	64,519
Long-Term Liabilities:					
Compensated Absences	39,200	71,787	183,130	294,117	0
Bonds, Notes & Loans Payable	4,564,860	548,105	0	5,112,965	0
Net Pension Liability	556,362	734,773	699,320	1,990,455	0
Net OPEB Liability	389,645	514,594	489,764	1,394,003	0
Total Noncurrent Liabilities	5,550,067	1,869,259	1,372,214	8,791,540	0
Total Liabilities	6,035,993	2,264,273	2,289,035	10,589,301	64,519
Deferred Inflows of Resources:					
Pension	146,520	193,505	184,169	524,194	0
OPEB	39,860	52,642	50,102	142,604	0
Total Deferred Inflows of Resources	186,380	246,147	234,271	666,798	0
Net Position:					
Net Investment in Capital Assets	3,497,746	7,116,415	4,919,310	15,533,471	0
Unrestricted	957,505	(214,648)	6,425,187	7,168,044	206,652
Total Net Position	$4,455,251	$6,901,767	$11,344,497	22,701,515	$206,652
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				(5,149)	
Net Position of Business-Type Activities				$22,696,366	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2018

	Business-Type Activities -Enterprise Funds				
	Sewer	Water	Electric	Total Business-Type Activities	Governmental Activities- Internal Service Fund
Operating Revenues:					
Charges for Services	$2,182,246	$2,366,239	$11,829,029	$16,377,514	$1,634,458
Other Revenues	12,424	30,243	129,646	172,313	0
Total Operating Revenues	2,194,670	2,396,482	11,958,675	16,549,827	1,634,458
Operating Expenses:					
Personal Services	886,258	1,183,984	921,653	2,991,895	0
Contractual Services	194,928	375,535	816,710	1,387,173	0
Materials and Supplies	808,178	617,326	9,495,837	10,921,341	0
Depreciation	216,977	425,660	325,742	968,379	0
Utilities	211,540	169,993	17,039	398,572	0
Claims	0	0	0	0	1,660,415
Other Expense	14,131	11,535	137,936	163,602	0
Total Operating Expenses	2,332,012	2,784,033	11,714,917	16,830,962	1,660,415
Operating Income (Loss)	(137,342)	(387,551)	243,758	(281,135)	(25,957)
Non-Operating Revenues (Expenses):					
Investment Earnings	0	0	67,661	67,661	2,873
Interest (Expense)	(2,096)	(20,816)	0	(22,912)	0
Total Non-Operating Revenues (Expenses)	(2,096)	(20,816)	67,661	44,749	2,873
Income (Loss) Before Contributions	(139,438)	(408,367)	311,419	(236,386)	(23,084)
Capital Grants and Contributions	0	53,956	0	53,956	0
Change in Net Position	(139,438)	(354,411)	311,419	(182,430)	(23,084)
Net Position - Beginning of Year, Restated	4,594,689	7,256,178	11,033,078	22,883,945	229,736
Net Position - End of Year	$4,455,251	$6,901,767	$11,344,497	22,701,515	$206,652
Adjustment to reflect the consolidation of Internal Service Fund activities related to Business-Type Activities				21,315	
Change in Net Position - Total Business-Type Activities				($161,115)	

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, 2018

	Business-Type Activities -Enterprise Funds				
	Sewer	Water	Electric	Total Business-Type Activities	Governmental Activities- Internal Service Fund
Cash Flows from Operating Activities:					
Cash Received from Customers	$2,066,594	$2,382,682	$12,008,552	$16,457,828	$1,634,458
Cash Payments to Employees	(762,853)	(1,015,791)	(984,616)	(2,763,260)	0
Cash Payments to Suppliers	(786,142)	(1,244,452)	(10,318,179)	(12,348,773)	0
Cash Payments for Claims	0	0	0	0	(1,636,258)
Other Cash Payments	(14,131)	(11,535)	(137,936)	(163,602)	0
Net Cash Provided (Used) by Operating Activities	503,468	110,904	567,821	1,182,193	(1,800)
Cash Flows from Noncapital Financing Activities:					
Non-Operating Grants Received	0	53,956	0	53,956	0
Net Cash Provided (Used) by Noncapital Financing Activities	0	53,956	0	53,956	0
Cash Flows from Capital and Related Financing Activities:					
Payments for Capital Acquisitions	(4,285,233)	(38,017)	0	(4,323,250)	0
Debt Proceeds	4,197,190	0	0	4,197,190	0
Debt Principal Payments	(51,484)	(281,622)	0	(333,106)	0
Debt Interest Payments	(2,096)	(24,436)	0	(26,532)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(141,623)	(344,075)	0	(485,698)	0
Cash Flows from Investing Activities:					
Earnings on Investments	0	0	46,144	46,144	2,873
Net Cash Provided (Used) by Cash Flows from Investing Activities	0	0	46,144	46,144	2,873
Net Increase (Decrease) in Cash and Cash Equivalents	361,845	(179,215)	613,965	796,595	1,073
Cash and Cash Equivalents - Beginning of Year	1,730,666	756,711	5,963,431	8,450,808	270,098
Cash and Cash Equivalents - End of Year	2,092,511	577,496	6,577,396	9,247,403	271,171
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	(137,342)	(387,551)	243,758	(281,135)	(25,957)
Adjustments:					
Depreciation	216,977	425,660	325,742	968,379	0
Changes in Assets & Liabilities:					
(Increase) Decrease in Receivables	(128,076)	(13,800)	49,877	(91,999)	0
(Increase) Decrease in Inventory	(11,333)	(107,733)	27,157	(91,909)	0
(Increase) Decrease in Prepaid Items	2,372	1,863	13,889	18,124	0
(Increase) Decrease in Deferred Outflows of Resources	133,316	178,413	300,113	611,842	0
Increase (Decrease) in Retainage Payable	385,835	0	0	385,835	0
Increase (Decrease) in Payables	51,630	24,272	(29,639)	46,263	24,157
Increase (Decrease) in Accrued Liabilities	6,566	17,836	13,245	37,647	0
Increase (Decrease) in Deferred Inflows of Resources	167,702	221,327	202,173	591,202	0
Increase (Decrease) in Net Pension Liability	(195,396)	(264,198)	(592,593)	(1,052,187)	0
Increase (Decrease) in Net OPEB Liability	11,217	14,815	14,099	40,131	0
Net Cash Provided (Used) by Operating Activities	$503,468	$110,904	$567,821	$1,182,193	($1,800)

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	$178,216	$265,353
Total Assets	178,216	265,353
Liabilities:		
Accounts Payable	0	7,051
Intergovernmental Payable	0	258,302
Total Liabilities	0	$265,353
Net Position:		
Held in Trust	178,216	
Total Net Position	$178,216	

See accompanying notes to the basic financial statements.

City of Shelby, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended December 31, 2018

	Private Purpose Trust
Additions:	
Investment Earnings	$3,525
Other	382
Total Additions	3,907
Deductions:	
General Government	530
Total Deductions	530
Change in Net Position	3,377
Net Position - Beginning of Year	174,839
Net Position - End of Year	$178,216

See accompanying notes to the basic financial statements.

Note 1 - Description of the City

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

Joint Venture

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

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued $50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of $45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the $31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2016 (latest information available), the outstanding debt was $4,142,633. The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was $189,955 at December 31, 2017 (latest information available). Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

This Space Intentionally Left Blank

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2018 are:

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

Basis of Presentation - Fund Accounting

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

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

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

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

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

Fund Accounting

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

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

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

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

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

> *Enterprise Funds* -Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:
>
> > *Sewer Fund* -This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Basis of Accounting

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

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

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources including pension and OPEB on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB are explained in Notes 12 and 13.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include income and property taxes, grants and other taxes, OPEB and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2018 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide state of net position. (See Notes 12 and 13)

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

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

Budgetary Data

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or before December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary schedule reflect the amounts in the original and final amended official certificate of estimated resources issued during 2018.

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 included in the following year appropriations.

Equity in Pooled Cash and Investments

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2018, interest revenue credited to the general fund amounted to $58,559 and $2,683 to other governmental funds.

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

The City is part of the Ohio Municipal League (OML) Joint Self-Insurance Pool. The money held by the fiscal agent is presented as "cash and cash equivalents with fiscal agent" on the basic financial statements since it is held in a pool made up of numerous participants. The City's relationship with OML is described in Note 11.

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

Inventories of Materials and Supplies

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

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

Capital Assets

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

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

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

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

Compensated Absences

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

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

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who 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, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

Pensions/Other Postemployment Benefits (OPEB)

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

Accrued Liabilities and Long-Term Obligations

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

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

Interfund Activity

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

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

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

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. As of December 31, 2018, the City had $390,195 in restricted cash.

Fund Balance

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

> Nonspendable – resources that are not in spendable form (prepaids) or have legal or contractual requirements to maintain the balance intact.
>
> Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.
>
> Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the City Council.
>
> Assigned – resources that are intended to be used for specific purposes as approved through the City’s formal purchasing procedure by the Finance Director.
>
> Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned.

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

Estimates

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

Contributed Capital

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

Net Position

Net position represents the difference between assets, and deferred outflows of resources and liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes consist primarily of net position restricted for income tax operations, City administrative operations and trust fund resources. Of the City's $4,586,236 in restricted net position, none was restricted by enabling legislation.

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

Bond Premium and Discount

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

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

Operating Revenues and Expenses

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

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, 2018 was $271,171. This amount is not included in the City's depository balance below.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2018, $7,362,411 of the City's bank balance of $14,187,374 was exposed to custodial credit risk because it was uninsured and collateralized.

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

> Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or
>
> Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of December 31, 2018, the City had no investments.

Note 4 - Interfund Transactions

Interfund transfers for the year ended December 31, 2018, consisted of the following, as reported on the fund statements:

Transfers from the general fund to:	
Other governmental funds	$380,000

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

Note 5 - Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2018 were levied after October 1, 2017 on assessed values as of January 1, 2017, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semiannually, the first payment is due February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

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

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

Real Property	$120,267,960
Public Utility	1,729,590
Total Valuation	$121,997,550

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

The City receives property taxes from Richland County. The County Treasurer collects property taxes on behalf of all taxing districts in the counties. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2018, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2018 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On an accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is a deferred inflow.

Note 6 - Local Income Tax

The City levies a municipal income tax of 1.50% on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 0.67% for general use financing of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations are required to pay their estimated tax quarterly and file a declaration annually. Income taxes collected are used for general fund purposes (1%), police and court facility construction (.3%), and street and sidewalk improvements and repairs (.2%) as approved by the voters.

Note 7 - Receivables

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

Note 8 – Capital Assets

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated:				
Land	$406,004	$0	$0	$406,004
Construction in Progress	3,175,964	1,168,420	3,602,259	742,125
Capital Assets, being depreciated:				
Buildings and Improvements	9,271,770	2,851,854	0	12,123,624
Equipment	6,187,079	542,566	0	6,729,645
Infrastructure	18,219,505	3,838,425	0	22,057,930
Totals at Historical Cost	$37,260,322	$8,401,265	$3,602,259	$42,059,328
Less Accumulated Depreciation:				
Buildings and Improvements	$2,115,127	$257,045	$0	$2,372,172
Equipment	4,617,874	328,373	0	4,946,247
Infrastructure	11,065,579	461,659	0	11,527,238
Total Accumulated Depreciation	$17,798,580	$1,047,077	$0	$18,845,657
Governmental Activities Capital Assets, Net	$19,461,742	$7,354,188	$3,602,259	$23,213,671

This Space Intentionally Left Blank

Business-Type Activities *Capital Assets, not being depreciated:*	Restated Beginning Balance	Additions	Deletions	Ending Balance
Land	$245,327	$0	$0	$245,327
Construction in Progress	1,058,900	4,289,840	287,343	5,061,397
Capital Assets, being depreciated:				
Buildings and Improvements	15,971,256	236,343	0	16,207,599
Equipment	14,948,044	75,410	0	15,023,454
Infrastructure	19,219,430	9,000	0	19,228,430
Totals at Historical Cost	51,442,957	4,610,593	287,343	55,766,207
Less Accumulated Depreciation:				
Buildings and Improvements	8,680,621	404,003	0	9,084,624
Equipment	13,772,413	197,032	0	13,969,445
Infrastructure	11,409,446	367,344	0	11,776,790
Total Accumulated Depreciation	33,862,480	968,379	0	34,830,859
Business-Type Activities Capital Assets, Net	$17,580,477	$3,642,214	$287,343	$20,935,348

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

General Government	$43,410
Public Safety	147,053
Leisure Time Activities	12,945
Community Development	92,734
Public Health and Welfare	2,812
Transportation and Street Repair	748,123
Total Depreciation Expense	$1,047,077

Note 9 – Compensated Absences

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

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

This Space Intentionally Left Blank

Note 10 - Long-Term Obligations

The following activity occurred in the City's long-term obligations during 2018:

	Interest Rate	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds						
Fire Truck - Series 2008	4.75%	$25,000	$0	($25,000)	$0	$0
Municipal Justice Center Improvements	4.10%	5,570,000	0	(170,000)	5,400,000	180,000
Premium on General Obligations Bonds		113,287	0	(6,149)	107,138	0
Fire Station USDA Bond	3.50%	0	48,000	0	48,000	48,000
Total General Obligation Bonds		5,708,287	48,000	(201,149)	5,555,138	228,000
Special Assessment Bonds						
Street Improvement - Fox Run 7	4.25%	20,649	0	(20,649)	0	0
Total Special Assessment Bonds		20,649	0	(20,649)	0	0
Net Pension Liability:						
OPERS		1,792,183	0	(555,918)	1,236,265	0
OP&F		5,025,696	0	(19,991)	5,005,705	0
Total Net Pension Liablilty		6,817,879	0	(575,909)	6,241,970	0
Net OPEB Liability:						
OPERS		840,885	24,925	0	865,810	0
OP&F		3,766,376	854,699	0	4,621,075	0
Total Net OPEB Liablilty		4,607,261	879,624	0	5,486,885	0
Compensated Absences		500,197	112,256	(65,813)	546,640	69,887
Total Governmental Activities		$17,654,273	$1,039,880	($863,520)	$17,830,633	$297,887

This Space Intentionally Left Blank

	Interest Rate	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities						
OWDA and OPWC Loans Payable:						
WWTP Improvements - 2018	1.00%	$0	$4,564,860	$0	$4,564,860	$0
WTP Upgrade	2.75%	953,980	0	(263,326)	690,654	270,616
WTP Improvements	1.00%	419,154	0	(419,154)	0	0
OPWC	0.00%	164,659	0	(18,296)	146,363	18,296
Total Loans Payable		1,537,793	4,564,860	(700,776)	5,401,877	288,912
Net Pension Liability:						
OPERS		3,042,642	0	(1,052,187)	1,990,455	0
Total Net Pension Liability		3,042,642	0	(1,052,187)	1,990,455	0
Net OPEB Liability:						
OPERS		1,353,872	40,131	0	1,394,003	0
Total Net OPEB Liability		1,353,872	40,131	0	1,394,003	0
Compensated Absences		353,954	105,489	(87,411)	372,032	77,915
Total Business-Type Activities		$6,288,261	$4,710,480	($1,840,374)	$9,158,367	$366,827

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. Payments on the bonds are made from the Special Bond Retirement debt service fund and the Streets, Alleys & Basins capital projects fund.

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

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

In 2009, the City issued $205,000 in Fire Truck Bonds for the purchase of a new fire truck. The bonds were issued at an interest rate of 4.75% and will mature on December 1, 2018. The bonds are being paid from the fire equipment capital projects fund.

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

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

In 2018, the City issued an OWDA Loan in the amount of $4,564,860 for water pollution control improvements. The loan has an interest rate of 1.00% and will mature July 1, 2039. There is no payment due in 2019 and the full amount of the loan was not dispersed as of year end.

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

Principal and interest requirements to retire governmental long-term obligations outstanding at December 31, 2018, are as follows:

	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		OWDA Loans	
Year Ending December 31	Principal	Interest	Principal	Interest
2019	$228,000	$218,000	$288,912	$17,146
2020	190,000	210,800	296,405	9,653
2021	200,000	203,200	160,225	1,951
2022	220,000	195,200	18,296	0
2023	225,000	186,400	18,296	0
2024-2028	1,390,000	779,800	54,883	0
2029-2033	1,740,000	476,035	0	0
2034-2036	1,255,000	104,140	0	0
Total	$5,448,000	$2,373,575	$837,017	$28,750

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018, the City was part of the Ohio Municipal League (OML) Joint Self-Insurance Pool, an insurance purchasing pool. In addition, the City contracted with other insurance carriers for various types of coverage. The City has transferred the risk of loss to the insurance carriers to the extent of the coverage limits.

A summary of the City's insurance coverage at December 31, 2018, follows:

This Space Intentionally Left Blank

Company	Type of Coverage	Deductible	
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	Public Employee		
Insurance Company	Dishonest bond	1,000	
	Finance	5,000	
EMC Insurance Co.	Automobile	1,000	Comprehensive
		1,000	Collision
EMC Insurance Co.	Steam Boiler	5,000	Water Plant
		1,000	All Other

The City is a participant with several other governmental entities in an insurance purchasing pool to operate the Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing insurance. The City has elected to provide a comprehensive medical benefits package through a self-insured program providing Preferred Provider Organizations (PPO) programs to the employees through a self-insured package. The City maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. A third party administrator, Mutual Health Services, located in Akron, Ohio, reviews all claims for the plan. The total monthly premium paid into the internal service fund for the PPO plan is $717 for single coverage and $1,578 for family coverage.

The claims liability of $64,519 reported in the internal service fund at December 31, 2017, 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, 2018 and 2017 were as follows:

Year	Beginning of Year	Claims	Payments	End of Year
2018	$40,362	$1,660,415	($1,636,258)	$64,519
2017	44,609	1,482,730	(1,486,977)	40,362

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 2017 to 2018.

Note 12 - Defined Benefit Pension Plans

Net Pension Liability/Net Other Postemployment Benefits (OPEB) Liability

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

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

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

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

The remainder of this note includes the pension disclosures. See Note 13 for the OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The City's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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

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

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

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost–of–living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

	State and Local	Public Safety	Law Enforcement
2018 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee *	10.0 %	**	***
2018 Actual Contribution Rates			
Employer:			
Pension ****	14.0 %	18.1 %	18.1 %
Post-employment Health Care Benefits ****	0.0	0.0	0.0
Total Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	12.0 %	13.0 %

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. For 2018, The City's contractually required contribution was $368,857 for the traditional plan. Of this amount $34,331 is reported as accrued wages and benefits.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OPF CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

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

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

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

This Space Intentionally Left Blank

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was $389,299 for 2018. Of this amount $40,510 is reported as accrued wages and benefits.

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

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017 to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share of the City's defined benefit pension plans:

	OPERS	OPF	Total
Proportionate Share of the:			
Net Pension Liability	$3,226,720	$5,005,705	$8,232,425
Proportion of the Net Pension Liability:			
Current Measurement Date	0.02056800%	0.08156000%	0.10212800%
Prior Measurement Date	0.02129100%	0.07934600%	0.10063700%
Change in Proportionate Share	-0.00072300%	0.00221400%	0.00149100%
Pension Expense	$579,420	$542,332	$1,121,752

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OPF	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$3,295	$75,965	$79,260
Changes in assumptions	385,615	218,125	603,740
Changes in employer proportionate share of net pension liability	0	106,545	106,545
Contributions subsequent to the measurement date	368,857	389,299	758,156
Total Deferred Outflows of Resources	$757,767	$789,934	$1,547,701
Deferred Inflows of Resources:			
Differences between expected and actual experience	$63,589	$9,055	$72,644
Changes in employer proportionate share of net pension liability	93,447	261,860	355,307
Net difference between projected and actual earnings on pension plan investments	692,734	173,159	865,893
Total Deferred Inflows of Resources	$849,770	$444,074	$1,293,844

$758,156 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OPF	Total
2019	$233,060	$73,079	$306,139
2020	(104,222)	27,554	(76,668)
2021	(305,043)	(151,797)	(456,840)
2022	(284,655)	(83,720)	(368,375)
2023	0	73,149	73,149
Thereafter	0	18,296	18,296
Total	($460,860)	($43,439)	($504,299)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

OPERS Traditional Plan

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.20%
Domestic Equities	19.00%	6.37%
Real Estate	10.00%	5.26%
Private Equity	10.00%	8.97%
International Equities	20.00%	7.88%
Other investments	18.00%	5.26%
Total	100.00%	5.66%

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability:			
OPERS	$5,112,793	$3,226,720	$1,139,879

Changes between Measurement Date and Report Date There have been no pension plan amendments adopted or changes in assumptions that have impacted the actuarial valuation studies for the pension plan for the measurement date of December 31, 2018.

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

	January 1, 2017	January 1, 2016
Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

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

For the January 1, 2016 valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalent	0.00%	0.00%
Domestic Equity	16.00%	5.21%
Non-US Equity	16.00%	5.40%
Core Fixed Income*	20.00%	2.37%
Global Inflation Protected Securities*	20.00%	2.33%
High Yield	15.00%	4.48%
Real Estate	12.00%	5.65%
Private Markets	8.00%	7.99%
Timber	5.00%	6.87%
Master Limited Partnerships	8.00%	7.36%
Total	120.00%	

Note: Assumptions are geometric
* levered 2x

OPF's Board of Trustees has incorporated the risk parity concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share			
of the net pension liability:			
OPF	$6,939,220	$5,005,705	$3,428,747

Changes between Measurement Date and Report Date There have been no pension plan amendments adopted or changes in assumptions that have impacted the actuarial valuation studies for the pension plan for the measurement date of December 31, 2018.

Note 13 - Defined Benefit Other Postemployment Benefits Plans

Net Other Postemployment Benefits (OPEB) Liability

For 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was $0 for 2018.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description **–** The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OPF provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

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

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

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

Funding Policy **–** The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF 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 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

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

The City's contractually required contribution to OPF was $9,270 for 2018.

Net OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OPF's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS	OPF	Total
Proportionate Share of the:			
Net OPEB Liability	$2,259,813	$4,621,075	$6,880,888
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.02081000%	0.08156000%	0.10237000%
Prior Measurement Date	0.02172953%	0.07934600%	0.10107553%
Change in Proportionate Share	-0.00091953%	0.00221400%	0.00129447%
OPEB Expense	$161,788	$374,562	$536,350

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OPF	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$1,760	$0	$1,760
Changes in assumptions	164,538	450,919	615,457
Changes in employer proportionate share of net OPEB liability	0	91,690	91,690
Contributions subsequent to the measurement date	0	9,270	9,270
Total Deferred Outflows of Resources	$166,298	$551,879	$718,177
Deferred Inflows of Resources:			
Differences between expected and actual experience	$0	$23,307	$23,307
Net difference between projected and actual earnings on OPEB plan investments	168,341	30,418	198,759
Changes in employer proportionate share of net OPEB liability	62,834	0	62,834
Total Deferred Inflows of Resources	$231,175	$53,725	$284,900

$9,270 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OPF	Total
2019	$7,381	$68,317	$75,698
2020	7,381	68,317	75,698
2021	(37,554)	68,317	30,763
2022	(42,085)	68,316	26,231
2023	0	75,921	75,921
Thereafter	0	139,696	139,696
Total	($64,877)	$488,884	$424,007

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00%	1.88%
Domestic Equities	21.00%	6.37%
Real Estate Investment Trust	6.00%	5.91%
International Equities	22.00%	7.88%
Other investments	17.00%	5.39%
Total	100.00%	4.98%

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

This Space Intentionally Left Blank

	1% Decrease (2.85%)	Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability:			
OPERS	$3,002,259	$2,259,813	$1,659,181

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.
Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability			
OPERS	$2,162,159	$2,259,813	$2,360,686

Changes between Measurement Date and Report Date There have been no OPEB plan amendments adopted or changes in assumptions that have impacted the actuarial valuation studies for health care for the measurement date of December 31, 2018.

Actuarial Assumptions – OPF

OPF's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OPF's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5
Single discount rate:	
Currrent measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

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

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

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

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalent	0.00%	0.00%
Domestic Equity	16.00%	5.21%
Non-US Equity	16.00%	5.40%
Core Fixed Income*	20.00%	2.37%
Global Inflation Protected Securities*	20.00%	2.33%
High Yield	15.00%	4.48%
Real Estate	12.00%	5.65%
Private Markets	8.00%	7.99%
Timber	5.00%	6.87%
Master Limited Partnerships	8.00%	7.36%
Total	120.00%	

Note: Assumptions are geometric
* levered 2x

OPF's Board of Trustees has incorporated the risk parity concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OPF's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the Net OPEB Liability			
OPF	$5,776,400	$4,621,075	$3,732,104

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability			
OPF	$3,589,734	$4,621,075	$6,010,974

Changes between Measurement Date and Report Date There have been no OPEB plan amendments adopted or changes in assumptions that have impacted the actuarial valuation studies for health care for the measurement date of December 31, 2018.

Note 14 - Contingencies

Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2018.

Contracts

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

Litigation

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

Contingent Liability

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's project share was 5,000 kilowatts (kW) of a total 771,281 kW, giving the City a 0.65 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share of the impaired costs at March 31, 2014 was $870,487. The City received a credit of $226,124 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of $644,363. On May 31, 2017, the City repaid the full AMPGS net impaired costs liabililty due.
In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

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

County site property.

Note 15 - 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	Other Governmental Funds	Total
Nonspendable:			
Inventory	$32,881	$138,888	$171,769
Prepaids	30,237	15,413	45,650
Unclaimed funds	2,856	0	2,856
Muni Park Trust	0	20,000	20,000
Total Nonspendable	65,974	174,301	240,275
Restricted for:			
Street	0	97,895	97,895
State Highway	0	15,175	15,175
Street Sales Tax	0	21,636	21,636
Health	0	340,466	340,466
Park	0	265,195	265,195
Rehab Escrow CDBG	0	7,009	7,009
Court Probation	0	17,001	17,001
Law Enforcement Trust	0	15,572	15,572
Court IDAT	0	38,943	38,943
Court Enforcement and Education	0	16,798	16,798
DARE	0	3,360	3,360
Police Computer	0	4,630	4,630
Court IDAM	0	41,378	41,378
CDBG General	0	15,044	15,044
Home Program	0	1,276	1,276
Police Pension	0	85,639	85,639
Fire Pension	0	114,136	114,136
Shade Tree Trust	0	2,868	2,868
Fire Damage	0	4,000	4,000
Debt Service	0	510,493	510,493
Capital Projects	0	2,247,490	2,247,490
Muni Park Trust	0	5,673	5,673
Total Restricted	0	3,871,677	3,871,677
Assigned to:			
Encumbrances	80,015	0	80,015
Budgetary Variance	351,905	0	351,905
Police Equipment	0	19,655	19,655
Total Assigned	431,920	19,655	451,575
Unassigned (Deficit)	545,508	0	545,508
Total Fund Balance	$1,043,402	$4,065,633	$5,109,035

Note 16 – Tax Abatements

As of December 31, 2018, the City provides tax abatements through the Community Reinvestment Area (CRA) and Ohio Enterprise Zone Area (EZA) Program:

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

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

Tax Abatement Programs	City's Share of Taxes Abated
Community Reinvestment Area:	$7,996
Enterprise Zone Area:	62,374
	$70,370

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

Note 17 – Implementation of New Accounting Principles and Restatement of Net Position

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishments.*

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements, and added required supplementary information which can be found following these notes to the basic financial statements.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the City.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the City.

The City had a restatement of capital assets due to the City having an appraisal.

A net position restatement is required in order to implement GASB Statement No. 75 and restate capital assets. The governmental activities and business-type activities at January 1, 2018 have been restated as follows:

	Governmental Activities	Business-Type Activities
Net position as previously reported	$17,394,779	$32,195,507
Adjustments:		
Net OPEB Liabililty	(4,607,261)	(1,353,872)
Deferred Outflow		
Payments Subsequent to Measurement Date	20,951	19,651
Restatement of Capital Assets	(4,244,686)	(8,003,805)
Restated Net Position January 1, 2018	$8,563,783	$22,857,481

This Space Intentionally Left Blank

	Enterprise Funds		
	Water	Sewer	Electric
Net position as previously reported	$8,814,916	$8,500,578	$14,906,477
Adjustments:			
Net OPEB Liabililty	(499,779)	(378,428)	(475,665)
Deferred Outflow			
Payments Subsequent to Measurement Date	7,254	5,493	6,904
Restatement of Capital Assets	(1,066,213)	(3,532,954)	(3,404,638)
Restated Net Position January 1, 2018	$7,256,178	$4,594,689	$11,033,078

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement has no effect on fund balances.

This Space Intentionally Left Blank

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

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

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

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

See accompanying notes to the required supplementary information.

City of Shelby, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Property and Other Taxes	$528,498	$559,005	$586,355	$27,350
Charges for Services	891,918	943,402	989,560	46,158
Investment Earnings	47,265	49,993	52,439	2,446
Intergovernmental	299,210	316,482	331,966	15,484
Fines, Licenses & Permits	160,430	169,691	177,993	8,302
Other Revenues	183,223	193,799	203,281	9,482
Total Revenues	2,110,544	2,232,372	2,341,594	109,222
Expenditures:				
Current:				
General Government	1,136,759	1,151,587	1,055,527	96,060
Public Safety	3,334,061	3,377,552	3,095,812	281,740
Community Development	47,507	48,126	44,112	4,014
Transportation and Street Repair	40,108	40,631	37,242	3,389
Total Expenditures	4,558,435	4,617,896	4,232,693	385,203
Excess of Revenues Over (Under) Expenditures	(2,447,891)	(2,385,524)	(1,891,099)	494,425
Other Financing Sources (Uses):				
Transfers In	2,081,906	2,202,079	2,309,820	107,741
Transfers (Out)	(420,014)	(425,493)	(390,000)	35,493
Total Other Financing Sources (Uses)	1,661,892	1,776,586	1,919,820	143,234
Net Change in Fund Balance	(785,999)	(608,938)	28,721	637,659
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	625,659	625,659	625,659	0
Fund Balance End of Year	($160,340)	$16,721	$654,380	$637,659

See accompanying notes to the required supplementary information.

Note 1 – Budgetary Process

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

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

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

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

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

2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

3. Encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (GAAP).

4. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

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

Net Change in Fund Balance

	General
GAAP Basis	$418
Revenue Accruals	(2,484,350)
Expenditure Accruals	312,411
Transfers In	2,309,820
Transfers (Out)	(10,000)
Encumbrances	(99,578)
Budget Basis	$28,721

Note 2 – Pension Plans

Ohio Public Employees Retirement System (Traditional Plan) - Pension

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

Changes in assumptions:

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

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

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

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

Ohio Police and Fire Pension Fund - Pension

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

Changes in assumptions:

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

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

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

CITY OF SHELBY
RICHLAND COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

FEDERAL GRANTOR *Passed Through Grantor* Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Ohio Department of Transportation			
Highway Planning and Construction Cluster	20.205	438669	$ 102,447
Highway Planning and Construction Cluster	20.205	97939	108,700
Highway Planning and Construction Cluster	20.205	106258	44,010
Total Highway Planning and Construction Cluster			255,157
Total U.S. Department of Transportation			**255,157**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through the Ohio Development Services Agency			
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228	A-C-16-2DQ-1	321,612
Home Investment Partnerships Program	14.239	A-C-16-2DQ-2	211,988
Total U.S. Department of Housing and Urban Development			**533,600**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Ohio Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	6 B04MC30634-01-04	4,000
Total U.S. Department of Health and Human Services			**4,000**
U.S. DEPARTMENT OF AGRICULTURE			
Direct Grant			
Community Facilities Loans and Grants	10.766	N/A	50,000
Total U.S. Department of Agriculture			**50,000**
U.S. DEPARTMENT OF JUSTICE			
Direct Grant			
Bulletproof Vest Partnership Program	16.607	N/A	816
Total U.S. Department of Justice			**816**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 843,573**

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Shelby, Richland County, Ohio, (the City) under programs of the federal government for the year ended December 31, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street, 5th Floor
Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Shelby, Richland County, Ohio, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 24, 2019; wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and restated January 1, 2018 net position due to a capital asset appraisal.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider finding 2018-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2018-002 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

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

City's Responses to Findings

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

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

September 24, 2019

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street, 5th Floor
Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the City Council:

Report on Compliance for the Major Federal Programs

We have audited the City of Shelby, Richland County, Ohio, (the City's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the City's major federal programs for the year ended December 31, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal programs.

Management's Responsibility

The City's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Programs

In our opinion, the City of Shelby, Richland County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

September 24, 2019

CITY OF SHELBY
RICHLAND COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2018

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material weaknesses in internal control reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	CFDA #20.205 – Highway Planning and Construction Cluster CFDA #14.228 – Community Development Block Grants (CDBG)
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR §200.520?**	No

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

FINDING NUMBER 2018-001

Financial Statement Presentation – Material Weakness

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

The City does not have sufficient internal controls in place for tracking capital assets purchased and utilized by the City and for accurate financial reporting of capital assets. As a result, the following adjustments were made to amounts reported in 2018 for the Sewer Fund and Business-Type Activities:

- Construction in Progress additions were increased by $625,284.
- Construction in Progress deletions were reduced by $2,003,292.
- Buildings and Improvements additions were reduced by $627,023.
- Equipment additions were reduced by $1,148,229.
- Infrastructure additions were reduced by $228,040.
- Depreciation expense and accumulated depreciation was reduced by $52,162.

Also, a re-appraisal of all City-owned capital assets was conducted during 2018. As a result of this appraisal, January 1, 2018 capital asset balances were restated and decreased by $4,244,686 in Governmental Activities and $8,003,805 in Business-Type Activities due to several assets which were disposed in prior years but were not properly removed from the City's capital asset listing.

In addition to the capital asset issues discussed above, the financial statements were adjusted to re-allocate $121,635 in accounts receivable from the Electric Fund to the Water Fund, and two immaterial misstatements not requiring adjustment to the financial statements were brought to management's attention.

Failure to accurately and timely update capital asset records could result in theft or loss of property without management's detection. Also, by not ensuring proper financial statement presentation the City is unable to report accurate financial activity to its constituents.

We recommend the City implement internal control procedures to accurately track capital assets and properly update the detailed capital asset records. This will not only ensure capital assets reported in the financial statements are accurate, but will ensure adequate insurance coverage is obtained for City owned property. We further recommend the County implement additional procedures to provide assurance over the completeness and accuracy of information recorded in their accounting records and reported within the financial statements.

Officials' Response:

See Corrective Action Plan.

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

FINDING NUMBER 2018-002

Municipal Court – Monthly Bank Reconciliations
Significant Deficiency

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

From September 2017 - November 2018, the Clerk of Courts did not complete monthly bank to book reconciliations for the Municipal Court's civil and criminal bank accounts, and consequently management did not review reconciliations. The December 2018 reconciliations completed for the criminal and civil bank accounts showed unreconciled balances of $3,621 and ($3,733), respectively.

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

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

Officials' Response:

See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None.

This page intentionally left blank.

Shelby City Hall
43 W. Main St. · Shelby, Ohio 44875
419-347-5131 · FAX 419-347-1193

Shelby OHIO EST. 1834

STEVEN L. SCHAG, Mayor
GORDON M. EYSTER, Director of Law
STEVEN T. LIFER, Director of Finance

CORRECTIVE ACTION PLAN

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	All city departments will be required to report additions or deletions of their capital assets on an annual basis. Department supervisors will have the responsibility for this reporting. A semi-annual notice will be sent to all supervisors as a reminder of this responsibility.	October 2019	Steven Lifer, Director of Finance
2018-002	The court will maintain monthly spreadsheets for reconciliations for both bank account, to be reviewed by the Judge upon completion each month.	October 2019	Shannon Small, Clerk of Courts

This page intentionally left blank.

Shelby City Hall
43 W. Main St. · Shelby, Ohio 44875
419-347-5131 · FAX 419-347-1193

Shelby OHIO EST. 1834

STEVEN L. SCHAG, Mayor
GORDON M. EYSTER, Director of Law
STEVEN T. LIFER, Director of Finance

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
DECEMBER 31, 2018

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

This page intentionally left blank.

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
NOVEMBER 7, 2019