

**CITY OF SHELBY  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**



**CITY OF SHELBY, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR YEAR ENDED JUNE 30, 2011**

**TABLE OF CONTENTS**

<u>Exhibit</u>		<u>Page</u>
	<b>Introductory Section</b>	
	Letter of Transmittal	i-vi
	GFOA Certificate of Achievement for Excellence in Financial Reporting	vii
	Organizational Chart	viii
	List of Principal Officials	ix
	<b>Financial Section</b>	
	<b>Independent Auditors' Report</b>	1-2
	<b>Management's Discussion and Analysis</b>	3-12
	<b>Basic Financial Statements:</b>	
A	Statement of Net Assets	13
B	Statement of Activities	14-15
C	Balance Sheet - Governmental Funds	16
D	Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	17
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances - Governmental Funds to the Statement of Activities	18
F	General Fund - Statement of Revenues, Expenditures, and Changes In Fund Balances - Budget and Actual	19
G	Statement of Net Assets - Proprietary Funds	20
H	Statement of Revenues, Expenses, and Changes In Fund Net Assets - Proprietary Funds	21

# CITY OF SHELBY, NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2011

### TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
I	Statement of Cash Flows - Proprietary Funds	22-23
	Notes to the Financial Statements	24-62
<u>Schedule</u>		<u>Page</u>
	<b>Supplementary Information:</b>	
A-1	Law Enforcement Officers' Special Separation Allowance - Required Supplementary Information	63
A-2	Other Post-Employment Benefits - Retiree Health Plan - Required Supplementary Information	64
	<b>General Fund:</b>	
B-1	General Fund - Schedule of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual	65-68
	<b>Nonmajor Governmental Funds:</b>	
C-1	Combining Balance Sheet	69
C-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	70
	<b>Nonmajor Special Revenue Fund:</b>	
D-1	Economic Development Commission Fund - Schedule of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual	71
	<b>Capital Project Fund:</b>	
E-1	Capital Projects Fund - Nonmajor Capital Projects Fund - Schedule of Revenues and Expenditures - Budget and Actual	72
	<b>Nonmajor Permanent Fund:</b>	
F-1	Combining Balance Sheet	73
F-2	Combining Statement of Revenues, Expenses, and Changes In Fund Balances	74

# CITY OF SHELBY, NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2011

### TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	<b>Proprietary Funds - Enterprise Funds:</b>	
G-1	Water - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	75-76
G-2	Water Capital Projects Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	77
G-3	Sewer - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	78-79
G-4	Sewer Capital Projects Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	80
G-5	Electric - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	81-82
G-6	Electric Capital Projects Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	83
G-7	Electric Capital Reserve Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	84
G-8	Gas - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	85-86
G-9	Gas Capital Projects Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	87
G-10	Housing Assistance Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	88

# CITY OF SHELBY, NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2011

### TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	<b>Other Supplemental Information:</b>	
H-1	Schedule of Ad Valorem Taxes Receivable	89
H-2	Analysis of Current Year Tax Levy - All Districts	90
H-3	Analysis of Current Year Tax Levy - City-Wide Levy	91
H-4	Analysis of Current Year Tax Levy - Municipal Service District Levy	92
I-1	Financial Data Schedule - Balance Sheet	93
I-2	Financial Data Schedule - Revenues and Expenses	94
I-3	Statement of Program Costs - Completed	95-96
	<b>Statistical Section</b>	
	Net Assets by Component	97
	Changes in Net Assets by Component	98-99
	Fund Balances of Governmental Funds	100
	Changes in Fund Balance of Governmental Funds	101
	General Government Tax Revenues by Source	102
	Assessed Value and Actual Value of Taxable Property	103
	Direct and Overlapping Governments	104
	Principal Property Taxpayers	105
	Property Tax Levies and Collections	106
	Ratios of Outstanding Debt by Type	107
	Ratios of General Bonded Debt Outstanding	108
	Direct and Overlapping Activities Debt	109
	Legal Debt Margin Information	110
	Computation of Legal Debt Margin	111
	Pledged-Revenue Coverage	112
	Demographic and Economic Statistics	113
	Principal Employers	114
	Full-Time Equivalent City Employees by Function	115
	Operating Indicators by Functions	116
	Capital Asset Statistics by Function	117

**CITY OF SHELBY, NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR YEAR ENDED JUNE 30, 2011**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Compliance Section</b>	
Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	118-119
Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major Federal Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	120-121
Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major State Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	122-123
<b>Schedule of Findings:</b>	
Schedule of Findings and Questioned Costs	124-129
Summary Schedule of Prior Year's Audit Findings	130
Schedule of Expenditures of Federal and State Awards	131-132

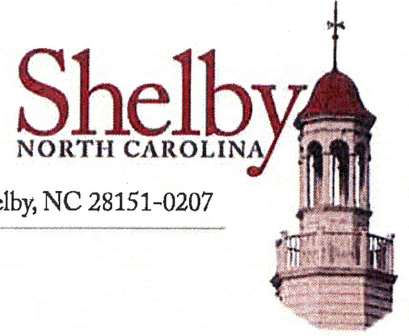






# **INTRODUCTORY SECTION**





Post Office Box 207 • Shelby, NC 28151-0207

February 6, 2012

To the Honorable Mayor, Member of City Council,  
and Citizens of the City of Shelby:

State law requires that all municipal governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Shelby for the fiscal year ended June 30, 2011.

This report consists of management's representation concerning the finances of the City of Shelby. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Shelby has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Shelby's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Shelby's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The independent certified public accounting firm of Martin Starnes and Associates, CPA's, P.A. has audited the City of Shelby's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Shelby for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Shelby's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Shelby was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's

[www.cityofshelby.com](http://www.cityofshelby.com)

internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

GAAP requires the management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Shelby's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Shelby was incorporated in 1843 and serves as the county seat of Cleveland County. The City lies in the piedmont region of North Carolina approximately 40 miles west of Charlotte. The City was named after Colonel Isaac Shelby, who fought in the Revolutionary War and was a revolutionary war hero and later became the governor of Kentucky. The City has a population of approximately 20,000 and presently covers a land area of 21.29 square miles. The City of Shelby is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has a council/manager form of government. The City Council ("Council") is the policy making and legislative body of city government and includes a mayor and six council members. The Mayor and Council are elected at-large on a non-partisan basis and serve staggered four-year terms. Elections are held in October of odd numbered years. The City Manager, the chief administrative officer, is appointed by and serves at the pleasure of the Council and is responsible for carrying out the policies and ordinances of the Council and administering the daily operations and programs of the City through appointed department heads and staff members.

The City provides a wide range of services for its citizens, including law enforcement, fire prevention and suppression, planning and developmental services, solid waste and recycling collection, street maintenance, public cemeteries, airport operations, cultural and recreational activities, general administration, and public housing. In addition to these general government activities, the City provides and maintains water, sewer, electric, and natural gas utilities for the benefit of its citizens. This report includes all of the City's fiscal activities in maintaining these services. The City also extends financial support to certain boards, agencies and commissions to assist their efforts in serving citizens. Among these are the Cleveland County Arts Council, Destination Cleveland County, Chamber of Commerce, Foothills Economic Development Corporation and the Uptown Shelby Association.

The annual budget serves as the foundation for the City of Shelby's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager who is also the City's Budget Officer. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review. The Council is required to hold a public hearing on the

proposed budget and to adopt a final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function and department. The City Manager is authorized to make transfers of appropriation within a department he believes necessary. The City Manager is also authorized to make interdepartmental transfers in the same fund, as long as the transfer is less than ten percent of the appropriated monies for the department whose allocation is being reduced. Interdepartmental transfers of more than ten percent or interfund transfers require Council authorization. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this is part of the basic financial statements. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the combining and individual fund statements and schedules sections. Also included are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Shelby operates.

**Local economy.** Located in the middle of the County, the City is situated between two of the largest metropolitan areas of the Carolinas – the Charlotte region and the Greenville/Spartanburg region. Four-lane US Highway 74 transects the County and provides direct access to Charlotte and Asheville, four interstate highways, and four major seaports. The City's proximity to Charlotte, the region's commercial, financial and trucking center, also provides access to one of the nation's largest international airports.

The County has a diverse industrial base with no dependence on any one industry. Products manufactured in the County include textiles, fiberglass, tissue paper, truck cabs, transmissions, aircraft parts, metal fabrication, electric motors, military armor and production equipment. Large manufacturers with facilities located in the County include PPG Industries, Clearwater Paper Corporation, Ultra Machine & Fabrication, Specialty Lighting and FAS Controls. Several of these are located inside the City and most of these industries are served by at least one of the City's utilities. The City is served by Cleveland Regional Medical Center, a 240 bed medical facility with approximately 1,000 employees that is one of the City's top five utility customers. The availability of an educated work force is always a concern to any new business or industry desiring to locate within the County. Vocational education programs offered through the public schools, Cleveland Community College, and Gardner Webb University support job training in the County.

The County, having a traditional manufacturing base, was hit hard by the recent recession. During FY 2009 and 2010, Shelby like the rest of the nation has seen a number of lay-offs in its manufacturing base. But the City has had a number of positive things happen during the couple of years.

Completion of the development of the Foothills Commerce Center during fiscal year 2010-2011 is a major accomplishment for the City. This 152 acre business park partnership with Cleveland County ensures the availability of a quality economic development product that is being effectively marketed to both new and existing industry. The City received a significant grant from the NC Department of Commerce for the construction of interior roads, storm drainage systems, water and wastewater infrastructure. A city owned electric line extension was also completed which allow service to the entire business park. The City also received verification from the NC Department of Commerce that the Foothills Commerce Center was awarded the designation as a “Certified Business Park”. Ultimately this designation lets potential industrial clients know that the City has completed the upfront due diligence on the site.

The City also was awarded a \$1,000,000 grant from the Golden Leaf Foundation Community Assistance Initiative to be used toward the construction of a 100,000 square foot speculative shell building to be built in the Foothills Commerce Center. This building is a partnership between the City, as lead partner, Cleveland County and the Golden Leaf Foundation. Each partner committed to \$1,000,000 toward the project. Construction began on the shell building in February 2011 and was completed in September 2011.

The City received good economic development news in Spring 2011 as Curtis Wright Flight Controls announced a \$12,000,000 investment to expand of an existing facility inside the city limits. Curtis Wright Flight Controls designs and manufactures equipment related to the aerospace industry. Clearwater Paper Corporation which announced a \$300,000,000 investment in a tissue manufacturing and warehouse facility just outside the city limits in June 2010 has completed phase I of this project. Phase II of the project is now under construction and is expected to be completed at the end of calendar year 2012. Once completed the nearly 1,000,000 square foot facility would employ between 250-300 people at an average wage above what is currently found in the County. Clearwater will, once fully operational, become the City’s largest water, sewer and natural gas customer. The company manufactures a variety of household tissues for private label customers throughout the United States. The Shelby facility will be there first manufacturing plant in the southeast.

Phase I of the City Park sports complex was completed in the Spring 2011. The complex includes three large baseball fields, walking trails, expanded parking facilities, picnic shelter and a playground. The complex is specifically designed to accommodate youth and adult baseball and softball tournaments in order to attract visitors from around the region. The complex is a small piece of the puzzle being put together by the City as it seeks to diversify the view of economic development and promote alternatives to manufacturing and traditional industry

**Long-term financial planning.** The City of Shelby completed a Strategic Growth Plan in FY 2005, adopted by City Council in FY 2006. The strategic plan identified key quality of life issues that the City will focus its efforts on over the next 10 years. These issues range from community appearance to economic development to infrastructure. These issues are expected to have a financial component that will help the City determine budget priorities for future years.

The City Council approved the Center City Master Plan in FY 07. The report is the product of a successful partnership led by the City of Shelby with substantial assistance from the Uptown Shelby Association, Destination Cleveland County, and many citizens and stakeholders from the community. The plan will serve as a flexible blueprint for the future. It will be a way to channel investment, build community pride and focus, and help organizations understand how their role in the community relates to others.

In FY 2009 the City Council approved a Comprehensive Parks and Recreation Master Plan. The plan will provide a framework for guiding the City in both its current evaluation, and long-range planning for the parks and recreation system for the City. The plan also makes recommendations for addition or renovations of park and recreational facilities, as well as recommendation on programs. A key objective of the comprehensive plan was the solicitation of community input helping identify the needs of the City's park and recreation system.

**Financial Information.** The budget is an integral part of a local government's accounting system and daily operations. The City, in accordance with North Carolina General Statutes, operates its financial systems under an act known as the "Local Government Budget and Fiscal Control Act" (LGBFCA) which provides extensive budgetary controls. The object of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Multi-year capital project budget ordinances are authorized for projects that extend into two or more fiscal years. The level of budgetary control is at the departmental level within each fund. The City also maintains an encumbrance accounting system as one method of maintain budgetary control. Encumbrance amounts lapse at year-end but are re-appropriated as part of the following year's budget.

In accordance with the LGBFCA, the City's budget is prepared on the modified accrual basis; and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a fund liability is incurred, except for un-matured principal and interest on long-term debt and certain compensated absences, claims and judgments. Governmental fund types are reported on the modified accrual basis in the fund financial statements. The Proprietary Funds are reported on the full accrual basis in the financial statements, under which revenues are recorded when earned and expenditures are recorded when incurred. The City regularly reviews revenues and expenditures throughout the fiscal year.

The City is required by the LGBFCA to have an annual independent financial audit. A compliance audit on federal and state financial assistance programs is also required under the federal Single Audit Act of 1984 and the State Single Audit Implementation Act of 1987, and the related U.S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting this audit. The auditors' report on the basic financial statements, fund statements, and schedules are included in the Financial Section of this report. The auditors' reports required as part of a single audit are found in the Compliance Section of this report.



### **Budget Highlights for FY 2011**

The City tax rate of 43.5 cents remained the same for FY 11. Budgeted expenditures in the General Fund are expected to remain flat in FY 12. There were no increases in rates for the City's Water, or Sewer Customers in FY 11. A 7% electric rate increase was implemented across all classes of customer in FY 11. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas Fund. The margin rate was decreased by 5% in FY 2011.

In FY 11 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$965,726. The loan term is 59 months with annual payments, beginning June 2012, with an interest rate of 1.69 percent.

### **AWARDS AND ACKNOWLEDGMENTS**

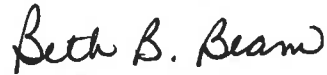
The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the thirteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We wish to thank the Mayor and members of City Council for their support and interest in planning and conducting the financial operations of the City in a responsible and progressive manner. We also thank them for the trust they have given City administration. The preparation of this report has been accomplished through the dedicated efforts of the Finance Department staff and the assistance of the independent auditors, Martin Starnes and Associates, CPA's, P.A. We would like to express our appreciation to all personnel who assisted and contributed to the preparation of this report.

Respectfully submitted,

  
Rick Howell  
City Manager

  
Beth Beam, CPA  
Interim Finance Director



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Shelby  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



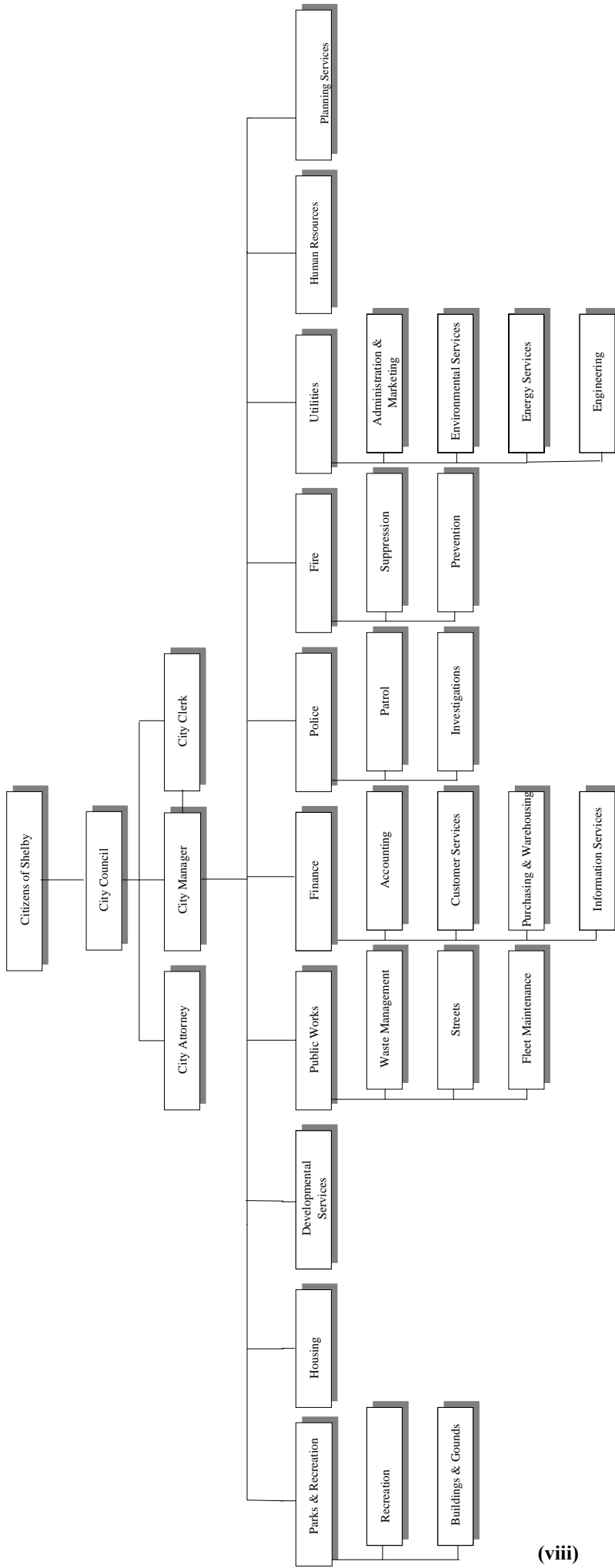
*Linda C. Sandison*

President

*Jeffrey R. Emer*

Executive Director

# City of Shelby Organization Chart



---

**CITY OF SHELBY, NORTH CAROLINA**

List of Principal Officials  
June 30, 2011

---

*Elected Officials*

W. Ted Alexander  
*Mayor*

Christopher H. Mabry

Joel R. Shores, Jr.  
*Mayor Pro Tem*

Dennis C. Bailey

Andrew L. Hopper, Sr.

Jeanette D. Patterson

Oliver Stanhope Anthony, III

*City Administration*

Rick Howell  
*City Manager*

Theodore B. Phillips, CPA  
*Finance Director*

Bernadette A. Parduski  
*City Clerk*

Brad Cornwell  
*Director of Utilities*

Deborah Jolly  
*Human Resources Director*

Jeff Ledford  
*Police Chief*

Charles K. Holtzclaw  
*Director of Parks & Recreation*

Daniel C. Darst  
*Director of Public Works*

William P. Hunt  
*Fire Chief*

Bryan T. Howell  
*Director of Housing*

Walter Scharer, AICP  
*Director Planning Services*

Brian Pruett  
*Director Development Services*

Robert (Bob) Yelton  
*City Attorney*





# **FINANCIAL SECTION**



# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
Shelby, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the City of Shelby ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us and; our opinion, insofar as it relates to the amounts included for the City of Shelby ABC Board, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of June 30, 2011, and the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012 on our consideration of the City of Shelby's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the City of Shelby, North Carolina, as a whole. The introductory section, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, other schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Martin Starnes & Associates, CPAs, P.A.  
February 6, 2012



## Management's Discussion and Analysis

As management of the City of Shelby, we offer readers of the City of Shelby's financial statements this narrative overview and analysis of the financial activities of the City of Shelby for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

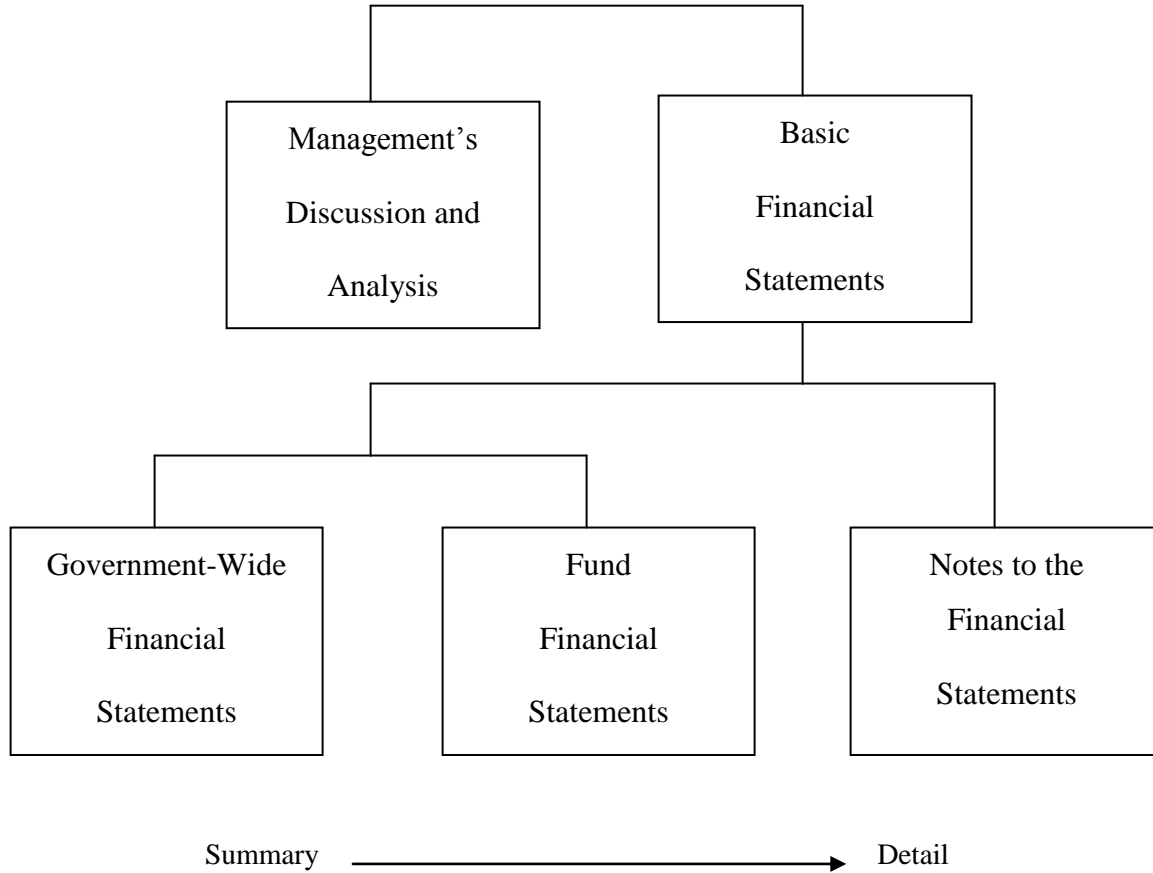
- The assets of the City of Shelby exceed its liabilities at the close of the fiscal year by \$119,632,040 (*net assets*)
- The government's total net assets increased by \$5,990,313, due to increases of \$1,440,535 in governmental activities net assets and \$4,549,778 in business-type activities net assets.
- As of the close of the current fiscal year, the City of Shelby's governmental funds reported combined ending fund balances of \$8,728,314, with a net change in fund balance of \$410,856. Approximately 99 percent of this total amount, or \$8,626,655, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$580,080, or 3.18% percent of total General Fund expenditures and transfers out for the fiscal year.
- In June 2011, the City entered into a financing agreement for the purchase of equipment; the loan proceeds received amounted to \$965,726. The loan term is 59 months, with annual payments beginning June 2012, with an annual interest rate of 1.69 percent.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Shelby's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Shelby.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Following the notes is the **required supplemental information**. This section contains funding information about the City's pension plans.

After the notes, **supplemental information** is provided to show details about the City's funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) the component unit. The governmental activities include most of the City's basic services, such as public safety, parks and recreation, and general administration. Property taxes, local option sales tax, and federal and State grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water, sewer, electric, natural gas, and housing assistance services offered by the City of Shelby. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City, because the City exercises control over the Board by appointing its members, and because the Board is required to distribute its profits to the City.

The government-wide financial statements are on Exhibits A and B of this report.

## **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. 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 of Shelby, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Shelby can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Shelby maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Shelby adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds.** The City of Shelby has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Shelby uses enterprise funds to account for its water, sewer, electric, and natural gas operations, as well as its housing assistance program which the U.S. Department of Housing and Urban Development requires to be accounted for in an Enterprise Fund. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit I of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Shelby's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found beginning on Schedule A-1 of this report.

## Government-Wide Financial Analysis

### City of Shelby's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and other assets	\$ 9,453,755	\$ 9,589,797	\$ 28,193,485	\$ 29,327,317	\$ 37,647,240	\$ 38,917,114
Capital assets, net	33,569,667	32,399,580	91,152,298	86,186,315	124,721,965	118,585,895
Total assets	43,023,422	41,989,377	119,345,783	115,513,632	162,369,205	157,503,009
<b>Liabilities:</b>						
Long-term liabilities	5,719,081	5,594,954	31,976,257	3,082,835	37,695,338	8,677,789
Other liabilities	378,844	909,461	4,662,983	34,274,032	5,041,827	35,183,493
Total liabilities	6,097,925	6,504,415	36,639,240	37,356,867	42,737,165	43,861,282
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	32,851,876	29,008,507	60,461,259	53,425,368	93,313,135	82,433,875
Restricted	5,638,394	1,570,601	-	-	5,638,394	1,570,601
Unrestricted	(1,564,773)	4,905,854	22,245,284	24,731,397	20,680,511	29,637,251
Total net assets	\$ 36,925,497	\$ 35,484,962	\$ 82,706,543	\$ 78,156,765	\$ 119,632,040	\$ 113,641,727

As noted earlier, net assets may serve, over time, as one useful indicator of a government's financial condition. The assets of the City of Shelby exceeded liabilities by \$119,632,040 as of June 30, 2011. The City's net assets increased by \$5,990,313 for the fiscal year ended June 30, 2011. The City's net assets also reflect the investment in capital assets (e.g. land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Shelby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Shelby's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net assets, \$5,638,394, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20,680,511 is unrestricted.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 96.96%.
- Increase in charges for services and operating grants and contributions revenues in the current year.

## City of Shelby's Changes in Net Assets

### Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>						
Program revenues:						
Charges from services	\$ 1,957,132	\$ 1,650,495	\$ 42,113,871	\$ 41,145,180	\$ 44,071,003	\$ 42,795,675
Operating grants and contributions	1,173,468	593,214	573,644	475,828	1,747,112	1,069,042
Capital grants and contributions	1,012,581	1,819,734	2,915,339	1,424,460	3,927,920	3,244,194
General revenues:						
Property taxes	7,663,452	7,587,256	-	-	7,663,452	7,587,256
Other taxes	4,408,917	4,707,923	-	-	4,408,917	4,707,923
Investment earnings	142,588	173,153	111,233	224,622	253,821	397,775
Total revenues	<u>16,358,138</u>	<u>16,531,775</u>	<u>45,714,087</u>	<u>43,270,090</u>	<u>62,072,225</u>	<u>59,801,865</u>
<b>Expenses:</b>						
General government	3,258,195	2,311,739	-	-	3,258,195	2,311,739
Public safety	9,700,978	9,669,122	-	-	9,700,978	9,669,122
Transportation	2,481,039	2,531,874	-	-	2,481,039	2,531,874
Environmental protection	1,479,341	1,444,098	-	-	1,479,341	1,444,098
Cultural and recreational	938,606	1,966,670	-	-	938,606	1,966,670
Housing and redevelopment	266,607	209,377	-	-	266,607	209,377
Interest on long-term debt	73,287	94,652	-	-	73,287	94,652
Water	-	-	3,693,020	3,320,724	3,693,020	3,320,724
Sewer	-	-	3,686,724	3,406,582	3,686,724	3,406,582
Electric	-	-	17,887,877	16,998,802	17,887,877	16,998,802
Gas	-	-	11,453,207	12,806,314	11,453,207	12,806,314
Housing Assistance	-	-	1,163,031	1,083,051	1,163,031	1,083,051
Total expenses	<u>18,198,053</u>	<u>18,227,532</u>	<u>37,883,859</u>	<u>37,615,473</u>	<u>56,081,912</u>	<u>55,843,005</u>
Increase (decrease) in net assets before transfers	(1,839,915)	(1,695,757)	7,830,228	5,654,617	5,990,313	3,958,860
Capital Contributions to Permanent Fund:						
Principal	-	108,084	-	-	-	108,084
Transfers in (out)	<u>3,280,450</u>	<u>2,350,400</u>	<u>(3,280,450)</u>	<u>(2,350,400)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	1,440,535	762,727	4,549,778	3,304,217	5,990,313	4,066,944
<b>Net Assets:</b>						
Beginning of year - July 1	<u>35,484,962</u>	<u>34,722,235</u>	<u>78,156,765</u>	<u>74,852,548</u>	<u>113,641,727</u>	<u>109,574,783</u>
End of year - June 30	<u>\$ 36,925,497</u>	<u>\$ 35,484,962</u>	<u>\$ 82,706,543</u>	<u>\$ 78,156,765</u>	<u>\$ 119,632,040</u>	<u>\$ 113,641,727</u>

**Governmental Activities.** Governmental activities increased the City's net assets by \$1,440,535. Key elements of this increase are as follows:

- Increase in charges for services and operating grants and contributions revenues in the current year.
- Increases in local option sales tax and franchise tax revenues in the current year.
- Transfers from the Gas Fund and Electric Fund for returns on the City's investment.

**Business-Type Activities.** Business-type activities increased the City of Shelby's net assets by \$4,549,778. Key elements of this increase are as follows:

- Increase in water, sewer, and electric rates in the current year.
- Increase in capital grants and contributions revenue which were used in capital acquisitions and construction-in-progress in the current year.

### **Financial Analysis of the City's Funds**

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

**Governmental Funds.** The focus of the City of Shelby's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Shelby's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Shelby. At the end of the current fiscal year, fund balance available in the General Fund was \$4,346,331, while total fund balance reached \$7,920,457. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 23.82% of total General Fund expenditures and transfers to other funds, while total fund balance represents 43.41% of that same amount.

At June 30, 2011, the governmental funds of the City of Shelby reported a combined fund balance of \$8,728,314, an increase of \$410,856 over last year. The primary reasons for this increase are due to an increase in the local option sales tax and franchise tax revenues and the issuance of long-term debt in the amount of \$509,895.

**General Fund Budgetary Highlights.** During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by approximately \$456,170 (2.66%). Amendments were necessary due to conservatism used in compiling the original budget and economic changes.

**Proprietary Funds.** The City of Shelby's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets at the fiscal year-end in the Water Fund were \$3,431,164; in the Sewer Fund were \$493,759; in the Electric Fund were \$4,857,217; and in the Gas Fund were \$11,293,034. Factors of these funds have already been addressed in the discussion of the City of Shelby's business-type activities.

## Capital Asset and Debt Administration

**Capital Assets.** The City of Shelby’s capital assets for its governmental and business–type activities as of June 30, 2011 totaled \$124,721,965 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Transfer of assets from construction in progress to depreciable assets for the Airport Parallel Taxiway Project of \$2,146,032.
- Transfer of assets from construction in progress to depreciable assets for the Airport Terminal Building Project of \$1,447,560.
- Transfer of assets from construction in progress to depreciable assets for the Fueling Station Project of \$489,737.
- Construction in progress of the Park Enhancement Project of \$1,146,065.
- Construction in progress of the Water Treatment Plant FY11 Project of \$267,819.
- Construction in progress of the Chestnut Street CDBG Sewer Project of \$586,900.
- Construction in progress of the Shelby Middle School Sewer Project of \$294,807.
- Construction in progress of the Foothills Commerce Center Project of \$2,846,938.
- Construction in progress of the Electric Line Extension Project of \$438,919.
- Construction in progress of the PPG Meter Station Upgrade Project of \$532,565.
- Purchase of police vehicles in the current year.

### City of Shelby’s Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,982,070	\$ 4,982,070	\$ 471,467	\$ 449,199	\$ 5,453,537	\$ 5,431,269
Buildings and system	13,167,744	10,719,021	41,022,597	40,513,698	54,190,341	51,232,719
Improvements other than buildings	8,300,848	6,154,816	75,597,584	71,790,059	83,898,432	77,944,875
Machinery and equipment	6,394,553	4,917,436	5,350,452	4,936,093	11,745,005	9,853,529
Infrastructure	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Vehicles and motorized equipment	7,743,577	7,114,775	2,546,037	2,403,168	10,289,614	9,517,943
Construction in progress	<u>1,495,555</u>	<u>5,550,282</u>	<u>15,291,500</u>	<u>12,428,899</u>	<u>16,787,055</u>	<u>17,979,181</u>
Subtotal	53,569,222	50,923,275	140,279,637	132,521,116	193,848,859	183,444,391
Accumulated Less: accumulated depreciation	<u>(19,999,555)</u>	<u>(18,523,695)</u>	<u>(49,127,339)</u>	<u>(46,334,801)</u>	<u>(69,126,894)</u>	<u>(64,858,496)</u>
Capital assets, net	<u>\$ 33,569,667</u>	<u>\$ 32,399,580</u>	<u>\$ 91,152,298</u>	<u>\$ 86,186,315</u>	<u>\$ 124,721,965</u>	<u>\$ 118,585,895</u>

Additional information on the City’s capital assets can be found in the notes to the basic financial statements.



**City of Shelby's Outstanding Debt  
Long-Term Debt**

**Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Installment purchase notes	\$ 3,184,759	\$ 3,391,073	\$ 4,044,288	\$ 4,452,105	\$ 7,229,047	\$ 7,843,178
Revenue bonds	-	-	27,298,671	29,281,485	27,298,671	29,281,485
Compensated absences	935,889	1,020,032	261,526	270,242	1,197,415	1,290,274
Net pension obligation	281,812	225,870	-	-	281,812	225,870
Other post-employment benefits	1,316,621	957,979	371,772	270,200	1,688,393	1,228,179
Total	<u>\$ 5,719,081</u>	<u>\$ 5,594,954</u>	<u>\$ 31,976,257</u>	<u>\$ 34,274,032</u>	<u>\$ 37,695,338</u>	<u>\$ 39,868,986</u>

In FY 2011, the City entered into a financing agreement for the purchase of rolling stock; the loan proceeds received amounted to \$965,726. The loan term is 59 months with annual payments, beginning June 2011, with an interest rate of 1.69 percent.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Shelby is \$134,087,083.

Additional information regarding the City of Shelby's long-term debt can be found in the Notes of this audited financial report.

**Economic Factors and Next Year's Budgets and Rates**

- The State of North Carolina unemployment numbers changed from 10.2% in June 2010 to 9.9% in June 2011. Cleveland County's numbers changed from 13.2% in June 2010 to 12.1% in June 2011. Cleveland County's industrial base has been hard hit during the current economic downturn but has seen some steady improvement over the past three years.
- Clearwater Paper Corporation began construction on an announced \$300,000,000 investment in a tissue manufacturing and warehouse facility just outside the City limits in July 2010. Operations of the Phase I portion began in the Spring of 2011. Clearwater, at that time, had hired approximately 100 employees. Phase II began construction in June 2011 and is slated to be completed by the fourth quarter of 2012. Clearwater has tentatively agreed to voluntarily annex the property to take advantage of lower water and sewer rates, as well as being served by a professional fully staffed fire department. Once completed the nearly 1,000,000 square-foot facility would employ between 250-300 people at an average wage above what is currently found in the County. Clearwater will, once Phase II is fully operational, become the City's largest water, sewer, and natural gas customer. The company manufactures a variety of household tissues for private label customers throughout the United States. The Shelby facility will be their first manufacturing plant in the Southeast.

- The Foothills Commerce Center infrastructure improvements were largely complete by the end of June 2011 and are expected to be 100% complete by Fall of 2011. The City received significant grant funding from the NC Department of Commerce for the construction of interior roads, storm drainage systems, water, and wastewater infrastructure. A City owned electric line extension was also completed which allow service to the entire business park. The City also received verification from the NC Department of Commerce that the Foothills Commerce Center was awarded the designation as a “Certified Business Park”. Ultimately, this designation lets potential industrial clients know that the City has completed the upfront due diligence on the site.
- The City also was awarded a \$1,000,000 grant from the Golden Leaf Foundation Community Assistance Initiative to be used toward the construction of a 100,000 square-foot speculative shell building to be built in the Foothills Commerce Center. This building is a partnership between the City, as lead partner, Cleveland County, and the Golden Leaf Foundation. Each partner committed to \$1,000,000 toward the project. Construction began on the shell building in February 2011 and was completed in September 2011.
- The City received good economic development news in the Spring of 2011 as Curtis Wright Flight Controls announced a \$12,000,000 investment to expand an existing facility inside the City limits. Approximately 25 jobs will be created by the company.
- Phase I of the City Park Sports Complex was completed in the Spring of 2011. The complex includes three large baseball fields, walking trails, expanded parking facilities, a picnic shelter, and a playground. The complex is specifically designed to accommodate youth and adult baseball and softball tournaments in order to attract visitors from around the region. The complex is a small piece of the puzzle being put together by the City as it seeks to diversify the view of economic development and promote alternatives to manufacturing and traditional industry

### **Budget Highlights for the Fiscal Year Ending June 30, 2012**

**Governmental Activities.** The City tax rate of 43.5 cents remains the same for FY 2012. Budgeted expenditures in the General Fund are expected to decrease minimally to \$17,157,350 in FY 2012.

**Business-Type Activities.** The City’s water and sewer rates have no increases for FY 2012. Electric wholesale rates charged to the City were increased by 5 percent in both FY 2010 and FY 2011 by North Carolina Power Agency #1. The City electric rates were increased 5% in FY 2012. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas Fund. The margins will not increase in FY 2012.

### **Requests for Information**

This report is designed to provide an overview of the City’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Shelby, PO Box 207, Shelby, North Carolina 28151.



## **BASIC FINANCIAL STATEMENTS**

The basic financial statements for the City of Shelby consist of both government-wide and fund financial statements.



## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental	Business-Type	Total	City of
	Activities	Activities		Shelby ABC Board
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 1,272,641	\$ 17,955,820	\$ 19,228,461	\$ 318,457
Taxes receivable, net	258,874	-	258,874	-
Accounts receivable, net	405,806	4,722,406	5,128,212	-
Loans receivable	87,723	-	87,723	-
Interest receivable	31,586	-	31,586	-
Due from other governments	2,624,478	2,646,845	5,271,323	-
Internal balances	62,036	(62,036)	-	-
Inventories	173,946	1,720,403	1,894,349	509,509
Prepaid items	347,347	40,707	388,054	-
Cash and cash equivalents, restricted	4,189,318	1,169,340	5,358,658	-
Total current assets	<u>9,453,755</u>	<u>28,193,485</u>	<u>37,647,240</u>	<u>827,966</u>
Non-current assets:				
Capital assets, non-depreciable	6,477,625	15,762,967	22,240,592	182,567
Capital assets, net	<u>27,092,042</u>	<u>75,389,331</u>	<u>102,481,373</u>	<u>166,966</u>
Total non-current assets	<u>33,569,667</u>	<u>91,152,298</u>	<u>124,721,965</u>	<u>349,533</u>
Total assets	<u>43,023,422</u>	<u>119,345,783</u>	<u>162,369,205</u>	<u>1,177,499</u>
<b>Liabilities and Net Assets:</b>				
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	372,145	3,928,241	4,300,386	176,734
Accrued interest payable	-	180,185	180,185	-
Due to other governments	1,200	-	1,200	-
Customer deposits	-	517,420	517,420	-
Unearned revenue	5,499	37,137	42,636	-
Current portion of long-term liabilities	<u>1,401,561</u>	<u>2,961,196</u>	<u>4,362,757</u>	<u>-</u>
Total current liabilities	<u>1,780,405</u>	<u>7,624,179</u>	<u>9,404,584</u>	<u>176,734</u>
Long-term liabilities:				
Due in more than one year	<u>4,317,520</u>	<u>29,015,061</u>	<u>33,332,581</u>	<u>-</u>
Total liabilities	<u>6,097,925</u>	<u>36,639,240</u>	<u>42,737,165</u>	<u>176,734</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	32,851,876	60,461,259	93,313,135	349,533
Restricted for:				
Stabilization by State statute	3,904,747	-	3,904,747	-
Perpetual	521,864	-	521,864	-
Streets - Powell Bill	1,211,783	-	1,211,783	-
Working capital	-	-	-	101,255
Unrestricted	<u>(1,564,773)</u>	<u>22,245,284</u>	<u>20,680,511</u>	<u>549,977</u>
Total net assets	<u>\$ 36,925,497</u>	<u>\$ 82,706,543</u>	<u>\$ 119,632,040</u>	<u>\$ 1,000,765</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SHELBY, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 3,258,195	\$ 365,109	\$ 54,817	\$ -
Public safety	9,700,978	22,854	1,098,391	242,177
Transportation	2,481,039	261,461	15,000	314,318
Environmental protection	1,479,341	863,309	-	-
Cultural and recreation	938,606	317,608	5,260	456,086
Housing and redevelopment	266,607	126,791	-	-
Interest on long-term debt	73,287	-	-	-
Total governmental activities	<u>18,198,053</u>	<u>1,957,132</u>	<u>1,173,468</u>	<u>1,012,581</u>
<b>Business-Type Activities:</b>				
Water Fund	3,693,020	3,908,667	104,449	90,120
Sewer Fund	3,686,724	4,485,220	42,700	1,588,515
Electric Fund	17,887,877	18,659,491	-	1,036,347
Gas Fund	11,453,207	14,485,736	12,120	-
Housing Assistance Fund	1,163,031	574,757	414,375	200,357
Total business-type activities	<u>37,883,859</u>	<u>42,113,871</u>	<u>573,644</u>	<u>2,915,339</u>
Total primary government	<u>\$ 56,081,912</u>	<u>\$ 44,071,003</u>	<u>\$ 1,747,112</u>	<u>\$ 3,927,920</u>
<b>Component Unit:</b>				
City of Shelby ABC Board	<u>\$ 2,632,186</u>	<u>\$ 2,642,186</u>	<u>\$ -</u>	<u>\$ -</u>

**General Revenues:**

Property tax  
Sales tax  
Franchise tax  
Other taxes  
Investment earnings  
Total general revenues

Transfers  
Total general revenues and transfers

Change in net assets

**Net Assets:**

Beginning of year - July 1

End of year - June 30

*The accompanying notes are an integral part of the financial statements.*

Exhibit B

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>City of Shelby ABC Board</b>
\$ (2,838,269)	\$ -	\$ (2,838,269)	\$ -
(8,337,556)	-	(8,337,556)	-
(1,890,260)	-	(1,890,260)	-
(616,032)	-	(616,032)	-
(159,652)	-	(159,652)	-
(139,816)	-	(139,816)	-
(73,287)	-	(73,287)	-
<u>(14,054,872)</u>	<u>-</u>	<u>(14,054,872)</u>	<u>-</u>
-	410,216	410,216	-
-	2,429,711	2,429,711	-
-	1,807,961	1,807,961	-
-	3,044,649	3,044,649	-
-	26,458	26,458	-
-	<u>7,718,995</u>	<u>7,718,995</u>	<u>-</u>
<u>(14,054,872)</u>	<u>7,718,995</u>	<u>(6,335,877)</u>	<u>-</u>
-	-	-	10,000
7,663,452	-	7,663,452	-
2,732,493	-	2,732,493	-
1,581,881	-	1,581,881	-
94,543	-	94,543	-
142,588	111,233	253,821	45
<u>12,214,957</u>	<u>111,233</u>	<u>12,326,190</u>	<u>45</u>
<u>3,280,450</u>	<u>(3,280,450)</u>	<u>-</u>	<u>-</u>
<u>15,495,407</u>	<u>(3,169,217)</u>	<u>12,326,190</u>	<u>45</u>
1,440,535	4,549,778	5,990,313	10,045
<u>35,484,962</u>	<u>78,156,765</u>	<u>113,641,727</u>	<u>990,720</u>
<u>\$ 36,925,497</u>	<u>\$ 82,706,543</u>	<u>\$ 119,632,040</u>	<u>\$ 1,000,765</u>

The accompanying notes are an integral part of the financial statements.

## CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,021,138	\$ 251,503	\$ 1,272,641
Receivables, net:			
Taxes	254,336	4,538	258,874
Accounts	394,009	11,797	405,806
Interest	28,009	3,577	31,586
Loans	-	87,723	87,723
Due from other funds	766,451	-	766,451
Due from other governments	1,864,365	760,113	2,624,478
Inventories	173,946	-	173,946
Prepaid items	347,347	-	347,347
Restricted cash and cash equivalents	<u>3,678,751</u>	<u>510,567</u>	<u>4,189,318</u>
Total assets	<u>\$ 8,528,352</u>	<u>\$ 1,629,818</u>	<u>\$ 10,158,170</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 348,059	\$ 24,086	\$ 372,145
Due to other funds	-	704,415	704,415
Due to other governments	-	1,200	1,200
Deferred revenue	<u>259,836</u>	<u>92,260</u>	<u>352,096</u>
Total liabilities	<u>607,895</u>	<u>821,961</u>	<u>1,429,856</u>
<b>Fund Balances:</b>			
Non-spendable:			
Inventories	173,946	-	173,946
Prepays	347,347	-	347,347
Perpetual	-	521,864	521,864
Restricted:			
Stabilization by State statute	3,052,833	851,914	3,904,747
Streets - Powell Bill	1,211,783	-	1,211,783
Unspent debt proceeds	2,466,968	-	2,466,968
Committed:			
Capital projects	-	-	-
Assigned:			
Subsequent year's expenditures	87,500	29,500	117,000
Economic development	-	134,280	134,280
Unassigned	<u>580,080</u>	<u>(729,701)</u>	<u>(149,621)</u>
Total fund balances	<u>7,920,457</u>	<u>807,857</u>	<u>8,728,314</u>
Total liabilities and fund balances	<u>\$ 8,528,352</u>	<u>\$ 1,629,818</u>	

Amounts reported for governmental activities in the Statement of Net Assets  
(Exhibit A) are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	33,569,667
Deferred revenues in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Assets.	346,597
Long-term liabilities, interest payable, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(5,719,081)</u>
Net assets of governmental activities per Exhibit A	<u>\$ 36,925,497</u>

The accompanying notes are an integral part of the financial statements.



## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 7,577,457	\$ 108,071	\$ 7,685,528
Other taxes and licenses	2,733,443	-	2,733,443
Unrestricted intergovernmental	1,837,524	-	1,837,524
Restricted intergovernmental	978,429	954,946	1,933,375
Permits and fees	271,806	-	271,806
Sales and services	1,471,912	-	1,471,912
Investment earnings	116,744	25,844	142,588
Donations	-	47,430	47,430
Miscellaneous	205,926	-	205,926
Total revenues	<u>15,193,241</u>	<u>1,136,291</u>	<u>16,329,532</u>
<b>Expenditures:</b>			
Current:			
General government	1,841,347	1,192,532	3,033,879
Public safety	9,724,016	89,739	9,813,755
Transportation	2,118,500	371,690	2,490,190
Environmental protection	1,277,297	-	1,277,297
Cultural and recreational	2,082,684	-	2,082,684
Housing and redevelopment	-	266,607	266,607
Debt service:			
Principal retirement	716,209	-	716,209
Interest and other charges	82,248	-	82,248
Total expenditures	<u>17,842,301</u>	<u>1,920,568</u>	<u>19,762,869</u>
Revenues over (under) expenditures	<u>(2,649,060)</u>	<u>(784,277)</u>	<u>(3,433,337)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	2,334,350	1,350,150	3,684,500
Transfers to other funds	(404,050)	-	(404,050)
Long-term debt issued	509,895	-	509,895
Proceeds from sale of capital assets	53,848	-	53,848
Total other financing sources (uses)	<u>2,494,043</u>	<u>1,350,150</u>	<u>3,844,193</u>
Net change in fund balances	(155,017)	565,873	410,856
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>8,075,474</u>	<u>241,984</u>	<u>8,317,458</u>
End of year - June 30	<u>\$ 7,920,457</u>	<u>\$ 807,857</u>	<u>\$ 8,728,314</u>

The accompanying notes are an integral part of the financial statements.

## CITY OF SHELBY, NORTH CAROLINA

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 410,856
--	------------

Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:

Property taxes	(22,076)
Miscellaneous revenues	(3,166)

Expenses related to compensated absences, OPEB, and Law Enforcement Officers' Separation Allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(330,441)
--	-----------

Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	2,727,741
--	-----------

The issuance of long-term debt is reported as revenue in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(509,895)
---	-----------

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(1,557,654)
---	-------------

Change in interest payable	8,961
----------------------------	-------

Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>716,209</u>
---	----------------

Change in net assets of governmental activities per Exhibit B	<u>\$ 1,440,535</u>
---	---------------------

*The accompanying notes are an integral part of the financial statements.*

## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 7,498,100	\$ 7,498,100	\$ 7,577,457	\$ 79,357
Other taxes and licenses	2,646,000	2,646,000	2,733,443	87,443
Unrestricted intergovernmental	1,799,650	1,799,650	1,837,524	37,874
Restricted intergovernmental	789,550	841,770	978,429	136,659
Permits and fees	196,300	196,300	271,806	75,506
Sales and services	1,508,550	1,508,550	1,471,912	(36,638)
Investment earnings	100,000	100,000	116,744	16,744
Miscellaneous	140,850	140,850	205,926	65,076
Total revenues	<u>14,679,000</u>	<u>14,731,220</u>	<u>15,193,241</u>	<u>462,021</u>
<b>Expenditures:</b>				
Current:				
General government	2,132,450	2,022,922	1,841,347	181,575
Public safety	9,229,500	9,807,313	9,724,016	83,297
Transportation	2,143,050	2,475,276	2,118,500	356,776
Environmental protection	1,304,200	1,265,200	1,277,297	(12,097)
Cultural and recreational	2,105,150	2,109,357	2,082,684	26,673
Debt service:				
Principal retirement	705,150	705,150	716,209	(11,059)
Interest and other charges	119,550	119,550	82,248	37,302
Total expenditures	<u>17,739,050</u>	<u>18,504,768</u>	<u>17,842,301</u>	<u>662,467</u>
Revenues over (under) expenditures	<u>(3,060,050)</u>	<u>(3,773,548)</u>	<u>(2,649,060)</u>	<u>1,124,488</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,335,000	2,335,000	2,334,350	(650)
Transfers to other funds	(63,700)	(420,750)	(404,050)	16,700
Long-term debt issued	495,150	495,150	509,895	14,745
Proceeds from sale of capital assets	20,000	20,000	53,848	33,848
Appropriated fund balance	273,600	1,344,148	-	(1,344,148)
Total other financing sources (uses)	<u>3,060,050</u>	<u>3,773,548</u>	<u>2,494,043</u>	<u>(1,279,505)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(155,017)</u>	<u>\$ (155,017)</u>
<b>Fund Balances:</b>				
Beginning of year - July 1			<u>8,075,474</u>	
End of year - June 30			<u>\$ 7,920,457</u>	

The accompanying notes are an integral part of the financial statements.

## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 2,969,997	\$ 341,057	\$ 2,986,641	\$ 9,563,326	\$ 2,094,799	\$ 17,955,820
Accounts receivable, net	542,357	607,773	2,751,706	816,093	4,477	4,722,406
Due from other funds	-	-	-	970,000	-	970,000
Due from other governments	64,395	1,425,772	969,029	19,579	168,070	2,646,845
Inventories	277,041	78,181	922,243	442,938	-	1,720,403
Prepaid items	11,906	8,922	7,765	11,872	242	40,707
Total current assets	<u>3,865,696</u>	<u>2,461,705</u>	<u>7,637,384</u>	<u>11,823,808</u>	<u>2,267,588</u>	<u>28,056,181</u>
Non-current assets:						
Restricted cash and cash equivalents	92,951	477,199	261,705	299,335	38,150	1,169,340
Capital assets, non-depreciable	3,089,181	6,502,485	5,324,977	611,913	234,411	15,762,967
Capital assets, net	<u>20,497,384</u>	<u>23,656,429</u>	<u>12,345,423</u>	<u>14,370,763</u>	<u>4,519,332</u>	<u>75,389,331</u>
Total non-current assets	<u>23,679,516</u>	<u>30,636,113</u>	<u>17,932,105</u>	<u>15,282,011</u>	<u>4,791,893</u>	<u>92,321,638</u>
Total assets	<u>27,545,212</u>	<u>33,097,818</u>	<u>25,569,489</u>	<u>27,105,819</u>	<u>7,059,481</u>	<u>120,377,819</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	238,343	735,453	2,596,514	326,356	31,575	3,928,241
Accrued interest payable	46,976	54,438	42,413	36,358	-	180,185
Customer deposits	44,932	44,932	179,726	209,680	38,150	517,420
Due to other funds	1,851	1,027,258	584	1,958	385	1,032,036
Unearned revenue	426	27,035	9,676	-	-	37,137
Compensated absences payable	42,000	33,000	38,000	57,000	23,000	193,000
Current portion of long-term debt	<u>538,179</u>	<u>1,139,923</u>	<u>454,317</u>	<u>635,777</u>	<u>-</u>	<u>2,768,196</u>
Total current liabilities	<u>912,707</u>	<u>3,062,039</u>	<u>3,321,230</u>	<u>1,267,129</u>	<u>93,110</u>	<u>8,656,215</u>
Non-current liabilities:						
Compensated absences payable	19,864	4,990	25,328	10,162	8,182	68,526
Other long-term debt	8,879,557	9,109,929	5,523,162	5,062,115	-	28,574,763
Other post-employment benefits	<u>85,072</u>	<u>85,772</u>	<u>67,652</u>	<u>98,940</u>	<u>34,336</u>	<u>371,772</u>
Total non-current liabilities	<u>8,984,493</u>	<u>9,200,691</u>	<u>5,616,142</u>	<u>5,171,217</u>	<u>42,518</u>	<u>29,015,061</u>
Total liabilities	<u>9,897,200</u>	<u>12,262,730</u>	<u>8,937,372</u>	<u>6,438,346</u>	<u>135,628</u>	<u>37,671,276</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	14,216,848	20,341,329	11,774,900	9,374,439	4,753,743	60,461,259
Unrestricted	<u>3,431,164</u>	<u>493,759</u>	<u>4,857,217</u>	<u>11,293,034</u>	<u>2,170,110</u>	<u>22,245,284</u>
Total net assets	<u>\$ 17,648,012</u>	<u>\$ 20,835,088</u>	<u>\$ 16,632,117</u>	<u>\$ 20,667,473</u>	<u>\$ 6,923,853</u>	<u>\$ 82,706,543</u>

The accompanying notes are an integral part of the financial statements.

## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Operating Revenues:</b>						
Charges for services	\$ 3,678,800	\$ 4,305,828	\$ 18,475,115	\$ 14,341,543	\$ 567,739	\$ 41,369,025
Other fees	101,450	69,850	-	48,055	-	219,355
Other operating revenues	<u>128,417</u>	<u>109,542</u>	<u>184,376</u>	<u>96,138</u>	<u>7,018</u>	<u>525,491</u>
Total operating revenues	<u>3,908,667</u>	<u>4,485,220</u>	<u>18,659,491</u>	<u>14,485,736</u>	<u>574,757</u>	<u>42,113,871</u>
<b>Operating Expenses:</b>						
Administration	660,192	608,883	861,504	1,162,382	343,965	3,636,926
Operations and maintenance	671,117	718,509	16,196,259	9,503,049	621,292	27,710,226
Treatment plant	1,186,921	1,066,621	-	-	-	2,253,542
Depreciation	<u>674,627</u>	<u>848,888</u>	<u>561,641</u>	<u>546,002</u>	<u>197,774</u>	<u>2,828,932</u>
Total operating expenses	<u>3,192,857</u>	<u>3,242,901</u>	<u>17,619,404</u>	<u>11,211,433</u>	<u>1,163,031</u>	<u>36,429,626</u>
Operating income (loss)	<u>715,810</u>	<u>1,242,319</u>	<u>1,040,087</u>	<u>3,274,303</u>	<u>(588,274)</u>	<u>5,684,245</u>
<b>Non-Operating Revenues (Expenses):</b>						
Operating grants	-	-	-	-	414,375	414,375
Refund of interest expense	104,449	42,700	-	12,120	-	159,269
Investment earnings	6,631	19,092	37,999	32,508	15,003	111,233
Interest expense and fiscal charges	<u>(500,163)</u>	<u>(443,823)</u>	<u>(268,473)</u>	<u>(241,774)</u>	<u>-</u>	<u>(1,454,233)</u>
Total non-operating revenues (expenses)	<u>(389,083)</u>	<u>(382,031)</u>	<u>(230,474)</u>	<u>(197,146)</u>	<u>429,378</u>	<u>(769,356)</u>
Income (loss) before capital contributions and transfers	<u>326,727</u>	<u>860,288</u>	<u>809,613</u>	<u>3,077,157</u>	<u>(158,896)</u>	<u>4,914,889</u>
Capital contributions	90,120	1,588,515	1,036,347	-	200,357	2,915,339
Transfers to other funds	<u>-</u>	<u>-</u>	<u>(534,350)</u>	<u>(2,746,100)</u>	<u>-</u>	<u>(3,280,450)</u>
Change in net assets	416,847	2,448,803	1,311,610	331,057	41,461	4,549,778
<b>Net Assets:</b>						
Beginning year - July	<u>17,231,165</u>	<u>18,386,285</u>	<u>15,320,507</u>	<u>20,336,416</u>	<u>6,882,392</u>	<u>78,156,765</u>
End of year - June 30	<u>\$ 17,648,012</u>	<u>\$ 20,835,088</u>	<u>\$ 16,632,117</u>	<u>\$ 20,667,473</u>	<u>\$ 6,923,853</u>	<u>\$ 82,706,543</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Cash Flows from Operating Activities:</b>						
Cash received from customers	\$ 3,897,817	\$ 4,497,364	\$ 18,245,192	\$ 14,713,440	\$ 573,821	\$ 41,927,634
Cash paid for goods and services	(1,698,656)	(1,199,737)	(15,310,875)	(9,706,180)	(608,191)	(28,523,639)
Cash paid to employees	(635,519)	(586,135)	(836,205)	(1,151,975)	(334,236)	(3,544,070)
Net cash provided (used) by operating activities	<u>1,563,642</u>	<u>2,711,492</u>	<u>2,098,112</u>	<u>3,855,285</u>	<u>(368,606)</u>	<u>9,859,925</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from operating grants	-	-	-	-	414,375	414,375
Increase (decrease) in due from other funds	113,829	(1,231,440)	(725,233)	(2,797)	(25,517)	(1,871,158)
Transfers from (to) other funds	-	-	(534,350)	(2,746,100)	-	(3,280,450)
Net cash provided (used) by non-capital financing activities	<u>113,829</u>	<u>(1,231,440)</u>	<u>(1,259,583)</u>	<u>(2,748,897)</u>	<u>388,858</u>	<u>(4,737,233)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(680,431)	(2,366,475)	(3,624,035)	(957,370)	(166,604)	(7,794,915)
Capital contributions - grants	90,120	1,588,515	1,036,347	-	200,357	2,915,339
Proceeds from issuance of long-term debt	3,888	341,893	41,088	68,962	-	455,831
Principal paid on long-term debt	(712,986)	(1,057,488)	(465,314)	(610,674)	-	(2,846,462)
Interest paid on long-term debt	(395,714)	(401,123)	(268,473)	(229,654)	-	(1,294,964)
Net cash provided (used) for capital and related financing activities	<u>(1,695,123)</u>	<u>(1,894,678)</u>	<u>(3,280,387)</u>	<u>(1,728,736)</u>	<u>33,753</u>	<u>(8,565,171)</u>
<b>Cash Flows from Investing Activities:</b>						
Interest received from investments	<u>6,631</u>	<u>19,092</u>	<u>37,999</u>	<u>32,508</u>	<u>15,003</u>	<u>111,233</u>
Net cash provided (used) by investing activities	<u>6,631</u>	<u>19,092</u>	<u>37,999</u>	<u>32,508</u>	<u>15,003</u>	<u>111,233</u>
Net increase (decrease) in cash and cash equivalents	<u>(11,021)</u>	<u>(395,534)</u>	<u>(2,403,859)</u>	<u>(589,840)</u>	<u>69,008</u>	<u>(3,331,246)</u>
<b>Cash and Cash Equivalents:</b>						
Beginning of year - July 1	<u>3,073,969</u>	<u>1,213,790</u>	<u>5,652,205</u>	<u>10,452,501</u>	<u>2,063,941</u>	<u>22,456,406</u>
End of year - June 30	<u>\$ 3,062,948</u>	<u>\$ 818,256</u>	<u>\$ 3,248,346</u>	<u>\$ 9,862,661</u>	<u>\$ 2,132,949</u>	<u>\$ 19,125,160</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>						
Operating income (loss)	\$ 715,810	\$ 1,242,319	\$ 1,040,087	\$ 3,274,303	\$ (588,274)	\$ 5,684,245
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	674,627	848,888	561,641	546,002	197,774	2,828,932
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(36,737)	(14,375)	(261,483)	97,856	2,059	(212,680)
(Increase) decrease in inventories	(21,507)	(458)	5,553	(91,001)	-	(107,413)
(Increase) decrease in prepaids	(939)	(2,570)	(1,207)	(1,873)	77	(6,512)
Increase (decrease) in accounts payable and accrued liabilities	181,828	588,421	881,038	(110,257)	13,024	1,554,054
Increase (decrease) in unearned revenues	426	(7,145)	9,676	-	(4,641)	(1,684)
Increase (decrease) in customer deposits	25,461	33,664	(162,492)	129,848	1,646	28,127
Increase in compensated absences	1,010	(1,615)	6,774	(14,842)	(43)	(8,716)
Increase in other post-employment benefits	23,663	24,363	18,525	25,249	9,772	101,572
Net cash provided (used) by operating activities	<u>\$ 1,563,642</u>	<u>\$ 2,711,492</u>	<u>\$ 2,098,112</u>	<u>\$ 3,855,285</u>	<u>\$ (368,606)</u>	<u>\$ 9,859,925</u>

The accompanying notes are an integral part of the financial statements.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Shelby, North Carolina, (the "City") and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and a six-member Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit described below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

##### City of Shelby ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City of Shelby and Cleveland County. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at the Shelby Board of Alcoholic Beverage Control, 8 West Warren Street, Shelby, North Carolina 28510.

#### B. Basis of Presentation

*Government-Wide Statements.* The Statement of Net Assets and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**Fund Financial Statements.** The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared tax revenues. The primary expenditures are for public safety, streets and highways, sanitation, parks and recreation, and general government services.

The City maintains a separate Powell Bill fund for internal accounting purposes. This fund has been consolidated into the General Fund for reporting purposes.

The City reports the following nonmajor governmental funds:

**Special Revenue Fund.** The Special Revenue Fund accounts for specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the City is the Economic Development Commission Fund.

**Capital Projects Fund.** The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**Permanent Funds.** Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the City. The permanent funds maintained by the City are the Raper Roark Trust Fund, which is used for the redevelopment, revitalization, and beautification of downtown Shelby, and the Cemetery Fund, which is used to account for the perpetual care of the municipal cemetery.

The City reports the following major enterprise funds:

**Water Fund.** The Water Fund is used to account for the activities associated with the production, distribution, and transmission of potable water by the City to its users.

**Sewer Fund.** The Sewer Fund is used to account for the activities associated with operating and maintaining the City's sewer systems.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**Electric Fund.** The Electric Fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.

**Gas Fund.** The Gas Fund is used to account for the activities associated with the distribution of natural gas by the City to its users.

The City reports the following nonmajor Enterprise Fund:

**Housing Assistance Fund.** The Housing Assistance Fund is used to account for the activities associated with housing projects for low-income persons, including families, elderly and/or handicapped persons. Funding is from the City and the U.S. Department of Housing and Urban Development.

### C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

**Government-Wide and Proprietary Fund Financial Statements.** The government-wide and proprietary fund statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements.** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cleveland County is responsible for billing and collecting the property taxes on

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Cleveland County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are recognized as revenue when received and are not susceptible to accrual because, generally, they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

On-behalf payments made by the State to the Firemen's and Rescue Squad Workers' Pension Plan for the City firemen are recognized as revenues and expenditures during the period in which the State makes the contributions to the plan. Also, the State's contributions to the Firemen's Relief Fund, which have been spent by the local board of trustees for various salary supplements and stipends for employees and volunteers, have been recognized as revenues and expenditures during the period in which those payments were received.

As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, that do not contradict Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting practices for its proprietary operations and business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and charges between the City's utility enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **D. Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **E. Budgetary Data**

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general, special revenue, enterprise funds, and the electric capital reserve funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the capital projects funds and water, sewer, electric, and gas capital projects funds. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds, funding source level for multi-year capital projects funds, and fund level for enterprise capital project funds. The City Manager is authorized to transfer appropriations between functional areas up to 10% of the appropriation for the department whose allocation is reduced; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is also authorized to transfer between projects that are budgeted in the same Capital Project Fund, transferring any remaining balances from any Capital Project upon its completion to the corresponding Reserve Fund. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year, or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### **F. Assets, Liabilities, and Net Assets/Fund Balances**

#### **Deposits and Investments**

All deposits of the City and its component unit are made in Board-designated official depositories and are secured or required by State law [G.S. 159-31]. The City and its component unit may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and its component unit may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30 (c)] authorizes the City and its component unit to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), a SEC-registered (2a-7) money market mutual fund.

The City and its component unit's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **Cash and Investments**

The City pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, cash and investments (including restricted assets) include cash on hand, demand deposits, short-term investments with a maturity of three months or less when purchased, and long-term investments with a maturity of greater than three months when purchased. Cash on hand, demand deposits, and highly liquid investments with a maturity of three months or less when purchased are considered to be cash and cash equivalents.

### **Restricted Assets**

Certain investments in the governmental and enterprise funds have been restricted and represent the unspent portion of grants, bond proceeds, or installment purchases because their use is completely restricted to the purpose for which the monies were originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

### **Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2010. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

### **Allowance for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and management's assessment of current conditions.

### **Inventory and Prepaid Items**

Inventories of the City and its component unit are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures when used rather than when purchased.

The inventories of the City's enterprise funds consist of materials and supplies held for consumption. The ABC Board's inventories consist of materials and supplies held for sale to customers. The cost of the City's and the ABC Board's inventories are recorded as an expense as the inventories are consumed or sold.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2002, consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets, except for land and construction in progress, are depreciated on the straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings and other improvements	30 to 50 years
Machinery and equipment	4 to 10 years
Vehicles	5 to 7 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building	20 years
Office and store equipment	4 to 10 years
Vehicles	4 years

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund. Material bond premiums and discounts, as well as material issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

### **Compensated Absences**

The vacation policy of the City provides for the accumulation of up to 288 hours for general employees. Employees in the fire department can earn up to 382 hours, and employees of the police department can earn up to 308 hours of earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. All accrued compensated absences have been deemed to be due in more than one year.

Employees of the ABC Board receive vacation pay based on a scale determined by the Board. Vacation is earned in one year to be taken in the following year. If it is not taken by the end of the following year, it is paid to the employee. No liability for vacation pay existed as of June 30, 2011.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in determination of length of service for retirement benefit purposes. Since the City has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave for the City employees has been made.

Employees of the ABC Board can accumulate up to 130 days of sick leave at the rate of one day per month. Sick leave may be used in determination of length of service for retirement benefit purposes. Since the ABC Board has no obligations for the accumulated sick leave until it is actually taken, no accrual for sick leave for the ABC Board employees has been made.

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

### **Net Assets**

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Fund Balances**

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

**Non-Spendable Fund Balance**

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

	<u>General Fund</u>	<u>Nonmajor Permanent Funds</u>
<i>Inventories</i> - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.	\$ 173,946	\$ -
<i>Prepays</i> - portion of fund balance that is not an available resource because it represents the year-end balance of prepaids, which are not spendable resources.	347,347	-
<i>Perpetual</i> - portion of fund balance that consists of donations received, which the earnings are to be used for the redevelopment, revitalization, and beautification of downtown Shelby, and for the perpetual care of the municipal cemetery. The donations are to be invested in perpetuity.	-	521,864
Total	<u>\$ 521,293</u>	<u>\$ 521,864</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Restricted Fund Balance**

This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors or imposed by law.

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Special Revenue Fund</u>
<i>Restricted for Stabilization of State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]	\$ 3,052,833	\$ 762,018	\$ 89,896
<i>Restricted for Streets - Powell Bill</i> - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the total unexpended Powell Bill funds.	1,211,783	-	-
<i>Restricted for Unspent Debt Proceeds</i> - portion of fund balance that is restricted by revenue source as it represents unspent debt proceeds.	<u>2,466,968</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,731,584</u>	<u>\$ 762,018</u>	<u>\$ 89,896</u>

**Committed Fund Balance**

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote of the City's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Assigned Fund Balance**

Assigned fund balance is the portion of fund balance that the City Council has budgeted.

	<u>General Fund</u>	<u>Nonmajor Special Revenue Fund</u>
<i>Assigned for Subsequent Year's Expenditures</i> - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.	\$ 87,500	\$ 29,500
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	-	134,280
Total	<u>\$ 87,500</u>	<u>\$ 163,780</u>

**Unassigned Fund Balance**

Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-City funds, and County funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it's in the best interest of the City.

The City has not adopted a formal fund balance policy.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund (Exhibit C)	\$ 7,920,457
Less:	
Non-spendable	(521,293)
Stabilization by State statute	<u>(3,052,833)</u>
Available for appropriation	<u>\$ 4,346,331</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### G. Revenues, Expenditures, and Expenses

**Revenues.** Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**Operating Revenue and Expenses.** Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Other Resources.** The Proprietary Funds provide substantial resources to the General Fund. In addition, the General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as "transfers to other funds" in the disbursing fund and "transfers from other funds" in the receiving fund.

### 2. Stewardship, Compliance, and Accountability

#### Contractual Violations – Secondary Market Disclosures

The City of Shelby filed the annual secondary market disclosures for the fiscal year ended June 30, 2010 on March 3, 2011, which was after the required deadline of January 31, 2011. The required disclosures for fiscal year ended June 30, 2011 were filed on a timely basis prior to the January 31, 2012 deadline. The City has taken steps to insure that this filing is timely in future years.

### 3. Detail Notes On All Funds

#### A. Assets

##### Deposits

All deposits of the City and its component unit are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or its component unit's agents in their unit's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and its component unit, these deposits are considered to be held by the City's and the component unit's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City and its component unit have no policy regarding custodial credit risks for deposits.

At June 30, 2011, the City's deposits had a carrying amount of \$11,599,589 and a bank balance of \$12,430,209. The ABC Board's deposits had a carrying amount of \$311,377 and a bank balance of \$299,431.

Of the City's bank balance, \$1,000,000 was covered by federal depository insurance and \$11,430,209 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,645 at June 30, 2011, and the ABC Board had cash on hand of \$7,080.

### Investments

At June 30, 2011, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>	<u>Five to Seven Years</u>
US Government Agencies	\$ 7,348,855	\$ -	\$ 4,393,139	\$ 2,955,716
First National Bank CD	1,877,735	1,562,274	315,461	-
Mountain First CD	240,000	240,000	-	-
Shelby Savings CD	2,620,548	1,087,130	1,533,418	-
NCCMT	895,747	895,747	-	-
Total	<u>\$ 12,982,885</u>	<u>\$ 3,785,151</u>	<u>\$ 6,242,018</u>	<u>\$ 2,955,716</u>

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, to the extent possible the City attempts to match its investments to anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. The City's investment policy requires purchases of securities to be laddered with staggered maturity dates.

*Credit Risk.* The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in US agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Freddie Mac) are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust cash portfolio carried a credit rating of AAAM by Standard and Poors as of June 30, 2011. All certificates of

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

deposit are issued by banks organized under the laws of the State of North Carolina and are fully collateralized using the Pooling Method with the North Carolina Department of State Treasurer.

Subsequent to June 30, 2011, Standard and Poor's downgraded Farm Credit, Freddie Mac, and Federal Home Loan Bank to AA+.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

*Concentration of Credit Risk.* The City will diversify its investments by security type and institution. With the exception of US Treasuries securities and authorized pools, no more than fifty percent of the City's total investment portfolio will be invested in a single security type and no more than thirty-three percent with a single financial institution.

### Receivables - Allowances for Doubtful Accounts

Receivables presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Taxes receivable	\$ 183,000	\$ -	\$ 183,000
Accounts receivable	37,182	824,335	861,517
Total	<u>\$ 220,182</u>	<u>\$ 824,335</u>	<u>\$ 1,044,517</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 4,982,070	\$ -	\$ -	\$ -	\$ 4,982,070
Construction in progress	5,550,282	1,596,914	-	(5,651,641)	1,495,555
Total non-depreciable capital assets	<u>10,532,352</u>	<u>1,596,914</u>	<u>-</u>	<u>(5,651,641)</u>	<u>6,477,625</u>
<b>Depreciable Capital Assets:</b>					
Buildings	10,719,021	111,034	-	2,337,689	13,167,744
Other improvements	6,154,816	-	-	2,146,032	8,300,848
Machinery and equipment	4,917,436	318,281	(9,084)	1,167,920	6,394,553
Vehicles	7,114,775	701,512	(72,710)	-	7,743,577
Infrastructure	11,484,875	-	-	-	11,484,875
Total depreciable capital assets	<u>40,390,923</u>	<u>1,130,827</u>	<u>(81,794)</u>	<u>5,651,641</u>	<u>47,091,597</u>
<b>Less Accumulated Depreciation:</b>					
Buildings	4,903,329	274,846	-	-	5,178,175
Other improvements	1,277,649	166,942	-	-	1,444,591
Machinery and equipment	3,713,524	447,611	(9,084)	-	4,152,051
Vehicles	5,393,005	492,797	(72,710)	-	5,813,092
Infrastructure	3,236,188	175,458	-	-	3,411,646
Total accumulated depreciation	<u>18,523,695</u>	<u>\$ 1,557,654</u>	<u>\$ (81,794)</u>	<u>\$ -</u>	<u>19,999,555</u>
Total depreciable capital assets, net	<u>21,867,228</u>				<u>27,092,042</u>
Governmental activity capital assets, net	<u>\$ 32,399,580</u>				<u>\$ 33,569,667</u>

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

<b>Governmental Activities:</b>	
General government	\$ 200,324
Public safety	514,638
Transportation	442,135
Environmental protection	187,350
Cultural and recreational	213,207
Total depreciation expense-governmental activities	<u>\$ 1,557,654</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Water Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 49,483	\$ -	\$ -	\$ -	\$ 49,483
Construction in progress	4,574,486	617,545	-	(2,152,333)	3,039,698
Total non-depreciable capital assets	<u>4,623,969</u>	<u>617,545</u>	<u>-</u>	<u>(2,152,333)</u>	<u>3,089,181</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	12,099,420	-	-	-	12,099,420
Water extensions	17,039,018	62,886	-	2,152,333	19,254,237
Machinery and equipment	1,261,885	-	-	-	1,261,885
Vehicles	261,772	-	(36,394)	-	225,378
Total depreciable capital assets	<u>30,662,095</u>	<u>62,886</u>	<u>(36,394)</u>	<u>2,152,333</u>	<u>32,840,920</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	6,125,544	195,997	-	-	6,321,541
Water extensions	4,445,401	414,975	-	-	4,860,376
Machinery and equipment	921,823	49,959	-	-	971,782
Vehicles	212,535	13,696	(36,394)	-	189,837
Total accumulated depreciation	<u>11,705,303</u>	<u>\$ 674,627</u>	<u>\$ (36,394)</u>	<u>\$ -</u>	<u>12,343,536</u>
Total depreciable capital assets, net	<u>18,956,792</u>				<u>20,497,384</u>
Total capital assets, net	<u>\$ 23,580,761</u>				<u>\$ 23,586,565</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Sewer Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 36,133	\$ 22,268	\$ -	\$ -	\$ 58,401
Construction in progress	5,320,222	1,123,862	-	-	6,444,084
Total non-depreciable capital assets	<u>5,356,355</u>	<u>1,146,130</u>	<u>-</u>	<u>-</u>	<u>6,502,485</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	15,647,986	500,746	-	-	16,148,732
Sewer extensions	17,854,683	379,368	-	-	18,234,051
Machinery and equipment	1,557,265	244,662	-	-	1,801,927
Vehicles	575,601	95,569	-	-	671,170
Total depreciable capital assets	<u>35,635,535</u>	<u>1,220,345</u>	<u>-</u>	<u>-</u>	<u>36,855,880</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	5,442,896	317,357	-	-	5,760,253
Sewer extensions	5,450,080	364,090	-	-	5,814,170
Machinery and equipment	982,390	129,637	-	-	1,112,027
Vehicles	475,197	37,804	-	-	513,001
Total accumulated depreciation	<u>12,350,563</u>	<u>\$ 848,888</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,199,451</u>
Total depreciable capital assets, net	<u>23,284,972</u>				<u>23,656,429</u>
Total capital assets, net	<u>\$ 28,641,327</u>				<u>\$ 30,158,914</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Electric Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	<u>2,385,744</u>	<u>3,334,993</u>	<u>-</u>	<u>(471,443)</u>	<u>5,249,294</u>
Total non-depreciable capital assets	<u>2,461,427</u>	<u>3,334,993</u>	<u>-</u>	<u>(471,443)</u>	<u>5,324,977</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	4,158,645	-	-	-	4,158,645
Electric extensions	14,425,738	247,925	-	471,443	15,145,106
Machinery and equipment	1,072,115	-	-	-	1,072,115
Vehicles	<u>935,830</u>	<u>41,117</u>	<u>-</u>	<u>-</u>	<u>976,947</u>
Total depreciable capital assets	<u>20,592,328</u>	<u>289,042</u>	<u>-</u>	<u>471,443</u>	<u>21,352,813</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	1,549,489	97,013	-	-	1,646,502
Electric extensions	5,552,642	298,068	-	-	5,850,710
Machinery and equipment	660,168	74,023	-	-	734,191
Vehicles	<u>683,450</u>	<u>92,537</u>	<u>-</u>	<u>-</u>	<u>775,987</u>
Total accumulated depreciation	<u>8,445,749</u>	<u>\$ 561,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,007,390</u>
Total depreciable capital assets, net	<u>12,146,579</u>				<u>12,345,423</u>
Total capital assets, net	<u>\$ 14,608,006</u>				<u>\$ 17,670,400</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Gas Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 53,489	\$ -	\$ -	\$ -	\$ 53,489
Construction in progress	<u>148,447</u>	<u>532,565</u>	<u>-</u>	<u>(122,588)</u>	<u>558,424</u>
Total non-depreciable capital assets	<u>201,936</u>	<u>532,565</u>	<u>-</u>	<u>(122,588)</u>	<u>611,913</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	475,462	-	-	-	475,462
Sewer extensions	21,964,940	212,531	-	122,588	22,300,059
Machinery and equipment	874,616	169,697	-	-	1,044,313
Vehicles	<u>496,755</u>	<u>42,577</u>	<u>-</u>	<u>-</u>	<u>539,332</u>
Total depreciable capital assets	<u>23,811,773</u>	<u>424,805</u>	<u>-</u>	<u>122,588</u>	<u>24,359,166</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	367,000	17,568	-	-	384,568
Sewer extensions	8,173,545	419,318	-	-	8,592,863
Machinery and equipment	488,943	74,471	-	-	563,414
Vehicles	<u>412,913</u>	<u>34,645</u>	<u>-</u>	<u>-</u>	<u>447,558</u>
Total accumulated depreciation	<u>9,442,401</u>	<u>\$ 546,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,988,403</u>
Total depreciable capital assets, net	<u>14,369,372</u>				<u>14,370,763</u>
Gas Fund capital assets, net	<u>\$ 14,571,308</u>				<u>\$ 14,982,676</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Housing Assistance Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 234,411	\$ -	\$ -	\$ -	\$ 234,411
Total non-depreciable capital assets	<u>234,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,411</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	7,973,734	166,604	-	-	8,140,338
Other improvements	664,131	-	-	-	664,131
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	<u>133,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,210</u>
Total depreciable capital assets	<u>8,941,287</u>	<u>166,604</u>	<u>-</u>	<u>-</u>	<u>9,107,891</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	3,575,202	177,817	-	-	3,753,019
Other improvements	526,255	16,280	-	-	542,535
Machinery and equipment	170,211	1	-	-	170,212
Vehicles	<u>119,117</u>	<u>3,676</u>	<u>-</u>	<u>-</u>	<u>122,793</u>
Total accumulated depreciation	<u>4,390,785</u>	<u>\$ 197,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,588,559</u>
Total depreciable capital assets, net	<u>4,550,502</u>				<u>4,519,332</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,784,913</u>				<u>\$ 4,753,743</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Construction Commitments**

The City has active construction projects as of June 30, 2011. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Westside Water Line Improvements	\$ 102,935
Eastside Water Tank	99,744
Clearwater Water Project	1,740
Water Treatment Plant FY11	104,142
Keeter Stadium Water Line	34,225
Westside Sewer	223,530
Shelby Middle School Sewer Project	102,514
Wastewater Treatment Plant Upgrades	18,134
Chestnut Street CDBG Sewer Project	690,169
Keeter Stadium Sewer Line	40,794
Foothills Commerce Center	2,111,540
Electric Line Extension to Foothill	214,247
Underground Cable FY11	74,013
PPG Meter Station Upgrade	8,927
Airport Apron Pavement Rehab	91,303
Park Enhancements FY2010	62,592
Total	<u>\$ 3,980,549</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

Activity for the ABC Board for the year ended June 30, 2011 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
<b>Depreciable Capital Assets:</b>				
Buildings	683,639	-	-	683,639
Office and store equipment	299,587	10,644	-	310,231
Vehicle	32,322	-	-	32,322
Total capital assets being depreciated	<u>1,015,548</u>	<u>10,644</u>	<u>-</u>	<u>1,026,192</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	578,712	17,143	-	595,855
Office and store equipment	237,251	15,220	-	252,471
Vehicle	8,475	2,425	-	10,900
Total accumulated depreciation	<u>824,438</u>	<u>34,788</u>	<u>-</u>	<u>859,226</u>
Total ABC capital assets being depreciated	<u>191,110</u>	<u>(24,144)</u>	<u>-</u>	<u>166,966</u>
ABC capital assets, net	<u>\$ 373,677</u>	<u>\$ (24,144)</u>	<u>\$ -</u>	<u>\$ 349,533</u>

**B. Liabilities and Net Assets**

**Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at the fund and government-wide level at June 30, 2011 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 208,622	\$ 2,167,419
Accrued gas and electric purchases	-	1,731,961
Accrued payroll liabilities	<u>163,523</u>	<u>28,861</u>
Total accounts payable and accrued liabilities	<u>\$ 372,145</u>	<u>\$ 3,928,241</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Long-Term Obligations

In June 2011, the City entered into a financing agreement for the acquisition of several pieces of equipment in the amount of \$965,726. The terms call for five annual payments through May 2016 at an interest rate of 1.69%.

In previous years, the City has entered into a revolving loan agreement as well as several financing agreements. All other financing arrangements that have an outstanding balance at June 30, 2011 are summarized as follows:

Financing Agreements:	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2011					
				Governmental Activities	Business-Type Activities				Total Business-Type
					Water Fund	Sewer Fund	Electric Fund	Gas Fund	
Fire house construction	5.27%	11/2014	\$ 835,000	\$ 194,833	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer extension	5.56%	03/2015	300,000	-	-	80,000	-	-	80,000
State revolving loan	2.89%	05/2015	11,800,000	-	-	2,926,848	-	-	2,926,848
Park and recreation improvements	3.24%	04/2015	1,352,345	540,938	-	-	-	-	-
2007 Purchase of equipment	4.01%	06/2012	283,577	37,260	559	19,732	3,151	558	24,000
2008 Purchase of equipment	3.25%	05/2013	720,945	103,119	4,477	161,136	16,788	16,970	199,371
2009 Purchase of equipment	3.20%	06/2014	688,496	226,480	24,113	28,374	112,345	34,722	199,554
Capital projects	3.64%	06/2019	1,250,000	1,000,000	-	-	-	-	-
2010 Purchase of equipment	2.36%	05/2015	903,162	572,226	35,715	73,138	33,092	16,747	158,692
2011 Purchase of equipment	1.69%	05/2016	965,726	509,903	3,872	341,896	41,093	68,962	455,823
<b>Total</b>			<b>\$ 19,099,251</b>	<b>\$ 3,184,759</b>	<b>\$ 68,736</b>	<b>\$ 3,631,124</b>	<b>\$ 206,469</b>	<b>\$ 137,959</b>	<b>\$ 4,044,288</b>

### Governmental Activities Long-Term Debt

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2011 are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2012	\$ 713,561	\$ 95,443	\$ 809,004
2013	685,334	73,050	758,384
2014	640,334	52,160	692,494
2015	540,005	32,414	572,419
2016	230,525	18,722	249,247
2017-2021	375,000	23,887	398,887
<b>Total</b>	<b>\$ 3,184,759</b>	<b>\$ 295,676</b>	<b>\$ 3,480,435</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Business-Type Activities Long-Term Debt**

**Other Debt.** Annual debt service requirements to maturity for other debt are as follows:

<b>Year Ending June 30</b>	<b>Water Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 19,908	\$ 1,848	\$ 21,756
2013	19,892	1,283	21,175
2014	18,093	737	18,830
2015	10,042	229	10,271
2016	801	13	814
<b>Total</b>	<b>\$ 68,736</b>	<b>\$ 4,110</b>	<b>\$ 72,846</b>

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 797,181	\$ 103,196	\$ 900,377
2013	782,041	79,783	861,824
2014	701,955	57,418	759,373
2015	693,821	37,454	731,275
2016	656,126	18,030	674,156
<b>Total</b>	<b>\$ 3,631,124</b>	<b>\$ 295,881</b>	<b>\$ 3,927,005</b>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 63,602	\$ 5,742	\$ 69,344
2013	62,222	3,844	66,066
2014	55,212	2,060	57,272
2015	16,928	473	17,401
2016	8,505	134	8,639
<b>Total</b>	<b>\$ 206,469</b>	<b>\$ 12,253</b>	<b>\$ 218,722</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Year Ending</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30</b>			
2012	\$ 37,480	\$ 3,246	\$ 40,726
2013	37,891	2,253	40,144
2014	29,958	1,295	31,253
2015	18,358	573	18,931
2016	14,272	224	14,496
<b>Total</b>	<b>\$ 137,959</b>	<b>\$ 7,591</b>	<b>\$ 145,550</b>

**Revenue Bonds.** The City's revenue bonds were issued to provide funds for capital improvements. Revenue bonds have been issued for business-type activities in each of the major proprietary funds (water, sewer, electric, and gas). The City pledges revenues derived from the business-type activities to pay the debt service. The principal and interest requirements are paid when due from earnings of the proprietary funds.

The outstanding balances on these bonds at June 30, 2011 are as follows:

	<b>Interest Rates</b>	<b>Date Series Matures</b>	<b>Amount of Original Issue</b>	<b>Balance Outstanding June 30, 2011</b>
Combined Enterprise System, Series 2004	4.62%	2029	\$ 18,465,000	\$ 12,380,000
Combined Enterprise System, Series 2005	3.29%	2017	6,605,000	3,550,000
Combined Enterprise System, Series 2008	3.69%	2028	3,835,500	3,436,917
Combined Enterprise System, Series 2010	6.20%	2025	8,346,400	7,931,754
<b>Total</b>				<b>\$ 27,298,671</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

Revenue bond debt service requirements to maturity are as follows:

<b>Year Ending June 30</b>	<b>Water Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 518,271	\$ 498,200	\$ 1,016,471
2013	536,521	472,830	1,009,351
2014	556,634	446,221	1,002,855
2015	578,713	418,278	996,991
2016	598,428	388,899	987,327
2017-2021	2,863,892	1,471,177	4,335,069
2022-2026	2,899,763	603,493	3,503,256
2027-2029	796,778	74,811	871,589
<b>Total</b>	<b>\$ 9,349,000</b>	<b>\$ 4,373,909</b>	<b>\$ 13,722,909</b>

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 342,742	\$ 307,533	\$ 650,275
2013	354,890	292,401	647,291
2014	368,016	276,566	644,582
2015	382,300	259,981	642,281
2016	395,507	242,588	638,095
2017-2021	1,935,556	934,213	2,869,769
2022-2026	2,085,772	425,131	2,510,903
2027-2029	753,945	52,972	806,917
<b>Total</b>	<b>\$ 6,618,728</b>	<b>\$ 2,791,385</b>	<b>\$ 9,410,113</b>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 390,715	\$ 242,389	\$ 633,104
2013	405,154	229,630	634,784
2014	417,884	216,091	633,975
2015	433,118	201,808	634,926
2016	447,558	186,672	634,230
2017-2021	1,337,370	724,078	2,061,448
2022-2026	1,360,153	427,088	1,787,241
2027-2029	979,058	91,926	1,070,984
<b>Total</b>	<b>\$ 5,771,010</b>	<b>\$ 2,319,682</b>	<b>\$ 8,090,692</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Year Ending</b> <b>June 30</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 598,297	\$ 214,953	\$ 813,250
2013	621,557	194,168	815,725
2014	639,605	172,389	811,994
2015	662,983	149,774	812,757
2016	686,593	126,130	812,723
2017-2021	1,260,914	363,291	1,624,205
2022-2026	771,185	165,465	936,650
2027-2029	318,799	22,917	341,716
<b>Total</b>	<b>\$ 5,559,933</b>	<b>\$ 1,409,087</b>	<b>\$ 6,969,020</b>

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$37,251,900 revenue bonds issued in 2004, 2005, 2008, and 2010. Proceeds from the bonds provided financing for various capital improvements. The bonds are payable solely from water, sewer, electric, and gas customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$38,192,734. Principal and interest paid for the current year and total customer net revenues were \$3,266,526 and \$41,539,114, respectively.

The City has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 704 of the Bond Order, authorizing the issuance of Revenue Bonds, Series 1995, since its adoption in 1995. Section 704(a) of the Bond Order requires the debt service coverage ratio to be no less than 125%. The debt service coverage ratio calculation for the year ended June 30, 2011 is as follows:

Operating revenues	\$ 41,539,114
Operating expenses*	<u>32,635,437</u>
Income available for debt service	<u>\$ 8,903,677</u>
Debt service, principal and interest paid (Revenue Bond only)	<u>\$ 3,266,526</u>
Debt service coverage ratio	<u>273%</u>

\*Per rate covenants, this does not include the depreciation expense of \$2,631,158.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**Changes in Long-Term Liabilities.** Long-term liability activity for the fiscal year ended June 30, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Other debt	\$ 3,391,073	\$ 509,895	\$ (716,209)	\$ 3,184,759	\$ 713,561
Net pension obligations	225,870	135,939	(79,997)	281,812	-
Compensated absences	1,020,032	603,606	(687,749)	935,889	688,000
Other post-employment benefits	957,979	708,638	(349,996)	1,316,621	-
Governmental activities long-term liabilities	<u>\$ 5,594,954</u>	<u>\$ 1,958,078</u>	<u>\$ (1,833,951)</u>	<u>\$ 5,719,081</u>	<u>\$ 1,401,561</u>
<b>Business-Type Activities:</b>					
<b>Water Fund</b>					
Revenue bonds	\$ 10,043,341	\$ -	\$ (694,341)	\$ 9,349,000	\$ 518,271
Other debt	83,493	3,888	(18,645)	68,736	19,908
Compensated absences	60,854	43,130	(42,120)	61,864	42,000
Other post-employment benefits	61,409	46,755	(23,092)	85,072	-
Water Fund long-term liabilities	<u>\$ 10,249,097</u>	<u>\$ 93,773</u>	<u>\$ (778,198)</u>	<u>\$ 9,564,672</u>	<u>\$ 580,179</u>
<b>Sewer Fund:</b>					
Revenue bonds	\$ 6,949,074	\$ -	\$ (330,346)	\$ 6,618,728	\$ 342,742
Other debt	4,016,373	341,893	(727,142)	3,631,124	797,181
Compensated absences	39,605	31,175	(32,790)	37,990	33,000
Other post-employment benefits	61,409	48,139	(23,776)	85,772	-
Sewer Fund long-term liabilities	<u>\$ 11,066,461</u>	<u>\$ 421,207</u>	<u>\$ (1,114,054)</u>	<u>\$ 10,373,614</u>	<u>\$ 1,172,923</u>
<b>Electric Fund:</b>					
Revenue bonds	\$ 6,150,000	\$ -	\$ (378,990)	\$ 5,771,010	\$ 390,715
Other debt	251,705	41,088	(86,324)	206,469	63,602
Compensated absences	56,554	44,470	(37,696)	63,328	38,000
Other post-employment benefits	49,127	36,603	(18,078)	67,652	-
Electric Fund long-term liabilities	<u>\$ 6,507,386</u>	<u>\$ 122,161</u>	<u>\$ (521,088)</u>	<u>\$ 6,108,459</u>	<u>\$ 492,317</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Gas Fund:</b>					
Revenue bonds	\$ 6,139,070	\$ -	\$ (579,137)	\$ 5,559,933	\$ 598,297
Other debt	100,534	68,962	(31,537)	137,959	37,480
Compensated absences	82,004	41,688	(56,530)	67,162	57,000
Other post-employment benefits	73,691	49,890	(24,641)	98,940	-
Gas Fund long-term liabilities	<u>\$ 6,395,299</u>	<u>\$ 160,540</u>	<u>\$ (691,845)</u>	<u>\$ 5,863,994</u>	<u>\$ 692,777</u>
<b>Housing Assistance Fund:</b>					
Compensated absences	\$ 31,225	\$ 22,563	\$ (22,606)	\$ 31,182	\$ 23,000
Other post-employment benefits	24,564	19,308	(9,536)	34,336	-
Housing Assistance long-term liabilities	<u>\$ 55,789</u>	<u>\$ 41,871</u>	<u>\$ (32,142)</u>	<u>\$ 65,518</u>	<u>\$ 23,000</u>
<b>Total Business-Type Activities</b>					
Revenue bonds	\$ 29,281,485	\$ -	\$ (1,982,814)	\$ 27,298,671	\$ 1,850,025
Other debt	4,452,105	455,831	(863,648)	4,044,288	918,171
Compensated absences	270,242	183,026	(191,742)	261,526	193,000
Other post-employment benefits	270,200	200,695	(99,123)	371,772	-
Business-type activities long-term liabilities	<u>\$ 34,274,032</u>	<u>\$ 839,552</u>	<u>\$ (3,137,327)</u>	<u>\$ 31,976,257</u>	<u>\$ 2,961,196</u>

The net pension obligation and other post-employment benefit obligation are typically liquidated in the General Fund.

At June 30, 2011, the City has a legal debt margin of \$134,087,083.

**Unearned Revenues/Deferred Revenues.** The balance in unearned revenue/deferred revenue on the government-wide and fund statements, respectively, at year-end is composed of the following elements:

	<u>Governmental Funds</u>	<u>Accrual Adjustment</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Taxes receivable	\$ 258,874	\$ (258,874)	\$ -	\$ -
Prepayments - privilege licenses	5,499	-	5,499	-
Loans	87,723	(87,723)	-	-
Special assessments	-	-	-	26,525
Prepayments - customers	-	-	-	10,612
Total	<u>\$ 352,096</u>	<u>\$ (346,597)</u>	<u>\$ 5,499</u>	<u>\$ 37,137</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**Net Assets.** Net assets invested in capital assets, net of related debt, is comprised of the following:

**Governmental Activities:**

Capital assets, net of accumulated depreciation	\$ 33,569,667
Outstanding balance on related debt	(3,184,759)
Unspent debt proceeds	<u>2,466,968</u>
Total governmental activities	<u>\$ 32,851,876</u>

**Business-Type Activities:**

Capital assets, net of accumulated depreciation	\$ 23,586,565
Outstanding balance on related debt	(9,417,736)
Unspent debt proceeds	<u>48,019</u>
Total Water	<u>14,216,848</u>

Capital assets, net of accumulated depreciation	30,158,914
Outstanding balance on related debt	(10,249,852)
Unspent debt proceeds	<u>432,267</u>
Total Sewer	<u>20,341,329</u>

Capital assets, net of accumulated depreciation	17,670,400
Outstanding balance on related debt	(5,977,479)
Unspent debt proceeds	<u>81,979</u>
Total Electric	<u>11,774,900</u>

Capital assets, net of accumulated depreciation	14,982,676
Outstanding balance on related debt	(5,697,892)
Unspent debt proceeds	<u>89,655</u>
Total Gas	<u>9,374,439</u>

Capital assets, net of accumulated depreciation	<u>4,753,743</u>
Total Housing Assistance	<u>4,753,743</u>

Total business-type activities	<u>\$ 60,461,259</u>
--------------------------------	----------------------

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **Pension Plan and Post-Employment Obligations**

#### **Local Governmental Employees' Retirement System**

**Plan Description.** The City and the ABC Board contribute to the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. The report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Plan members are required to contribute 6% of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.82%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.92% of annual covered payroll. The contribution requirements of members and of the City and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$767,739, \$564,661, and \$570,180 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$35,053, \$33,330, and \$32,874 respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

#### **Law Enforcement Officers' Special Separation Allowance**

**Plan Description.** The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Separate financial statements are not issued for the Plan.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to, but not yet, receiving benefits	7
Active plan members	<u>75</u>
Total	<u><u>82</u></u>

### Summary of Significant Accounting Policies

**Basis of Accounting.** The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

**Method Used to Value Investments.** No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

**Contributions.** The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumption period did not include post-retirement benefit increases. The amortization period is the level percent of pay closed. The remaining amortization period is 21 years.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Annual Pension Cost and Net Pension Obligation.** The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 136,737
Interest on net pension obligation	11,294
Adjustment to annual required contribution	<u>(12,092)</u>
Annual pension cost	135,939
Contributions made	<u>79,997</u>
Increase (decrease) in net pension obligation	55,942
Net pension obligation:	
Beginning of year - July 1	<u>225,870</u>
End of year - June 30	<u><u>\$ 281,812</u></u>

**Three-Year Trend Information**

<b>Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2011	\$ 135,939	58.85%	\$ 281,812
2010	112,327	67.01%	225,870
2009	99,649	68.71%	188,808

**Funding Status and Funding Progress**

As of December 31, 2010, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$1,055,843 and the unfunded actuarial accrued liability (UAAL) was \$1,055,843. The covered payroll (annual payroll of active employees covered by the plan) was \$2,922,018, and the ratio of the UAAL to the covered payroll was 36.13 percent.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **Supplemental Retirement Income Plan for Law Enforcement Officers**

**Plan Description.** The City contributes to the Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G. S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Comptroller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. The City has elected to include all other City employees in the Plan at the same contribution rate. All amounts contributed are vested immediately. Also, the other City employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$750,970, which consisted of \$593,248 from the City and \$157,722 from the covered employees.

### **Firemen’s and Rescue Squad Workers’ Pension Fund**

**Plan Description.** The State of North Carolina contributes, on behalf of the City, to the Firemen’s and Rescue Squad Workers’ Pension Fund (the “Fund”), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen’s and Rescue Squad Workers’ Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the Plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Other Post-Employment Benefits - Healthcare Benefits

**Plan Description.** Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides post-employment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty-two years of creditable service with the City. The City pays the full cost of coverage for these benefits through private insurers. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the HCB Plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>	<u>Firefighters</u>
Active plan members	<u>180</u>	<u>70</u>	<u>50</u>

The City has 38 retirees receiving benefits.

**Funding Policy.** The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by the City Council. The City has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 7.92% of annual covered payroll. For the current year, the City contributed \$449,119, or 3.94% of annual covered payroll. The City obtains healthcare coverage through private insurers. There were no contributions made by employees, except for dependent coverage. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

### Summary of Significant Accounting Policies

Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Annual OPEB Cost and Net Obligation**

The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 902,590
Interest on net OPEB obligation	49,127
Adjustments to annual required contribution	<u>(42,384)</u>
Annual OPEB cost (expense)	909,333
Contributions made	<u>(449,119)</u>
Increase (decrease) in net OPEB obligation	460,214
Net OPEB obligation:	
Beginning of year - July 1	<u>1,228,179</u>
End of year - June 30	<u><u>\$ 1,688,393</u></u>

The City's net OPEB obligation is comprised of \$1,316,621 and \$371,772 for governmental activities and business-type activities, respectively. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 909,333	49.4%	\$ 1,688,393
2010	1,039,595	41.1%	1,228,179
2009	1,036,216	40.6%	615,346

**Fund Status and Funding Progress**

As of December 31, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$10,875,002. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,399,035, and the ratio of the UAAL to the covered payroll was 95.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5% to 5% annually. Both rates included a 3.75% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, was 30 years.

### **Other Employment Benefit**

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (the "Death Benefit Plan"), a multiple-employer, State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The ABC Board has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System ("Death Benefit Plan"), a multi-employer State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000.

All death benefit payments are made from the Death Benefit Plan. The ABC Board has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the ABC Board, the ABC Board does not determine the number of eligible participants. For the year ended June 30, 2011, the ABC Board made contributions to the State for death benefits of \$877. The ABC Board's required contributions for employees represented 0.13% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

### **On-Behalf Payments for Fringe Benefits and Salaries**

For the year ended June 30, 2011, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$14,263 for the 27 full-time firemen who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$28,500 for the salary supplement and stipend benefits paid to eligible firemen by the local Board of Trustees of the Firemen's Relief Fund during the year ended June 30, 2011. Under State law the local Board of Trustees for the Fund receives an amount each year that the Board may use at its own discretion for eligible firemen or their dependents.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### **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. The City participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professional's liability, and public officials' liability in excess of \$1,000,000, property in excess of \$500,000 and \$500,000 workers' compensation for the fiscal year 2011 policy period.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage. All premiums are paid to date.

For all buildings and contents located in the National Flood Insurance Program (NFIP) Flood Zones B, C, or X, the flood deductible is \$50,000 per occurrence. There is no flood coverage for buildings or contents not located in flood zones B, C, or X. The occurrence and aggregate limit is \$5,000,000.

The ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverages. The ABC Board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are fidelity bonded through a commercial fidelity position bond. The Finance Officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

In accordance with G.S. 18B-700(i), each Board member and the employee designated as the General Manager and Finance Officer are bonded in the amount of \$50,000 secured by a corporate surety.

### **Claims, Judgments, and Contingent Liabilities**

At June 30, 2011, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

The City receives amounts from federal, State, and local government agencies in the form of grants. The disbursement of funds under these programs is subject to audit in accordance with Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The City expects the amount, if any, of expenditures that may be disallowed by the granting agencies as a result of these audits to be immaterial.

**C. Interfund Balances and Activity**

The composition of interfund balances as of June 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Capital Projects Fund	\$ 704,415
General Fund	Water Fund	1,851
General Fund	Sewer Fund	57,258
General Fund	Electric Fund	584
General Fund	Gas Fund	1,958
General Fund	Housing Assistance Fund	385
Gas Fund	Sewer Fund loan	<u>970,000</u>
 Total		 <u>\$ 1,736,451</u>

Amounts due to the General Fund and Gas Fund from the nonmajor funds are for operating purposes.

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over 20 years. The balance as of June 30, 2011 was \$970,000.

The composition of interfund transfers during the year was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 534,350
General Fund	Gas Fund	1,800,000
Capital Projects Fund	Gas Fund	930,050
Economic Development Fund	General Fund	47,000
Capital Projects Fund	General Fund	357,050
Economic Development Fund	Gas Fund	<u>16,050</u>
 Total		 <u>\$ 3,684,500</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The transfers from the Gas Fund and Electric Fund are made in accordance with the City's transfer policy to provide the City a return on its investment. The transfers to the nonmajor governmental funds are for economic development purposes. The transfers to the Capital Project Fund are for capital purposes.

### **Jointly Governed Organizations**

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency No. 1 (the "Agency"). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the year ended June 30, 2011 were \$14,168,241.

The City is a member of the Isothermal Planning and Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and twenty-nine municipalities comprise the Commission. Participating governments established the Commission to coordinate various funding from federal and State agencies and to provide assistance for specific projects. Each participating unit of government appoints one member to the Commission's governing board. The City paid membership fees of approximately \$5,826 to the Commission during the year ended June 30, 2011.

### **Joint Ventures**

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local Board of the Firemen's Relief Fund. These funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf payments for salaries and fringe benefits made to members of the City's fire department by the Board of Trustees. During the year ended June 30, 2011, the City reported revenues and expenditures for the payments of \$14,263 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2011. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.



## **REQUIRED SUPPLEMENTARY INFORMATION**

This section consists of the following additional information required by accounting principles generally accepted in the United States of America:

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Post-Employment Benefits
- Schedule of Employer Contributions for the Other Post-Employment Benefits
- Notes to the Required Schedules for the Other Post-Employment Benefits





## CITY OF SHELBY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2011

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit B	Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
12/31/2010	\$ -	\$ 1,055,843	\$ 1,055,843	0.00%	\$ 2,922,018	36.13%
12/31/2009	-	1,186,468	1,186,468	0.00%	2,994,601	39.62%
12/31/2008	-	941,730	941,730	0.00%	3,133,929	30.05%
12/31/2007	-	864,994	864,994	0.00%	2,775,946	31.16%
12/31/2006	-	936,342	936,342	0.00%	2,685,432	34.87%
12/31/2005	-	930,412	930,412	0.00%	2,280,754	40.79%

## Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Amount Contributed By Employer	Percentage of ARC Contributed
2011	\$ 136,737	\$ 79,997	58.50%
2010	110,532	75,265	68.09%
2009	97,858	68,471	69.97%
2008	99,395	75,736	76.20%
2007	92,953	81,704	87.90%
2006	103,012	101,339	98.38%

## Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated.  
Additional information as of the latest valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	5.00%
Projected salary increases *	4.5 - 12.3%
Cost of living adjustments	N/A
* Includes inflation at 3.75%	

## CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS - RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2011

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit		Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
		B					
12/31/2009	\$ -	\$ 10,875,002		\$ 10,875,002	0.00%	\$ 11,399,038	95.40%
12/31/2008	-	12,186,718		\$ 12,186,718	0.00%	12,197,685	99.91%

## Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Amount Contributed By Employer	Percentage of ARC Contributed
	2011	\$ 902,590	\$ 449,119
2010	1,036,216	426,762	41.18%
2009	1,036,216	420,870	40.62%

## Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	10.50% - 5.00%
Year of Ultimate trend rate	2017
* Includes inflation at 3.75%	



## **GENERAL FUND**

The General Fund is the main operating fund of the City. It accounts for resources traditionally associated with government that are not required to be accounted for in other funds.



## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Current year	\$ 7,223,100	\$ 7,296,328	\$ 73,228
Prior years	250,000	240,223	(9,777)
Tax discounts	(20,000)	(14,417)	5,583
Interest and penalties	45,000	55,323	10,323
Total	<u>7,498,100</u>	<u>7,577,457</u>	<u>79,357</u>
<b>Other Taxes and Licenses:</b>			
Local option sales tax	2,642,000	2,732,493	90,493
Privilege licenses	4,000	950	(3,050)
Total	<u>2,646,000</u>	<u>2,733,443</u>	<u>87,443</u>
<b>Unrestricted Intergovernmental Revenues:</b>			
Payment in lieu of taxes	56,100	-	(56,100)
Utility franchise tax	1,473,550	1,581,881	108,331
Beer and wine tax	95,000	93,593	(1,407)
ABC revenue	60,000	43,033	(16,967)
Wireless 911 grant	115,000	119,017	4,017
Total	<u>1,799,650</u>	<u>1,837,524</u>	<u>37,874</u>
<b>Restricted Intergovernmental Revenues:</b>			
Powell Bill allocation	561,550	595,352	33,802
Local occupancy tax	95,000	126,791	31,791
Federal and State grants	152,220	217,825	65,605
ABC Law enforcement revenue	9,000	10,872	1,872
Rental vehicle gross receivable tax	24,000	27,589	3,589
Total	<u>841,770</u>	<u>978,429</u>	<u>136,659</u>

## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Permits and Fees:</b>			
Building permits/inspection fees	150,000	224,657	74,657
Other permits	40,300	46,680	6,380
Filing fees	6,000	469	(5,531)
Total	<u>196,300</u>	<u>271,806</u>	<u>75,506</u>
<b>Sales and Services:</b>			
Parking penalties	-	220	220
Court costs and fees	12,000	10,187	(1,813)
Fire protection	-	411	411
Cemetery revenue	10,000	11,881	1,881
Golf cart rentals	70,000	71,068	1,068
Recreation revenue	279,050	251,800	(27,250)
Garbage disposal fees	704,200	682,459	(21,741)
Utility late fees	200,000	180,850	(19,150)
Airport fuel sales	217,400	247,396	29,996
Other rent	15,900	15,640	(260)
Total	<u>1,508,550</u>	<u>1,471,912</u>	<u>(36,638)</u>
<b>Investment Earnings</b>	<u>100,000</u>	<u>116,744</u>	<u>16,744</u>
<b>Miscellaneous:</b>			
Student resource officer	114,000	114,000	-
Public nuisance	40,000	76,084	36,084
Donations	(24,000)	-	24,000
Other	10,850	15,842	4,992
Total	<u>140,850</u>	<u>205,926</u>	<u>65,076</u>
Total revenues	<u>14,731,220</u>	<u>15,193,241</u>	<u>462,021</u>

## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2011</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Expenditures:</b>			
<b>General Government:</b>			
Mayor and council	38,000	32,297	5,703
Administration and general	187,900	175,610	12,290
Finance	282,900	275,855	7,045
Purchasing	38,500	37,054	1,446
Legal	12,400	4,516	7,884
Human resources	183,800	172,524	11,276
City hall	121,950	105,040	16,910
Building and zoning	317,800	282,282	35,518
Community development	364,661	349,473	15,188
Special appropriations	475,011	406,696	68,315
Total general government	<u>2,022,922</u>	<u>1,841,347</u>	<u>181,575</u>
<b>Public Safety:</b>			
Police department	5,926,487	5,922,017	4,470
Fire department	3,880,826	3,801,999	78,827
Total public safety	<u>9,807,313</u>	<u>9,724,016</u>	<u>83,297</u>
<b>Transportation:</b>			
Streets and highways	932,746	938,454	(5,708)
Street maintenance and repairs - Powell Bill	236,350	194,669	41,681
Street construction and improvement - Powell Bill	449,434	211,556	237,878
Garage	439,850	430,432	9,418
Airport	416,896	343,389	73,507
Total transportation	<u>2,475,276</u>	<u>2,118,500</u>	<u>356,776</u>
<b>Environmental Protection:</b>			
Sanitation	<u>1,265,200</u>	<u>1,277,297</u>	<u>(12,097)</u>

## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>2011</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Cultural and Recreational:</b>			
Parks and recreation	2,109,357	2,082,684	26,673
<b>Debt Service:</b>			
Principal retirement	705,150	716,209	(11,059)
Interest	119,550	82,248	37,302
Total debt service	824,700	798,457	26,243
Total expenditures	18,504,768	17,842,301	662,467
Revenue over (under) expenditures	(3,773,548)	(2,649,060)	1,124,488
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	2,335,000	2,334,350	(650)
Transfers to other funds	(420,750)	(404,050)	16,700
Long-term debt issued	495,150	509,895	14,745
Proceeds from the sale of capital assets	20,000	53,848	33,848
Appropriated fund balance	1,344,148	-	(1,344,148)
Total other financing sources (uses)	3,773,548	2,494,043	(1,279,505)
Net change in fund balance	\$ -	(155,017)	\$ (155,017)
<b>Fund Balance:</b>			
Beginning of year - July 1		8,075,474	
End of year - June 30		\$ 7,920,457	





## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

Non-major governmental funds are combined and presented in the aggregate as “Non-major funds” in the basic financial statements. The City’s non-major governmental funds are as follows:

### *Special Revenue Fund*

- **Economic Development Commission Fund** – This fund is used to account for specific revenues that are restricted to fund continuing rehabilitation of redevelopment projects with certain targeted areas of the City and downtown revitalization.

### *Capital Projects Fund*

- **Capital Projects Fund** – This fund is used to account for the acquisition or construction of various City assets.

### *Permanent Funds*

- **Raper Roark Trust Fund** – This fund is used to account for contributed assets where the principal contributions must be held intact and the income earned by the principal will be used for redevelopment, revitalization, and beautification of downtown Shelby.
- **Cemetery Fund** – This fund is used to account for the perpetual care of the municipal cemetery.



## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011

	Nonmajor Special Revenue Fund	Nonmajor Capital Project Fund	Nonmajor Permanent Funds	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 251,503	\$ -	\$ -	\$ 251,503
Receivables, net:				
Taxes	4,538	-	-	4,538
Accounts	500	-	11,297	11,797
Interest	622	2,955	-	3,577
Loans	87,723	-	-	87,723
Due from other governments	1,050	759,063	-	760,113
Cash and cash equivalents - restricted	-	-	510,567	510,567
<b>Total assets</b>	<b>\$ 345,936</b>	<b>\$ 762,018</b>	<b>\$ 521,864</b>	<b>\$ 1,629,818</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ -	\$ 24,086	\$ -	\$ 24,086
Due to other funds	-	704,415	-	704,415
Due to other governments	-	1,200	-	1,200
Deferred revenue	92,260	-	-	92,260
<b>Total liabilities</b>	<b>92,260</b>	<b>729,701</b>	<b>-</b>	<b>821,961</b>
<b>Fund Balances:</b>				
Non-spendable:				
Perpetual	-	-	521,864	521,864
Restricted:				
Stabilization by State statute	89,896	762,018	-	851,914
Assigned:				
Subsequent year's expenditures	29,500	-	-	29,500
Economic development	134,280	-	-	134,280
Unassigned	-	(729,701)	-	(729,701)
<b>Total fund balances</b>	<b>253,676</b>	<b>32,317</b>	<b>521,864</b>	<b>807,857</b>
<b>Total liabilities and fund balances</b>	<b>\$ 345,936</b>	<b>\$ 762,018</b>	<b>\$ 521,864</b>	<b>\$ 1,629,818</b>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Nonmajor Special Revenue Fund</b>	<b>Nonmajor Capital Project Fund</b>	<b>Nonmajor Permanent Funds</b>	<b>Total</b>
<b>Revenues:</b>				
Ad valorem taxes	\$ 108,071	\$ -	\$ -	\$ 108,071
Restricted intergovernmental	5,387	949,559	-	954,946
Investment earnings	4,448	12,632	8,764	25,844
Donations	-	-	47,430	47,430
Total revenues	<u>117,906</u>	<u>962,191</u>	<u>56,194</u>	<u>1,136,291</u>
<b>Expenditures:</b>				
General government	-	1,188,198	4,334	1,192,532
Public safety	-	89,739	-	89,739
Transportation	-	371,690	-	371,690
Housing and redevelopment	191,505	75,102	-	266,607
Total expenditures	<u>191,505</u>	<u>1,724,729</u>	<u>4,334</u>	<u>1,920,568</u>
Revenues over (under) expenditures	<u>(73,599)</u>	<u>(762,538)</u>	<u>51,860</u>	<u>(784,277)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	63,050	1,287,100	-	1,350,150
Total other financing sources (uses)	<u>63,050</u>	<u>1,287,100</u>	<u>-</u>	<u>1,350,150</u>
Net change in fund balances	(10,549)	524,562	51,860	565,873
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>264,225</u>	<u>(492,245)</u>	<u>470,004</u>	<u>241,984</u>
End of year - June 30	<u>\$ 253,676</u>	<u>\$ 32,317</u>	<u>\$ 521,864</u>	<u>\$ 807,857</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUND  
ECONOMIC DEVELOPMENT COMMISSION FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

	2011		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 109,500	\$ 108,071	\$ (1,429)
Restricted intergovernmental	1,800	5,387	3,587
Investment earnings	3,000	4,448	1,448
Total revenues	<u>114,300</u>	<u>117,906</u>	<u>3,606</u>
<b>Expenditures:</b>			
Housing and redevelopment	<u>205,500</u>	<u>191,505</u>	<u>13,995</u>
Revenues over (under) expenditures	(91,200)	(73,599)	17,601
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	63,050	63,050	-
Appropriated fund balance	<u>28,150</u>	<u>-</u>	<u>(28,150)</u>
Total other financing sources (uses)	<u>91,200</u>	<u>63,050</u>	<u>(28,150)</u>
Net change in fund balance	<u>\$ -</u>	<u>(10,549)</u>	<u>\$ (10,549)</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>264,225</u>	
End of year - June 30		<u>\$ 253,676</u>	

## CITY OF SHELBY, NORTH CAROLINA

**CAPITAL PROJECTS FUND - NONMAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011**

	Project Authorization	Actual		
		Prior Years	Current Year	Total
<b>Revenues:</b>				
Airport improvements grants	\$ 3,445,003	\$ 2,906,876	\$ 237,180	\$ 3,144,056
2010 Airport Grant	158,333	-	12,416	12,416
Airport apron pavement rehab	712,499	-	10,874	10,874
Weed and Seed Grant	774,856	497,938	158,003	655,941
Fit Community Program	56,000	29,711	-	29,711
Destination Cleveland County	145,000	144,695	-	144,695
Safe routes to schools	50,000	22,287	-	22,287
Fueling station	247,700	200,000	-	200,000
Urgent Repair Program	75,000	-	75,000	75,000
Park Enhancement Project	500,000	43,914	456,086	500,000
Ballistic recovery system	39,000	39,000	-	39,000
Investment earnings	-	21,744	12,632	34,376
Total revenues	<u>6,203,391</u>	<u>3,906,165</u>	<u>962,191</u>	<u>4,868,356</u>
<b>Expenditures:</b>				
Airport improvements	4,320,704	3,763,910	357,013	4,120,923
2010 Airport Grant	166,667	-	-	-
Airport apron pavement rehab	749,999	-	11,447	11,447
Weed and Seed Grant	803,806	520,038	85,683	605,721
Fit Community Program	56,000	29,722	-	29,722
Destination Cleveland County	370,350	302,855	42,133	344,988
Communication upgrade	1,160,000	1,163,863	4,056	1,167,919
Safe routes to schools	50,000	22,739	-	22,739
Fueling station	497,700	486,507	3,230	489,737
Urgent Repair Program	75,000	-	75,102	75,102
Park Enhancement Project	1,306,231	87,829	1,146,065	1,233,894
Ballistic recovery system	39,000	39,000	-	39,000
Total expenditures	<u>9,595,457</u>	<u>6,416,463</u>	<u>1,724,729</u>	<u>8,141,192</u>
Revenues over (under) expenditures	<u>(3,392,066)</u>	<u>(2,510,298)</u>	<u>(762,538)</u>	<u>(3,272,836)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	1,982,066	768,053	1,287,100	2,055,153
Long-term debt issued	<u>1,410,000</u>	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>
Total other financing sources (uses)	<u>3,392,066</u>	<u>2,018,053</u>	<u>1,287,100</u>	<u>3,305,153</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ (492,245)</u>	<u>\$ 524,562</u>	<u>\$ 32,317</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Assets:</b>			
Accounts receivable, net	\$ 11,297	\$ -	\$ 11,297
Cash and cash equivalents - restricted	<u>323,941</u>	<u>186,626</u>	<u>510,567</u>
Total assets	<u>\$ 335,238</u>	<u>\$ 186,626</u>	<u>\$ 521,864</u>
<b>Liabilities and Fund Balances:</b>			
<b>Fund Balances:</b>			
Non-spendable:			
Perpetual	<u>\$ 335,238</u>	<u>\$ 186,626</u>	<u>\$ 521,864</u>
Total fund balances	<u>335,238</u>	<u>186,626</u>	<u>521,864</u>
Total liabilities and fund balances	<u>\$ 335,238</u>	<u>\$ 186,626</u>	<u>\$ 521,864</u>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR PERMANENT FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Revenues:</b>			
Investment earnings	\$ 8,764	\$ -	\$ 8,764
Donations	4,095	43,335	47,430
Total revenues	<u>12,859</u>	<u>43,335</u>	<u>56,194</u>
<b>Expenditures:</b>			
General government	<u>4,334</u>	-	<u>4,334</u>
Total expenditures	<u>4,334</u>	-	<u>4,334</u>
Net change in fund balances	8,525	43,335	51,860
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>326,713</u>	<u>143,291</u>	<u>470,004</u>
End of year - June 30	<u>\$ 335,238</u>	<u>\$ 186,626</u>	<u>\$ 521,864</u>





## **PROPRIETARY FUNDS ENTERPRISE FUNDS**

Enterprise funds are used to account for revenues resulting primarily from charges for services provided to the general public and the related costs of such services. The City maintains the following enterprise funds:

### *Major Enterprise Funds*

- **Water Fund** – This fund accounts for the revenues and expenses associated with the production, distribution, and transmission of potable water by the City to its users.
- **Sewer Fund** – This fund accounts for the revenues and expenses associated with operating and maintaining the City’s sewer systems.
- **Electric Fund** – This fund accounts for the revenues and expenses associated with the distribution and transmission of electricity by the City to its users.
- **Gas Fund** – This fund accounts for the revenues and expenses associated with the distribution of natural gas by the City to its users.

### *Non-Major Enterprise Fund*

- **Housing Assistance Fund** – This fund is used to account for the activities associated with housing projects for low-income persons, including families, elderly, and/or handicapped persons. Funding is from the City and the U.S. Department of Housing and Urban Development.



CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 3,553,000	\$ 3,678,800	\$ 125,800
Water taps	50,000	100,190	50,190
Water cutoffs	12,500	1,260	(11,240)
Other	49,850	128,417	78,567
Total operating revenues	<u>3,665,350</u>	<u>3,908,667</u>	<u>243,317</u>
Non-operating revenues:			
Grant - refund of interest expense	-	104,449	104,449
Investment earnings	35,000	6,189	(28,811)
Total non-operating revenues	<u>35,000</u>	<u>110,638</u>	<u>75,638</u>
Total revenues	<u>3,700,350</u>	<u>4,019,305</u>	<u>318,955</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	691,850	655,276	36,574
Operations	595,304	539,153	56,151
Maintenance and repairs	170,651	122,690	47,961
Treatment plant	1,268,345	1,176,438	91,907
Capital outlay	129,650	62,886	66,764
Total costs of sales and services	<u>2,855,800</u>	<u>2,556,443</u>	<u>299,357</u>
Debt service:			
Principal retirement	713,400	712,986	414
Interest	388,000	500,163	(112,163)
Total debt service	<u>1,101,400</u>	<u>1,213,149</u>	<u>(111,749)</u>
Total operating expenditures	<u>3,957,200</u>	<u>3,769,592</u>	<u>187,608</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue over (under) expenditures	<u>(256,850)</u>	<u>249,713</u>	<u>506,563</u>
<b>Other Financing Sources (Uses):</b>			
Long-term debt issued	-	3,888	3,888
Appropriated fund balance	<u>256,850</u>	<u>-</u>	<u>(256,850)</u>
Total other financing sources (uses)	<u>256,850</u>	<u>3,888</u>	<u>(252,962)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	253,601	<u>\$ 253,601</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Reconciling items:			
Debt principal		712,986	
Long-term debt issued		(3,888)	
Capital outlay		62,886	
Decrease (increase) in compensated absences		(1,010)	
Decrease (increase) in other post-employment benefits		(23,663)	
Depreciation		(674,627)	
Net water capital projects fund activity		<u>90,562</u>	
Total reconciling items		<u>163,246</u>	
Change in net assets		<u>\$ 416,847</u>	

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## WATER CAPITAL PROJECTS FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND

## OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL (NON-GAAP)

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
<b>Capital Grants:</b>				
Project #823 - Water Sewer Asset Management Plan	\$ 40,000	\$ -	\$ 40,000	\$ 40,000
Project #825 - Clearwater Water	107,450	-	-	-
Project #827 - Keeter Stadium Water Line	88,247	-	50,120	50,120
Investment earnings	-	50,163	442	50,605
Total revenues	<u>235,697</u>	<u>50,163</u>	<u>90,562</u>	<u>140,725</u>
<b>Expenditures:</b>				
Project #818 - Westside Pumpstation	2,440,000	2,428,273	14,480	2,442,753
Project #819 - Westside Elevated Tank	2,085,719	2,070,565	-	2,070,565
Project #820 - Eastside Water Line	937,781	937,781	-	937,781
Project #821 - Water Line Extensions	423,000	344,674	-	344,674
Project #822 - Eastside Water Tank	147,000	15,180	32,076	47,256
Project #823 - Water Sewer Asset Management Plan	70,000	45,700	21,300	67,000
Project #824 - Parks Water Project	-	-	54,754	54,754
Project #825 - Clearwater Water Project	214,950	-	159,450	159,450
Project #826 - Water Treatment Plant FY11	515,000	-	267,819	267,819
Project #827 - Keeter Stadium Water Line	119,133	-	67,666	67,666
Total expenditures	<u>6,952,583</u>	<u>5,842,173</u>	<u>617,545</u>	<u>6,459,718</u>
Revenues over (under) expenditures	<u>(6,716,886)</u>	<u>(5,792,010)</u>	<u>(526,983)</u>	<u>(6,318,993)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	177,000	30,000	-	30,000
Long-term debt issued	5,463,500	5,473,569	-	5,473,569
Appropriated fund balance	1,076,386	-	-	-
Total other financing sources (uses)	<u>6,716,886</u>	<u>5,503,569</u>	<u>-</u>	<u>5,503,569</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (288,441)</u>	<u>\$ (526,983)</u>	<u>\$ (815,424)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - SEWER  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 4,406,550	\$ 4,305,828	\$ (100,722)
Other fees	63,500	69,850	6,350
Other operating revenues	<u>14,000</u>	<u>109,542</u>	<u>95,542</u>
Total operating revenue	<u>4,484,050</u>	<u>4,485,220</u>	<u>1,170</u>
Non-operating revenues:			
Grant - refund of interest expense	-	42,700	42,700
Investment earnings	<u>15,000</u>	<u>6,471</u>	<u>(8,529)</u>
Total non-operating revenues	<u>15,000</u>	<u>49,171</u>	<u>34,171</u>
Total revenues	<u>4,499,050</u>	<u>4,534,391</u>	<u>35,341</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	647,100	607,283	39,817
Line operation	365,350	388,038	(22,688)
Maintenance and repairs	371,936	323,379	48,557
Treatment plant	1,145,416	1,052,565	92,851
Capital outlay	<u>1,318,209</u>	<u>1,242,613</u>	<u>75,596</u>
Total costs of sales and services	<u>3,848,011</u>	<u>3,613,878</u>	<u>234,133</u>
Debt service:			
Principal retirement	1,064,300	1,057,488	6,812
Interest	<u>384,850</u>	<u>443,823</u>	<u>(58,973)</u>
Total debt service	<u>1,449,150</u>	<u>1,501,311</u>	<u>(52,161)</u>
Total operating expenditures	<u>5,297,161</u>	<u>5,115,189</u>	<u>181,972</u>
Revenues over (under) expenditures	<u>(798,111)</u>	<u>(580,798)</u>	<u>217,313</u>
<b>Other Financing Sources (Uses):</b>			
Long-term debt issued	343,000	341,893	(1,107)
Appropriated fund balance	<u>455,111</u>	<u>-</u>	<u>(455,111)</u>
Total other financing sources (uses)	<u>798,111</u>	<u>341,893</u>	<u>(456,218)</u>

**CITY OF SHELBY, NORTH CAROLINA**

**ENTERPRISE FUND - SEWER  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ <u>-</u>	(238,905)	\$ <u>(238,905)</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		1,057,488	
Long-term debt issued		(341,893)	
Capital outlay		1,242,613	
Decrease (increase) in compensated absences		1,615	
Decrease (increase) in other post-employment benefits		(24,363)	
Depreciation		(848,888)	
Net sewer capital projects fund activity		<u>1,601,136</u>	
Total reconciling items		<u>2,687,708</u>	
Change in net assets		<u>\$ 2,448,803</u>	

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 SEWER CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #843 - Westside sewer	\$ 3,890,000	\$ 2,448,622	\$ 810,000	\$ 3,258,622
Project #845 - Hallelujah communities	569,500	176,000	159,269	335,269
Project #856 - Wastewater treatment plant upgrades	192,900	-	-	-
Project #846 - Shelby Middle School sewer project	401,600	-	-	-
Project #858 - Chestnut street CDBG sewer project	750,000	-	586,900	586,900
Project #859 - Clearwater Sewer - rural center	41,400	-	-	-
Project #860 - Keeter Stadium sewer line	58,831	-	32,346	32,346
Investment earnings	-	50,312	12,621	62,933
Total revenues	<u>5,904,231</u>	<u>2,674,934</u>	<u>1,601,136</u>	<u>4,276,070</u>
<b>Expenditures:</b>				
Project #840 - Eastside sewer project	3,309,100	3,165,616	4,892	3,170,508
Project #843 - Westside sewer	5,735,000	5,217,283	34,283	5,251,566
Project #844 - Spruce lift station replacement	121,000	116,445	-	116,445
Project #845 - Hallelujah communities	962,000	615,618	-	615,618
Project #856 - Wastewater treatment plant upgrade	350,800	27,062	14,999	42,061
Project #846 - Shelby Middle School sewer project	422,600	16,000	294,807	310,807
Project #857 - Parks sewer project	-	-	65,664	65,664
Project #858 - Chestnut street CDBG sewer project	961,600	-	586,900	586,900
Project #859 - Clearwater sewer project	82,750	-	78,647	78,647
Project #860 - Keeter Stadium sewer line	79,422	-	43,670	43,670
Total expenditures	<u>12,024,272</u>	<u>9,158,024</u>	<u>1,123,862</u>	<u>10,281,886</u>
Revenues over (under) expenditures	<u>(6,120,041)</u>	<u>(6,483,090)</u>	<u>477,274</u>	<u>(6,005,816)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	390,500	-	-	-
Long-term debt issued	4,546,600	4,998,901	-	4,998,901
Loan from gas fund	1,000,000	1,000,000	-	1,000,000
Appropriated fund balance	182,941	-	-	-
Total other financing sources (uses)	<u>6,120,041</u>	<u>5,998,901</u>	<u>-</u>	<u>5,998,901</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (484,189)</u>	<u>\$ 477,274</u>	<u>\$ (6,915)</u>



CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 17,523,400	\$ 18,475,115	\$ 951,715
Other fees	225,000	-	(225,000)
Other operating revenues	<u>50,000</u>	<u>184,376</u>	<u>134,376</u>
Total operating revenue	<u>17,798,400</u>	<u>18,659,491</u>	<u>861,091</u>
<b>Non-Operating Revenues:</b>			
Investment earnings	<u>75,000</u>	<u>25,862</u>	<u>(49,138)</u>
Total non-operating revenues	<u>75,000</u>	<u>25,862</u>	<u>(49,138)</u>
Total revenues	<u>17,873,400</u>	<u>18,685,353</u>	<u>811,953</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	907,298	851,030	56,268
Line operation	15,852,111	16,181,434	(329,323)
Capital outlay	<u>297,253</u>	<u>289,042</u>	<u>8,211</u>
Total costs of sales and services	<u>17,056,662</u>	<u>17,321,506</u>	<u>(264,844)</u>
Debt service:			
Principal repayment	471,850	465,314	6,536
Interest	<u>264,850</u>	<u>268,473</u>	<u>(3,623)</u>
Total debt service	<u>736,700</u>	<u>733,787</u>	<u>2,913</u>
Total expenditures	<u>17,793,362</u>	<u>18,055,293</u>	<u>(261,931)</u>
Revenues over (under) expenditures	<u>80,038</u>	<u>630,060</u>	<u>550,022</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(534,350)	(534,350)	-
Long-term debt issued	42,000	41,088	(912)
Appropriated fund balance	<u>412,312</u>	<u>-</u>	<u>(412,312)</u>
Total other financing sources (uses)	<u>(80,038)</u>	<u>(493,262)</u>	<u>(413,224)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ <u>          -</u>	136,798	\$ <u>  136,798</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		465,314	
Long-term debt issued		(41,088)	
Capital outlay		289,042	
Decrease (increase) in compensated absences		(6,774)	
Decrease (increase) in other post-employment benefits		(18,525)	
Depreciation		(561,641)	
Net Electric Capital Projects Fund activity		1,042,791	
Net Electric Reserve Fund activity		<u>          5,693</u>	
Total reconciling items		<u>1,174,812</u>	
Change in net assets		<u>\$ 1,311,610</u>	

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 ELECTRIC CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #859 - Cleveland County Grant	\$ 2,353,000	\$ 796,382	\$ 363,614	\$ 1,159,996
Project #859 - Golden Leaf Grant	1,000,000	-	193,827	193,827
Project #859 - Commerce Grant	800,000	-	477,759	477,759
Project #860 - NC DOT Grant	39,100	-	-	-
Project #862 - Solar farm electric line	160,000	142,107	1,147	143,254
Investment earnings	-	102,994	6,444	109,438
Total revenues	<u>4,352,100</u>	<u>1,041,483</u>	<u>1,042,791</u>	<u>2,084,274</u>
<b>Expenditures:</b>				
Project #853 - Aerial mapping	523,550	471,443	-	471,443
Project #859 - Foothills commerce center	6,206,000	1,592,763	2,846,938	4,439,701
Project #860 - Dekalb street	39,100	-	-	-
Project #861 - Electric line extension	642,400	321,538	438,919	760,457
Project #862 - Solar farm electric line	320,000	284,215	-	284,215
Project #863 - Underground cable FY11	150,000	-	49,136	49,136
Total expenditures	<u>7,881,050</u>	<u>2,669,959</u>	<u>3,334,993</u>	<u>6,004,952</u>
Revenues over (under) expenditures	<u>(3,528,950)</u>	<u>(1,628,476)</u>	<u>(2,292,202)</u>	<u>(3,920,678)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,695,400	1,274,457	-	1,274,457
Long-term debt issued	523,550	523,550	-	523,550
Appropriated fund balance	310,000	-	-	-
Total other financing sources (uses)	<u>3,528,950</u>	<u>1,798,007</u>	<u>-</u>	<u>1,798,007</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 169,531</u>	<u>\$ (2,292,202)</u>	<u>\$ (2,122,671)</u>

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 ELECTRIC CAPITAL RESERVE FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Non-operating revenues:			
Investment earnings	\$ -	\$ 5,693	\$ 5,693
Total non-operating revenues	<u>-</u>	<u>5,693</u>	<u>5,693</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 5,693</u>	<u>\$ 5,693</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 13,954,550	\$ 14,341,543	\$ 386,993
Other fees	36,000	48,055	12,055
Other operating revenues	-	96,138	96,138
Total operating revenue	<u>13,990,550</u>	<u>14,485,736</u>	<u>495,186</u>
<b>Non-Operating Revenues:</b>			
Grant - refund of interest expense	-	12,120	12,120
Investment earnings	100,000	23,462	(76,538)
Total non-operating revenues	<u>100,000</u>	<u>35,582</u>	<u>(64,418)</u>
Total revenues	<u>14,090,550</u>	<u>14,521,318</u>	<u>430,768</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	1,240,166	1,171,678	68,488
Line operation	9,968,850	9,483,346	485,504
Capital outlay	681,986	424,805	257,181
Total costs of sales and services	<u>11,891,002</u>	<u>11,079,829</u>	<u>811,173</u>
Debt service:			
Principal repayment	618,600	610,674	7,926
Interest	223,850	241,774	(17,924)
Total debt service	<u>842,450</u>	<u>852,448</u>	<u>(9,998)</u>
Total expenditures	<u>12,733,452</u>	<u>11,932,277</u>	<u>801,175</u>
Revenues over (under) expenditures	<u>1,357,098</u>	<u>2,589,041</u>	<u>1,231,943</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(2,746,100)	(2,746,100)	-
Long-term debt issued	71,500	68,962	(2,538)
Appropriated fund balance	1,317,502	-	(1,317,502)
Total other financing sources (uses)	<u>(1,357,098)</u>	<u>(2,677,138)</u>	<u>(1,320,040)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(88,097)	\$ (88,097)
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		610,674	
Long-term debt issued		(68,962)	
Capital outlay		424,805	
Decrease (increase) in compensated absences		14,842	
Decrease (increase) in other post-employment benefits		(25,249)	
Depreciation		(546,002)	
Net gas capital projects fund activity		<u>9,046</u>	
Total reconciling items		<u>419,154</u>	
Change in net assets		<u>\$ 331,057</u>	

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## GAS CAPITAL PROJECTS FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Investment earnings	\$ -	\$ 20,821	\$ 9,046	\$ 29,867
Total revenues	-	20,821	9,046	29,867
<b>Expenditures:</b>				
Project #876 - Airport road gas line	175,000	131,934	-	131,934
Project #877 - PPG meter station upgrade	635,000	148,447	532,565	681,012
Total expenditures	810,000	280,381	532,565	812,946
Revenues over (under) expenditures	(810,000)	(259,560)	(523,519)	(783,079)
<b>Other Financing Sources (Uses):</b>				
Long-term debt issued	635,000	635,161	-	635,161
Appropriated fund balance	175,000	-	-	-
Total other financing sources (uses)	810,000	635,161	-	635,161
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 375,601	\$ (523,519)	\$ (147,918)

## CITY OF SHELBY, NORTH CAROLINA

**ENTERPRISE FUND - HOUSING ASSISTANCE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 523,700	\$ 567,739	\$ 44,039
Other operating revenues	2,000	7,018	5,018
Total operating revenue	<u>525,700</u>	<u>574,757</u>	<u>49,057</u>
<b>Non-Operating Revenues:</b>			
Operating and capital grants	724,818	614,732	(110,086)
Investment earnings	14,000	15,003	1,003
Total non-operating revenues	<u>738,818</u>	<u>629,735</u>	<u>(109,083)</u>
Total revenues	<u>1,264,518</u>	<u>1,204,492</u>	<u>(60,026)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	324,700	344,007	(19,307)
Operating and maintenance	522,500	611,521	(89,021)
Capital outlay	391,509	166,604	224,905
Total costs of sales and services	<u>1,238,709</u>	<u>1,122,132</u>	<u>116,577</u>
Total expenditures	<u>1,238,709</u>	<u>1,122,132</u>	<u>116,577</u>
Revenues over (under) expenditures	<u>25,809</u>	<u>82,360</u>	<u>56,551</u>
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	(25,809)	-	25,809
Total other financing sources (uses)	<u>(25,809)</u>	<u>-</u>	<u>25,809</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>82,360</u>	<u>\$ 82,360</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Capital outlay		166,604	
Decrease (increase) in compensated absences		43	
Decrease (increase) in other post-employment benefits		(9,772)	
Depreciation		<u>(197,774)</u>	
Total reconciling items		<u>(40,899)</u>	
Change in net assets		<u>\$ 41,461</u>	





## **OTHER SUPPLEMENTAL INFORMATION**

This section contains additional information on capital assets, property taxes, and schedules required by the U.S. Department of Housing and Urban Development.



**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE\*  
JUNE 30, 2011**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$ 7,635,319	\$ 7,402,923	\$ 232,396
2009-2010	242,470	-	191,334	51,136
2008-2009	57,170	-	27,896	29,274
2007-2008	35,355	-	10,781	24,574
2006-2007	26,215	-	3,553	22,662
2005-2006	24,842	-	2,797	22,045
2004-2005	18,884	-	2,501	16,383
2003-2004	16,265	-	1,318	14,947
2002-2003	17,753	-	1,392	16,361
2001-2002	13,334	-	1,238	12,096
2000-2001	<u>12,662</u>	<u>-</u>	<u>12,662</u>	<u>-</u>
 Total	 <u>\$ 464,950</u>	 <u>\$ 7,635,319</u>	 <u>\$ 7,658,395</u>	 441,874
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(183,000)</u>
Ad valorem taxes receivable, net				<u>\$ 258,874</u>
 <b>Reconciliation with Revenues:</b>				
Ad valorem taxes - General Fund				\$ 7,577,457
Ad valorem taxes - Special Revenue Fund				108,071
Interest and penalties collected				(57,297)
Discounts allowed				14,919
Miscellaneous adjustments				2,583
Arrears written off for tax year 2000-2001 per Statute of Limitations				<u>12,662</u>
Total collections and credits				<u>\$ 7,658,395</u>

\*Schedule includes both City-wide and municipal service district taxes.

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
ALL DISTRICTS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,653,431,264	\$ 0.435	\$ 7,192,426	\$ 6,679,281	\$ 513,145
Municipal service district taxed at current year's rate	<u>50,625,954</u>	0.655	<u>331,600</u>	<u>314,667</u>	<u>16,933</u>
Total	<u>1,704,057,218</u>		<u>7,524,026</u>	<u>6,993,948</u>	<u>530,078</u>
<b>Discoveries:</b>					
Property taxed at current year's rate	36,435,862	0.435	158,496	158,231	265
Municipal service district taxed at current year's rate	<u>96,794</u>	0.655	<u>634</u>	<u>634</u>	<u>-</u>
Total	<u>36,532,656</u>		<u>159,130</u>	<u>158,865</u>	<u>265</u>
<b>Abatements:</b>					
Property taxed at current year's rate	10,183,678	0.435	44,299	35,928	8,371
Municipal service district taxed at current year's rate	<u>540,153</u>	0.655	<u>3,538</u>	<u>2,608</u>	<u>930</u>
Total	<u>10,723,831</u>		<u>47,837</u>	<u>38,536</u>	<u>9,301</u>
Total property valuation	<u>\$ 1,729,866,043</u>				
<b>Net Levy</b>			7,635,319	7,114,277	521,042
Uncollected taxes at June 30, 2011			<u>232,396</u>	<u>159,086</u>	<u>73,310</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 7,402,923</u>	<u>\$ 6,955,191</u>	<u>\$ 447,732</u>
<b>Current Levy Collection Percentage</b>			<u>96.96%</u>	<u>97.76%</u>	<u>85.93%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>96.83%</u>	<u>97.71%</u>	<u>85.39%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
CITY-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2011

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,653,431,264	\$ 0.435	\$ 7,192,426	\$ 6,679,281	\$ 513,145
<b>Discoveries:</b>					
Property taxed at current year's rate	36,435,862	0.435	158,496	158,231	265
<b>Abatements:</b>					
Property taxed at current year's rate	<u>10,183,678</u>	0.435	<u>44,299</u>	<u>35,928</u>	<u>8,371</u>
Total property valuation	<u>\$ 1,679,683,448</u>				
<b>Net Levy</b>			7,306,623	6,801,584	505,039
Uncollected taxes at June 30, 2011			<u>217,234</u>	<u>144,423</u>	<u>72,811</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 7,089,389</u>	<u>\$ 6,657,161</u>	<u>\$ 432,228</u>
<b>Current Levy Collection Percentage</b>			<u>97.03%</u>	<u>97.88%</u>	<u>85.58%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>96.74%</u>	<u>97.65%</u>	<u>85.27%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
MUNICIPAL SERVICE DISTRICT LEVY  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Municipal Service District</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 50,625,954	\$ 0.655	\$ 331,600	\$ 314,667	\$ 16,933
<b>Discoveries:</b>					
Property taxed at current year's rate	96,794	0.655	634	634	-
<b>Abatements:</b>					
Property taxed at current year's rate	<u>540,153</u>	0.655	<u>3,538</u>	<u>2,608</u>	<u>930</u>
Total property valuation	<u>\$ 50,182,595</u>				
<b>Net Levy</b>			328,696	312,693	16,003
Uncollected taxes at June 30, 2011			<u>15,162</u>	<u>14,663</u>	<u>499</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 313,534</u>	<u>\$ 298,030</u>	<u>\$ 15,504</u>
<b>Current Levy Collection Percentage</b>			<u>95.39%</u>	<u>95.31%</u>	<u>96.88%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>98.81%</u>	<u>98.99%</u>	<u>92.71%</u>

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2011

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	<b>Assets:</b>			
	Current assets:			
	Cash:			
111	Cash - unrestricted	\$ 155,735	\$ -	\$ 155,735
114	Cash - tenant security deposits	38,150	-	38,150
100	Total cash	193,885	-	193,885
	Accounts and notes receivables:			
124	Accounts receivable - other governments	167,237	-	167,237
126	Accounts receivable - tenant - dwelling rents	833	-	833
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-
129	Accrued interest receivable	4,477	-	4,477
120	Total receivables, net allowances for uncollectibles	172,547	-	172,547
131	Investments - unrestricted	1,939,064	-	1,939,064
142	Prepaid expenses and other assets	242	-	242
150	Total current assets	2,305,738	-	2,305,738
	Non-current assets:			
	Fixed assets:			
161	Land	234,411	-	234,411
162	Buildings	8,604,112	200,357	8,804,469
163	Furniture, equipment and machinery - dwellings	303,422	-	303,422
166	Accumulated depreciation	(4,588,559)	-	(4,588,559)
160	Total fixed assets, net of accumulated depreciation	4,553,386	200,357	4,753,743
180	Total non-current assets	4,553,386	200,357	4,753,743
190	Total assets	\$ 6,859,124	\$ 200,357	\$ 7,059,481
	<b>Liabilities and Equity:</b>			
	Liabilities:			
	Current liabilities:			
312	Accounts payable < 90 days	\$ 28,851	\$ -	\$ 28,851
321	Accrued wages/payroll taxes payable	3,109	-	3,109
322	Accrued compensated absences	23,000	-	23,000
341	Tenant security deposits	38,150	-	38,150
310	Total current liabilities	93,110	-	93,110
	Non-current liabilities:			
354	Accrued compensated absences - non-current	8,182	-	8,182
	Other post employment benefits	34,336	-	34,336
350	Total non-current liabilities	42,518	-	42,518
300	Total liabilities	135,628	-	135,628
	Net assets:			
508.1	Invested in capital assets, net of related debt	4,553,386	200,357	4,753,743
512.1	Unrestricted net assets	2,170,110	-	2,170,110
513	Total net assets	6,723,496	200,357	6,923,853
600	Total liabilities and net assets	\$ 6,859,124	\$ 200,357	\$ 7,059,481

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
<b>Revenue:</b>				
703	Net tenant rental revenue	\$ 561,935	\$ -	\$ 561,935
704	Tenant revenue - other	5,804	-	5,804
705	Total tenant revenue	567,739	-	567,739
706	HUD PHA operating grants	414,375	-	414,375
706.1	HUD PHA capital grants	-	200,357	200,357
711	Investment income - unrestricted	15,003	-	15,003
715	Other revenues	7,018	-	7,018
700	Total revenues	1,004,135	200,357	1,204,492
<b>Expenses:</b>				
Administrative:				
911	Administrative salaries	251,296	-	251,296
915	Employee benefit contributions - administrative	89,293	-	89,293
916	Other operating - administrative	11,350	-	11,350
Tenant services:				
924	Tenant services - other	2,317	-	2,317
Utilities:				
931	Water	101,054	-	101,054
932	Electricity	120,549	-	120,549
933	Gas	122,362	-	122,362
942	Ordinary maintenance and operation - materials and other	96,256	-	96,256
943	Ordinary maintenance and operation - contract costs	62,020	-	62,020
General expenses:				
961	Insurance premiums	27,325	-	27,325
962	Other general expenses	14,666	-	14,666
962.1	Compensated absences	22,563	-	22,563
963	Payments in lieu of taxes	29,164	-	29,164
964	Bad debt - tenant rents	4,709	-	4,709
969	Total operating expenses	954,924	-	954,924
970	Excess operating revenue over operating expenses	49,211	200,357	249,568
971	Extraordinary maintenance	10,333	-	10,333
974	Depreciation expense	197,774	-	197,774
900	Total expenses	1,163,031	-	1,163,031
1000	Excess (deficiency) of revenue over expenses	\$ (158,896)	\$ 200,357	\$ 41,461
MEMO Account Information				
1103	Beginning equity	\$ 6,654,957	\$ 227,435	\$ 6,882,392
1104	Prior period adjustments, equity transfers and corrections of errors	227,435	(227,435)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,060	-	2,060





**CITY OF SHELBY, NORTH CAROLINA**

**STATEMENT OF PROGRAM COSTS - COMPLETED  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Program Name</u>	<u>CFDA #</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>		
			<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>
Capital Fund Program (CFP): NC19PO3450109	14.872	\$ 289,762	\$ 289,762	\$ 97,516	\$ 192,246
Capital Fund Program (CFP): NC19PO3450110	14.872	\$ 286,118	\$ 3,470	\$ -	\$ 3,470

Schedule I-3

<b>Funds Expended</b>			<b>Excess (Deficiency of)</b>	
<b>Ending Balance</b>	<b>Prior Audit</b>	<b>Current Year</b>	<b>Funds Approved</b>	<b>Funds Advanced</b>
\$ 289,762	\$ 92,875	\$ 196,887	\$ -	\$ -
\$ 3,470	\$ -	\$ 3,470	\$ 282,648	\$ -





## STATISTICAL SECTION

This part of the City of Shelby's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the City's overall financial condition. The schedules included in this section can be categorized as follows:

### Financial Trends (Page 97-101)

*These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.*

### Revenue Capacity (Page 102-106)

*These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.*

### Debt Capacity (Page 107-112)

*These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.*

### Demographic and Economic Information (Page 113-115)

*These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.*

### Operating Information (Page 116-117)

*These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.*

Unless otherwise noted, the information shown on the attached schedules was derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year.



City of Shelby, North Carolina  
 Net Asset by Components  
 Last Nine Fiscal Years  
 (accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental Activities</b>									
Invested in capital assets, net of related debt	\$ 17,989	\$ 19,086	\$ 18,667	\$ 18,755	\$ 24,599	\$ 25,834	\$ 26,977	\$ 29,009	\$ 32,852
Restricted	1,201	718	755	832	1,035	1,183	1,465	1,571	5,639
Unrestricted	4,528	4,233	4,151	5,283	5,576	5,490	6,281	4,906	(1,565)
Total governmental activities net assets	\$ 23,718	\$ 24,037	\$ 23,573	\$ 24,870	\$ 31,210	\$ 32,507	\$ 34,723	\$ 35,486	\$ 36,926
<b>Business-Type Activities</b>									
Invested in capital assets, net of related debt	\$ 37,774	\$ 41,302	\$ 38,561	\$ 41,578	\$ 44,008	\$ 46,892	\$ 56,416	\$ 53,425	\$ 60,461
Unrestricted	17,142	16,735	21,173	20,507	23,828	23,064	18,436	24,731	22,245
Total business-type activities net assets	\$ 54,916	\$ 58,037	\$ 59,734	\$ 62,085	\$ 67,836	\$ 69,956	\$ 74,852	\$ 78,156	\$ 82,706
<b>Primary Government</b>									
Invested in capital assets, net of related debt	\$ 55,763	\$ 60,388	\$ 57,228	\$ 60,333	\$ 68,607	\$ 72,726	\$ 83,393	\$ 82,434	\$ 93,313
Restricted	1,201	718	755	832	1,035	1,183	1,465	1,571	5,639
Unrestricted	21,670	20,968	25,324	25,790	29,404	28,554	24,717	29,637	20,680
Total primary government net assets	\$ 78,634	\$ 82,074	\$ 83,307	\$ 86,955	\$ 99,046	\$ 102,463	\$ 109,575	\$ 113,642	\$ 119,632

**Note:**  
 (1) Nine years presented due to implementation of GASB STATEMENT 34 in Fiscal Year 2004.

City of Shelby, North Carolina  
**Changes in Net Assets by Component**  
**Last Nine Fiscal Years**  
**(accrual basis of accounting - in thousands of dollars)**

	Fiscal Year Ended June 30								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>									
Governmental activities:									
General government	\$ 1,764	\$ 2,018	\$ 1,882	\$ 1,846	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258
Public safety	7,637	7,998	8,429	8,114	8,683	8,899	9,565	9,669	9,701
Transportation	2,268	2,263	2,122	1,955	1,677	2,160	2,108	2,532	2,481
Environmental protection	1,656	1,682	1,755	1,420	1,390	1,427	1,563	1,444	1,479
Cultural and recreational	1,872	1,984	2,130	2,029	1,982	2,039	2,140	1,967	939
Housing and redevelopment	340	328	310	281	856	103	192	209	267
Interest on long-term debt	130	125	152	175	144	130	75	95	73
Total governmental activities expenses	<u>15,667</u>	<u>16,398</u>	<u>16,780</u>	<u>15,820</u>	<u>16,940</u>	<u>17,161</u>	<u>18,046</u>	<u>18,228</u>	<u>18,198</u>
Business-type activities:									
Water	2,927	2,620	3,007	2,920	2,970	3,334	3,605	3,321	3,693
Sewer	2,651	2,660	3,003	2,790	2,852	2,976	3,522	3,407	3,687
Electric	13,996	13,874	14,199	14,806	14,897	15,814	15,980	16,999	17,888
Gas	24,248	24,020	27,704	34,113	15,780	18,404	16,222	12,806	11,453
Housing assistance	1,145	1,140	1,330	1,180	1,140	1,030	1,119	1,083	1,163
Total business-type activities expenses	<u>44,967</u>	<u>44,314</u>	<u>49,243</u>	<u>55,809</u>	<u>37,639</u>	<u>41,558</u>	<u>40,448</u>	<u>37,616</u>	<u>37,884</u>
Total primary governmental expenses	<u>\$ 60,634</u>	<u>\$ 60,712</u>	<u>\$ 66,023</u>	<u>\$ 71,629</u>	<u>\$ 54,579</u>	<u>\$ 58,719</u>	<u>\$ 58,494</u>	<u>\$ 55,844</u>	<u>\$ 56,082</u>
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
General government	\$ 248	\$ 194	\$ 223	\$ 33	\$ 19	\$ 15	\$ 2	\$ 4	\$ 365
Public safety	6	6	6	229	248	357	228	265	23
Transportation	-	-	-	1	1	110	195	209	261
Environmental protection	448	476	565	595	598	631	873	833	863
Cultural and recreational	271	259	272	276	280	309	320	338	318
Housing and redevelopment	-	-	-	-	-	-	-	-	127
Operating grants and contributions:									
General government	153	258	384	10	-	-	154	4	55
Public safety	11	12	9	245	524	252	268	476	1,098
Transportation	1,110	-	-	-	-	-	26	20	15
Environmental protection	2	-	-	-	-	-	-	-	-
Cultural and recreational	8	-	-	-	-	-	-	-	5
Housing and redevelopment	-	-	-	11	560	3	81	93	-
Capital grants and contributions									
General government	-	-	-	-	-	-	32	-	-
Public safety	187	-	-	-	-	-	250	112	242
Transportation	279	2,070	1,008	1,004	1,329	2,051	2,236	1,664	315
Cultural and recreational	-	-	-	-	821	-	-	44	456
Housing and redevelopment	-	-	-	-	-	-	194	-	-
Total governmental activities program revenues	<u>2,723</u>	<u>3,275</u>	<u>2,467</u>	<u>2,404</u>	<u>4,380</u>	<u>3,728</u>	<u>4,859</u>	<u>4,062</u>	<u>4,143</u>
Business-type activities:									
Charges for services:									
Water	3,065	3,265	3,171	3,519	3,397	3,464	3,372	3,318	3,909
Sewer	2,869	2,834	3,319	3,440	3,735	3,763	4,030	3,983	4,485
Electric	14,632	14,803	14,895	15,529	16,907	17,333	17,398	17,591	18,659
Gas	28,243	27,853	30,742	36,599	18,758	20,017	18,517	15,676	14,486
Housing assistance	498	487	484	505	514	521	564	577	575
Operating grants and contributions									
Water	245	8	15	-	-	-	-	-	105
Sewer	5	-	57	-	-	-	-	-	43
Electric	196	-	-	-	214	-	-	-	-
Gas	3	-	-	-	-	-	-	-	12
Housing assistance	506	524	724	500	474	425	430	476	414
Capital grants and contributions									
Water	3,740	110	16	-	18	-	-	-	90
Sewer	-	-	-	-	112	-	1,670	955	1,589
Electric	-	-	-	-	-	-	696	242	1,036
Housing assistance	500	312	73	263	261	284	576	227	200
Total business-type activities program revenues	<u>54,502</u>	<u>50,196</u>	<u>53,496</u>	<u>60,355</u>	<u>44,390</u>	<u>45,807</u>	<u>47,253</u>	<u>43,045</u>	<u>45,603</u>
Total primary governmental program revenues	<u>\$ 57,225</u>	<u>\$ 53,471</u>	<u>\$ 55,963</u>	<u>\$ 62,759</u>	<u>\$ 48,770</u>	<u>\$ 49,535</u>	<u>\$ 52,112</u>	<u>\$ 47,107</u>	<u>\$ 49,746</u>
Net (expense)/revenue									
Governmental activities	\$ (12,944)	\$ (13,123)	\$ (14,313)	\$ (13,416)	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)
Business-type activities	<u>9,535</u>	<u>5,882</u>	<u>4,253</u>	<u>4,546</u>	<u>6,751</u>	<u>4,249</u>	<u>6,805</u>	<u>5,429</u>	<u>7,719</u>
Total primary governmental net expenses (revenues)	<u>\$ (3,409)</u>	<u>\$ (7,241)</u>	<u>\$ (10,060)</u>	<u>\$ (8,870)</u>	<u>\$ (5,809)</u>	<u>\$ (9,184)</u>	<u>\$ (6,382)</u>	<u>\$ (8,737)</u>	<u>\$ (6,336)</u>



City of Shelby, North Carolina  
**Changes in Net Assets by Component**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Revenues and Other Changes in Net Assets</b>									
Governmental activities:									
Taxes:									
Property taxes, levied for general purpose	\$ 5,204	\$ 5,966	\$ 6,540	\$ 6,739	\$ 7,144	\$ 7,277	\$ 7,856	\$ 7,587	\$ 7,663
Sales tax	2,039	2,394	2,522	2,759	2,972	2,967	2,831	2,669	2,732
Franchise tax	1,511	1,458	1,303	1,362	1,385	1,503	1,551	1,540	1,582
Other taxes	275	401	344	241	230	298	303	237	95
Miscellaneous	143	100	145	335	454	264	270	261	-
Unrestricted Investment earnings	180	105	145	399	300	304	197	173	143
Contributions to permanent fund principal	7	11	7	17	59	25	42	108	-
Transfers	3,056	3,007	2,844	2,859	2,110	2,091	2,351	2,350	3,280
Total governmental activities	<u>12,415</u>	<u>13,442</u>	<u>13,850</u>	<u>14,711</u>	<u>14,654</u>	<u>14,729</u>	<u>15,401</u>	<u>14,925</u>	<u>15,495</u>
Business-type activities:									
Unrestricted Investment earnings	422	216	425	663	1,004	996	441	225	111
Miscellaneous	134	30	15	-	106	-	-	-	-
Transfers	(3,056)	(3,007)	(2,844)	(2,859)	(2,110)	(2,091)	(2,351)	(2,350)	(3,280)
Total business-type activities	<u>(2,500)</u>	<u>(2,761)</u>	<u>(2,404)</u>	<u>(2,196)</u>	<u>(1,000)</u>	<u>(1,095)</u>	<u>(1,910)</u>	<u>(2,125)</u>	<u>(3,169)</u>
Total primary government	<u>\$ 9,915</u>	<u>\$ 10,681</u>	<u>\$ 11,446</u>	<u>\$ 12,515</u>	<u>\$ 13,654</u>	<u>\$ 13,634</u>	<u>\$ 13,491</u>	<u>\$ 12,800</u>	<u>\$ 12,326</u>
<b>Change in Net Assets</b>									
Governmental activities	(529)	319	(463)	1,295	2,094	1,296	2,214	759	1,440
Business-type activities	7,035	3,121	1,849	2,350	5,751	3,154	4,895	3,304	4,550
Total primary government	<u>\$ 6,506</u>	<u>\$ 3,440</u>	<u>\$ 1,386</u>	<u>\$ 3,645</u>	<u>\$ 7,845</u>	<u>\$ 4,450</u>	<u>\$ 7,109</u>	<u>\$ 4,063</u>	<u>\$ 5,990</u>

Notes:

(1) Nine years presented due to implementation of GASB STATEMENT 34 in Fiscal Year 2004.

City of Shelby, North Carolina  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting -- in thousands of dollars)

	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved	\$ 1,653	\$ 2,291	\$ 2,535	\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088	\$ -
Unreserved	3,543	3,689	3,526	3,721	3,271	3,189	3,424	3,851	2,987	-
Non-spendable	-	-	-	-	-	-	-	-	-	521
Restricted	-	-	-	-	-	-	-	-	-	6,732
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	88
Unassigned	-	-	-	-	-	-	-	-	-	580
Total General Fund	\$ 5,196	\$ 5,980	\$ 6,061	\$ 6,287	\$ 6,486	\$ 6,192	\$ 6,551	\$ 7,344	\$ 8,075	\$ 7,921
All other governmental funds										
Reserved	\$ 230	\$ 232	\$ 238	\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285	\$ 487	\$ -
Unreserved, reported in:										
Special Revenue Fund	473	386	326	315	262	324	286	328	247	-
Capital Projects Fund	-	-	(517)	-	-	(88)	-	-	-	-
Non-spendable:										
Permanent funds	-	-	-	-	-	-	-	-	-	522
Restricted:										
Special Revenue Fund	-	-	-	-	-	-	-	-	-	90
Capital Projects Fund	-	-	-	-	-	-	-	-	-	762
Assigned:										
Special Revenue Fund	-	-	-	-	-	-	-	-	-	164
Unassigned:										
Capital Projects Fund	-	-	-	-	-	-	-	-	-	(730)
Total all other governmental funds	\$ 703	\$ 618	\$ 47	\$ 590	\$ 524	\$ 777	\$ 731	\$ 1,613	\$ 734	\$ 808

**City of Shelby, North Carolina**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting - in thousands of dollars)**

	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Ad valorem taxes	\$ 5,217	\$ 5,160	\$ 5,923	\$ 6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686
Other taxes and licenses	1,896	2,055	2,403	2,524	2,762	2,976	2,969	2,858	2,682	2,733
Unrestricted intergovernmental revenues	1,319	1,812	1,850	1,644	1,627	1,686	1,864	1,887	1,793	1,837
Restricted intergovernmental revenues	1,098	1,723	2,340	1,400	1,307	2,415	2,328	3,172	2,338	1,933
Permits and fees	171	156	127	140	221	237	216	213	254	272
Sales and services	662	801	809	926	913	910	1,207	1,405	1,396	1,472
Investment earnings	186	180	100	145	335	300	304	197	173	143
Donations	-	-	-	7	17	69	25	42	108	47
Miscellaneous	84	87	119	135	205	319	167	187	189	206
Total revenues	10,623	11,974	13,682	13,466	14,157	15,641	16,772	17,912	16,688	16,329
<b>Expenditures</b>										
General government	1,803	1,541	1,686	1,638	1,674	2,094	2,280	2,222	2,067	3,034
Public safety	6,520	6,746	6,906	7,898	7,706	8,336	8,598	8,677	8,877	9,814
Transportation	1,522	2,214	2,497	988	1,692	1,362	1,872	1,763	2,034	2,490
Environmental protection	1,727	1,512	1,384	1,917	1,158	1,078	1,111	1,225	1,219	1,277
Cultural and recreational	2,191	1,769	1,799	1,700	1,810	1,731	1,794	1,826	1,703	2,083
Housing and redevelopment	274	226	590	890	287	855	103	192	209	267
Capital outlay	51	1,171	2,630	2,542	1,984	1,240	1,788	3,216	3,356	-
Debt service:										
Principal	365	317	425	612	1,027	1,147	1,124	1,004	869	716
Interest and other charges	143	127	124	124	186	168	136	79	95	82
Total expenditures	14,596	15,623	18,041	18,309	17,524	18,011	18,806	20,204	20,429	19,763
Excess of revenues over (under) expenditures	(3,973)	(3,649)	(4,359)	(4,843)	(3,367)	(2,370)	(2,034)	(2,292)	(3,741)	(3,434)
<b>Other financing sources (uses)</b>										
Transfers from other funds	3,026	3,060	3,182	2,982	2,936	2,381	2,155	2,695	2,886	3,685
Transfers from component unit	119	-	-	-	-	-	-	-	-	-
Transfers to other funds	-	(4)	(175)	(137)	(77)	(271)	(64)	(344)	(536)	(404)
Installment debt issued	-	494	858	2,747	509	172	246	1,616	707	510
Proceeds from sale of assets	37	84	6	21	131	47	11	13	28	54
Increase in inventory	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,182	3,634	3,871	5,613	3,499	2,329	2,348	3,980	3,085	3,845
Net change in fund balance	\$ (791)	\$ (15)	\$ (488)	\$ 770	\$ 132	\$ (41)	\$ 314	\$ 1,688	\$ (656)	\$ 411
Debt services as a percentage of non-capital expenditures	3.49%	3.07%	3.56%	4.67%	7.81%	7.84%	7.40%	6.38%	5.65%	4.04%

City of Shelby, North Carolina  
 General Government Tax Revenues By Source\*  
 Last Ten Fiscal Years

Year Ended June 30	Ad Valorem	Sales	Intangibles	Utility Franchise	Beer and Wine	Inventory	Food Stamp	Licenses and CATV Franchise	Total
2002	\$ 5,216,648	\$ 1,884,088	\$ 143,260	\$ 799,162	\$ -	\$ 76,307	\$ 8,339	\$ 164,374	\$ 8,292,178
2003	5,160,019	2,038,604	-	1,358,970	82,813	-	-	151,632	8,792,038
2004	5,922,699	2,393,588	-	1,297,924	89,640	-	-	160,243	9,864,094
2005	6,545,205	2,521,613	-	1,128,509	92,890	-	-	174,255	10,462,472
2006	6,770,471	2,759,114	-	1,181,332	92,566	-	-	180,671	10,984,154
2007	6,729,415	2,971,686	-	1,263,696	94,331	-	-	121,166	11,180,294
2008	7,691,627	2,966,596	-	1,503,349	96,103	-	-	-	12,257,675
2009	7,950,913	2,830,915	-	1,550,877	93,190	-	-	-	12,425,895
2010	7,754,894	2,669,105	-	1,540,052	31,178	-	-	-	11,995,229
2011	7,685,528	2,732,493	-	1,581,881	93,593	-	-	-	12,093,495

\* Includes General and Special Revenue Funds.

**City of Shelby, North Carolina**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years (in thousands of dollars)**

<u>Year Ended June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies</u>	<u>Total Assessed Value*</u>	<u>Total Direct Tax Rate</u>
2002	\$ 877,479	\$ 306,710	\$ 24,370	\$ 1,208,559	0.420
2003	953,608	226,078	24,482	1,204,168	0.420
2004	1,130,002	241,081	22,137	1,393,220	0.420
2005**	1,158,263	327,398	38,729	1,524,390	0.420
2006	1,176,662	345,669	41,194	1,563,525	0.420
2007	1,191,948	427,287	46,759	1,665,994	0.420
2008	1,198,940	410,032	45,676	1,654,648	0.435
2009**	1,285,067	434,154	46,856	1,766,077	0.435
2010	1,214,457	469,579	47,324	1,731,360	0.435
2011	1,346,266	351,316	32,284	1,729,866	0.435

**Source:** Cleveland County Tax Collectors Office

\* The City's property tax rate is levied each July 1st on the assessed value listed as of the prior January 1st for all real and personal property located within the City. Assessed valuations are established by Cleveland County at 100% of the estimated market value. Public Service Company property is certified by the State of North Carolina at 100% of actual value, with no distinction between real and personal property values. The City implemented a staggered motor vehicle property tax billing system during 1993-1994, which was required by State Statute. Under this system, property taxes are billed as motor vehicle registrations are renewed.

\*\* A revaluation of real property is required by North Carolina General Statutes at least every eight years (Cleveland County conducts a revaluation every four years). The last revaluation was completed in 2008.

**Note:** Includes Municipal Service District

**City of Shelby, North Carolina**  
**Property Tax Rates**  
**Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

<u>Year Ended June 30</u>	<u>City of Shelby</u>	<b>Uptown Shelby Municipal Service District</b>	<u>Cleveland County</u>	<u>City School District</u>	<u>County School District</u>
2002	0.42	0.27	0.62	N/A	0.16
2003	0.42	0.27	0.62	N/A	0.16
2004	0.42	0.27	0.62	N/A	0.16
2005	0.42	0.27	0.62	N/A	0.16
2006	0.42	0.27	0.58	N/A	0.15
2007	0.42	0.27	0.58	N/A	0.15
2008	0.435	0.22	0.58	N/A	0.15
2009	0.435	0.22	0.58	N/A	0.15
2010	0.435	0.22	0.57	N/A	0.15
2011	0.435	0.22	0.57	N/A	0.15

**City of Shelby, North Carolina  
Principal Property Taxpayers  
Current Year and Ten Years Ago (in thousands of dollars)**

Taxpayer	2011			2002		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
PPG Industries Inc.	\$ 93,400	1	5.40%	\$ -		0.00%
Wal-Mart	75,454	2	4.36%	9,075	6	0.75%
Curtis Wright Controls Inc	14,646	3	0.85%	-		0.00%
Shelby Mall LLC	13,606	4	0.79%	11,541	5	0.95%
Duke Energy Corp	12,277	5	0.71%	7,683	8	0.64%
Lowe's Home Centers Inc.	12,000	6	0.69%	7,523	9	0.62%
Ultra Machine & Fabrication	9,329	7	0.54%	-		0.00%
Bell South Telephone Company	8,137	8	0.47%	13,927	4	1.15%
Carlisle At Delta Park LLC	7,134	9	0.41%	-		0.00%
Shelby Loan & Mortgage Co.	5,906	10	0.34%	-		0.00%
Copeland Corp	-		0.00%	48,652	1	4.03%
Kemet Electronics	-		0.00%	20,945	3	1.73%
Fasco Inc	-		0.00%	21,318	2	1.76%
Dacey Mills	-		0.00%	7,289	10	0.60%
PNC Leasing LLC	-		0.00%	8,140	7	0.67%
Totals	<u>\$ 251,889</u>		<u>14.56%</u>	<u>\$ 156,093</u>		<u>12.92%</u>
Total Taxable Assessed Value	<u>\$ 1,729,866</u>			<u>\$ 1,208,559</u>		

**Source:** Cleveland County Tax Assessor's Office

City of Shelby, North Carolina  
 Property Tax Levies and Collections  
 Last Ten Fiscal Years (in thousands of dollars)

Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Current Outstanding Balance	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2002	\$ 5,261	\$ 5,028	95.57%	\$ 8	225	\$ 5,253	99.85%
2003	5,188	4,928	94.99%	6	254	5,182	99.88%
2004	5,984	5,711	95.44%	7	266	5,977	99.88%
2005	6,547	6,290	96.07%	7	250	6,540	99.89%
2006	6,723	6,467	96.19%	10	246	6,713	99.86%
2007	7,148	6,489	90.78%	11	648	7,137	99.85%
2008	7,300	7,033	96.34%	12	255	7,288	99.83%
2009	7,791	7,474	95.93%	14	303	7,777	99.83%
2010	7,641	7,398	96.82%	73	170	7,568	99.05%
2011	7,635	7,403	96.96%	232	-	7,403	96.96%



City of Shelby, North Carolina  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years (in thousands of dollars, except per capita amount)

Year Ended June 30	Governmental Activities			Business-Type Activities				Total Primary Government	(County) Personal Income (amounts expressed in thousands)	Percentage of Personal Income	(County)	
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations	Per Capita Personal Income	Per Capita					
2002	\$ 2,567	\$ 4,725	\$ 25,643	\$ 8,195	\$ 457	\$ 41,587	\$ 2,250,644	1.85%	\$ 23,049	\$ 2,126		
2003	2,743	4,130	25,058	7,610	889	40,430	2,322,298	1.74%	23,656	1,963		
2004	3,176	3,540	24,443	7,024	1,050	39,233	2,457,323	1.60%	24,831	1,849		
2005	5,311	955	24,670	6,439	968	38,343	2,558,000	1.50%	26,104	1,830		
2006	4,794	630	23,380	5,854	921	35,579	2,645,000	1.35%	27,058	1,704		
2007	3,819	310	22,055	5,268	760	32,212	2,845,959	1.13%	28,151	1,544		
2008	2,942	-	24,546	4,683	967	33,138	2,932,307	1.13%	27,466	1,597		
2009	3,553	-	22,773	4,098	1,004	31,428	2,947,603	1.07%	N/A	1,510		
2010	3,391	-	29,282	3,512	925	37,110	N/A	N/A	N/A	1,785		
2011	3,185	-	27,299	2,927	1,117	34,528	N/A	N/A	N/A	1,699		

N/A - Information not available.

**City of Shelby, North Carolina**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years (in thousands of dollars, except per capita)**

<u>Year Ended June 30</u>	<u>General Obligation Bonds</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
2002	\$ 4,725	0.39%	\$ 242
2003	4,130	0.34%	200
2004	3,540	0.25%	167
2005	955	0.06%	46
2006	630	0.04%	30
2007	310	0.02%	15
2008	-	0.00%	N/A
2009	-	0.00%	N/A
2010	-	0.00%	N/A
2011	-	0.00%	N/A

**City of Shelby, North Carolina**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2011**

	<u>Net General Obligation Bonded Debt</u>	<u>Percentage Applicable To City**</u>	<u>City of Shelby Share of Debt</u>
Direct debt - City of Shelby*	\$ -	100.00%	\$ -
Overlapping debt - Cleveland County	<u>1,350,000</u>	21.45%	<u>289,575</u>
Total direct and overlapping debt	<u>\$ 1,350,000</u>		<u>\$ 289,575</u>

\*General obligation bonds only

\*\*Percentage of Direct and Overlapping Debt is based on 2011 Assessed valuation of Cleveland County as compared to the 2011 Assessed Valuation of the City of Shelby.

**City of Shelby, North Carolina**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years (in thousands of dollars)**

<u>Year Ended June 30</u>	<u>Debt Limits 8% of Assessed Value</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</u>
2002	\$ 96,685	\$ 7,748	\$ 88,936	8.01%
2003	96,333	7,763	88,570	8.06%
2004	111,458	3,540	107,918	3.18%
2005	121,951	7,235	114,716	5.93%
2006	125,082	6,345	118,737	5.07%
2007	133,280	4,889	128,391	3.67%
2008	132,372	3,877	128,495	2.93%
2009	141,286	4,557	136,729	3.23%
2010	138,508	4,316	134,192	3.12%
2011	138,389	4,302	134,087	3.11%

**City of Shelby, North Carolina**  
**Computation of Legal Debt Margin**  
**June 30, 2011**

Assessed value of taxable property				\$	<u>1,729,866,043</u>
Debt limit -- eight percent (8%) of assessed value					138,389,283
Gross debt:					
Revenue bonds	\$	27,298,671			
State revolving loan		2,926,847			
Other financing agreements/notes payable		4,302,200	\$	34,527,718	
Statutory deductions:					
Revenue bonds		27,298,671			
State revolving loan		2,926,847		30,225,518	
Total amount of debt applicable to debt limitation					<u>4,302,200</u>
Legal debt margin				\$	<u>134,087,083</u>

City of Shelby, North Carolina  
Pledged Revenue Coverage  
Last Ten Fiscal Years

Year Ended June 30	Gross Revenues*		Operating Expenses**	Net Revenue Available For Debt Service	Debt Service Requirements***			Coverage
					Principal	Interest	Total	
2002	\$ 38,449,284	\$ 32,448,248	\$ 6,001,036	\$ 560,000	\$ 718,886	\$ 1,278,886	469%	
2003	48,809,856	40,967,897	7,841,959	585,000	692,566	1,277,566	614%	
2004	48,754,821	40,363,242	8,391,579	615,000	664,486	1,279,486	656%	
2005	52,126,682	44,445,623	7,681,059	645,000	634,351	1,279,351	600%	
2006	59,087,999	51,392,662	7,695,337	1,290,000	971,269	2,261,269	340%	
2007	42,797,066	33,504,075	9,292,991	1,325,000	931,264	2,256,264	412%	
2008	44,577,279	37,208,269	7,369,010	1,345,000	1,097,683	2,442,683	302%	
2009	43,317,051	35,794,720	7,522,331	1,772,387	1,175,118	2,947,505	255%	
2010	40,568,116	32,886,694	7,681,422	1,838,028	910,078	2,748,106	280%	
2011	41,539,114	32,635,437	8,903,677	1,982,814	1,283,712	3,266,526	273%	

\* Total operating revenues

\*\* Total operating expenses exclusive of depreciation

\*\*\* Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the enterprise funds or debt defeasance transactions.

**City of Shelby, North Carolina  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Year Ended June 30</b>	<b>(1) Population</b>	<b>(2) Per Capita Income</b>	<b>(2) Median Age</b>	<b>(3) School Enrollment</b>	<b>(4) Unemployment Rate</b>	<b>(5) Personal Income</b>
2002	19,562	\$ 23,049	37.0	3,219	12.2%	\$ 2,322,298
2003	20,600	23,656	37.3	3,076	11.1%	2,457,323
2004	21,215	24,831	37.6	3,139	9.3%	2,507,661
2005	20,957	26,104	37.8	17,182	7.4%	2,558,000
2006	20,876	27,058	37.9	17,035	6.8%	2,645,000
2007	20,863	28,151	38.7	17,060	7.1%	2,845,959
2008	20,745	27,466	38.2	16,580	7.9%	2,932,307
2009	20,808	29,692	39.2	16,738	15.4%	2,947,603
2010	20,793	N/A	N/A	15,997	13.2%	N/A
2011	20,323	N/A	39.0	15,721	12.1%	N/A

- (1) N.C. Department of Commerce/Office of State Planning, [www.citypopulation.de/usanorthcarolina](http://www.citypopulation.de/usanorthcarolina)  
(2) U.S. Bureau of Economic Analysis for Cleveland County, NC Department of Commerce for Shelby  
(3) Cleveland County/Shelby City Schools Administrative Offices, NC Department of Commerce.  
The two school systems merged in 2005.  
(4) Employment Security Commission  
(5) Amounts for Cleveland County expressed in thousands of dollars taken from [www.fedstats.gov](http://www.fedstats.gov).  
Amounts for Shelby, NC from [www.bea.gov](http://www.bea.gov)  
N/A - Information not available.

City of Shelby, North Carolina  
Principal Employers  
Current Year and Four Year Previous

Employer	Industry	2011		2007	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	1000+
Cleveland Regional Medical Center	Health Services	2	1000+	2	1000+
Cleveland County Government	Public Administration	3	500-999	3	1000+
Wal-Mart Distribution Center	Retail Distribution	4	500-999	4	500-999
PPG Fiber Glass Products	Industrial Supplies	5	250-499	5	500-999
Cleveland Community College	Education	6	250-499	6	250-499
City of Shelby	Public Administration	7	250-499	7	250-499
Curtis-Wright Controls	Transportation Equipment	8	250-499	8	250-499
Ultar Maching	Machine Shop	9	250-499		
White Oak Manor Inc.	Education and Health Services	10	250-499		
Manpower Temporary Services	Professional and Business Services			9	250-499
Shelby Personnel Services	Professional and Business Services			10	250-499

**Source:** Cleveland County Chamber of Commerce

**Note:** Data not available prior to 2006.

**Note:** Data not available on percentage of total employment.



**City of Shelby, North Carolina  
Full-Time Equivalent City Government Employees by Function  
Last Ten Fiscal Years**

Function	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	32.0	33.5	33.5	32.5	31.5	30.0	38.0	38.0	38.0	38.0
Public safety:										
Police	82.0	82.0	82.0	83.0	86.0	86.0	87.0	87.0	87.0	86.0
Fire	56.0	56.0	56.0	56.0	56.0	54.0	53.0	53.0	53.0	53.0
Transportation	18.5	20.0	21.0	20.5	20.0	18.0	19.0	19.0	19.0	19.0
Environmental protection	46.0	42.0	38.0	38.0	19.0	17.0	17.0	17.0	17.0	17.0
Cultural and recreation	26.0	24.0	24.0	24.0	23.0	19.0	19.0	19.0	19.0	19.0
Housing and redevelopment	9.5	9.5	9.5	10.0	8.5	8.0	9.0	9.0	9.0	9.0
Business-type activities:										
Water	19.5	17.5	17.2	17.75	18.5	18.5	17.5	17.5	17.5	17.5
Sewer	21.5	19.5	19.75	19.5	19.5	21.0	18.5	18.5	18.5	18.3
Electric	11.0	9.5	10.88	11.25	12.5	11.5	10.5	10.5	10.5	10.4
Gas	17.0	17.5	18.67	19.0	20.0	20.5	18.5	18.5	18.5	18.7
Housing	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<b>Total</b>	<b>345.0</b>	<b>337.0</b>	<b>336.5</b>	<b>337.5</b>	<b>320.5</b>	<b>309.5</b>	<b>313.0</b>	<b>313.0</b>	<b>313.0</b>	<b>312.0</b>

**Source:** City of Shelby's Finance Department

**City of Shelby, North Carolina  
Operating Indicators by Function  
Last Ten Fiscal Years**

Function	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety:										
Police:										
Number of calls for service	39,057	46,244	48,388	46,794	46,006	43,246	43,310	40,251	39,741	37,303
Uniform Crime Report Part I Crimes Reported	1,863	1,969	1,987	1,875	1,500	1,348	1,489	1,149	1,149	1,039
Uniform Crime Report Part II Crimes Reported	926	874	836	848	771	712	649	625	625	529
Fire:										
Number of responses	1,634	1,636	1,724	1,740	1,929	1,848	1,883	1,913	1,976	2,179
Number of inspections	1,912	2,028	1,408	1,683	1,645	1,169	1,355	707	1,426	1,502
Transportation:										
Miles of street repaved	-	2.5	2.9	2.6	1.6	1.2	-	3.0	-	1.6
Environmental protection:										
Tons of Solid Waste Collected	8,957	9,233	9,133	8,978	8,387	9,928	9,925	10,608	7,937	7,233
Cultural and recreational:										
Number of Youth Sport Program Participants	1,460	1,488	1,540	1,570	1,754	2,019	2,276	2,247	3,566	2,309
Number of Adult Sport Program Participants	855	810	820	890	832	1,106	1,044	622	758	944
Number of Golf Rounds Played	11,548	9,497	11,115	10,458	10,894	10,936	12,341	11,818	11,240	10,283
Housing and redevelopment:										
Building inspections										
Number of permits issued	1,372	1,206	1,263	1,137	1,064	994	1,072	1,057	919	1,076
Number of inspections	6,836	6,112	5,473	4,084	3,866	4,067	4,621	4,343	4,205	4,376
Business-type activities:										
Water system:										
Customers at June 30	10,026	9,822	10,137	10,083	10,048	10,090	10,048	9,554	9,601	9,587
Average of daily consumption	5.32	4.28	4.53	4.39	4.39	4.68	4.33	4.97	4.06	4.41
Peak daily consumption	7.98	6.51	5.70	6.50	6.50	6.32	7.02	7.09	5.78	6.10
Sewer system:										
Customers at June 30	8,295	8,361	8,397	8,356	8,350	8,362	8,282	7,826	7,866	7,840
Average of daily treatment	2.74	2.68	2.62	2.81	2.81	2.77	2.42	2.72	2.26	2.25
Peak daily treatment	4.00	4.00	6.00	6.00	6.00	3.20	5.29	7.55	9.98	6.61
Electric system:										
Customers at June 30	8,166	7,939	8,322	8,230	8,212	8,245	8,268	8,290	7,432	7,409
Natural gas system:										
Customers at June 30	10,016	10,168	10,248	10,350	10,372	10,437	10,404	9,755	9,793	9,649

\* Numbers are on a calendar year and not a fiscal year 2007 numbers are January-November

\*\* Numbers in millions of gallons

Source: Various City Departments

**City of Shelby, North Carolina  
Capital Assets Statistics by Function  
Last Ten Fiscal Years**

Function	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Public safety:</b>										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	23	23	22	22	22	31	32	43	43	47
Fire:										
Number of stations	3	3	3	3	3	3	3	3	3	3
<b>Transportation:</b>										
Number of airports	1	1	1	1	1	1	1	1	1	1
Miles of paved roads	108.17	118.19	120.09	121.55	120.82	121.14	121.33	121.52	122.41	122.34
Miles of unpaved roads	0.80	0.87	0.19	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Miles of sidewalks	36.0	36.0	36.0	36.0	36.0	27.8	27.8	27.8	27.8	27.8
<b>Cultural and recreation:</b>										
Number of parks	12	12	12	12	12	12	12	12	12	12
Acres of parks land	169	169	169	169	169	169	169	169	169	169
Swimming pools	1	1	1	1	1	1	1	1	1	1
Gymnasiums	2	2	2	2	2	2	2	2	2	2
Golf course (nine holes)	1	1	1	1	1	1	1	1	1	1
<b>Business-type activities:</b>										
Water system:										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Plant capacity	12	12	12	12	12	12	12	12	12	12
Miles of water mains	216	216	216	220	220	206	206	215	214	219
Number of fire hydrants	1,280	1,280	1,176	1,273	1,273	1,305	1,301	1,305	1,343	1,271
Sewer system:										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Plant capacity	6	6	6	6	6	6	6	6	6	6
Miles of sanitary sewers	178	178	178	178	178	181	191	202	204	203
Miles of storm sewers	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Electric system:										
Number of sub-stations	3	3	3	3	4	4	4	4	4	4
System capacity	47	52	52	52	52	65	65	65	65	65
Miles of primary lines	204	207	207	207	207	133	134	135	141	141
Miles of secondary lines	173	173	175	175	175	222	222	202	203	204
Natural gas system:										
Miles of gas mains	486	493	450	462	462	463	465	496	473	506

\* In millions of gallons

\*\* In mega-watts

**Source:** Various City Departments





## COMPLIANCE SECTION

Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major Federal Program and Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor  
and Members of City Council  
Shelby, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 6, 2012. Our report includes reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the City of Shelby ABC Board, as described in our report on the City of Shelby's financial statements. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies, 2011-01, 2011-02, and 2011-03 described in the accompanying Schedule of Findings and Questioned Costs, to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and; accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-04.

We noted certain matters that we reported to management of the City of Shelby, North Carolina, in a separate letter dated February 6, 2012.

The City of Shelby's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
February 6, 2012



# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

## **Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act**

### **Independent Auditors' Report**

To the Honorable Mayor  
and Members of City Council  
Shelby, North Carolina

#### **Compliance**

We have audited the City of Shelby's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

In our opinion, the City of Shelby complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

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

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

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P. A.  
February 6, 2012

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

## **Report On Compliance With Requirements That Could Have A Direct and Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act**

### **Independent Auditors' Report**

To the Honorable Mayor  
and Members of City Council  
Shelby, North Carolina

#### **Compliance**

We have audited the City of Shelby's compliance with the types of compliance requirements described in applicable sections of the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City's major State programs for the year ended June 30, 2011. The City's major State programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major State programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

In our opinion, the City of Shelby complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

730 13th Avenue Drive SE ♦ Hickory, North Carolina 28602 ♦ Phone 828-327-2727 ♦ Fax 828-328-2324  
13 South Center Street ♦ Taylorsville, North Carolina 28681 ♦ Phone 828-632-9025 ♦ Fax 828-632-9085  
Toll Free Both Locations 1-800-948-0585 ♦ Website: [www.martinstarnes.com](http://www.martinstarnes.com)

## Internal Control Over Compliance

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

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

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
February 6, 2012

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**1. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes
- Significant deficiency identified? No

Non-compliance material to financial statements noted? Yes

**Federal Awards**

Internal control over major federal programs:

- Material weakness identified? No
- Significant deficiency identified? No

Non-compliance material to federal awards No

Type of auditors' report issued on compliance for major federal programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major federal programs:

<b><u>Program Name</u></b>	<b><u>CFDA#</u></b>
Public Housing Authority Owned Rental Housing	14.850
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawii - Chestnut Street Sewer Project	14.228

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? No

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**1. Summary of Auditors' Results (continued):**

**State Awards**

Internal control over major State programs:

- Material weakness identified? No
- Significant deficiency identified? No

Non-compliance material to State awards No

Type of auditors' report issued on compliance for major State programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? No

Identification of major State programs:

**Program Name**

- State Aid to Airports Program
- Powell Bill
- Part F Recreation Grant
- Industrial Development Fund

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**2. Findings Related to the Audit of the Basic Financial Statements**

**Finding 2011-01**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not possessed by the City's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

**Context:** During our planning procedures, we noted that City personnel do not possess the technical expertise required to comply with financial reporting requirements discussed above.

**Effect:** Material misstatements of the financial statements could result.

**Cause:** Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not possessed by the City's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

**Recommendation:** The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the City should exercise due care in reviewing the financial statements drafted by the external auditor as the City is responsible for the accuracy of the audited financial statements.

**Name of Contact Person:** Rick Howell, City Manager

**Corrective Action/Management Response:** Management is aware of the weakness and will provide staff with the opportunity for additional training to obtain the technical expertise to draft full-disclosure GAAP financial statements. The City will continue to rely on the external auditor to draft the year-end financial statements until staff obtains the expertise to draft them. The City will exercise due care in reviewing the financial statements drafted by the external auditor. The City acknowledges and accepts responsibility for the accuracy of the audited financial statements.

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**2. Findings Related to the Audit of the Basic Financial Statements (continued):**

**Finding 2011-02**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the City's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

**Context:** While performing our audit procedures, significant audit adjustments were required to report the City's financial statements in accordance with Generally Accepted Accounting Principles.

**Effect:** Material misstatements of the financial statements could result.

**Cause:** Year-end adjustments include adjustments required for drafting full accrual, full disclosure GAAP financial statements which requires a level of technical expertise not possessed by the City's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

**Recommendation:** Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the available financial and intellectual resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources and modify their oversight function accordingly.

**Name of Contact Person:** Rick Howell, City Manager

**Corrective Action/Management Response:** Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end.



**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**2. Findings Related to the Audit of the Basic Financial Statements (continued):**

**Finding 2011-03**

**Criteria:** Internal control concepts require segregation of duties as the duties relate to access to the City's books and records.

**Condition:** Several employees in the Finance Department with the ability to write a journal entry have the ability to post that same journal entry without anyone else's approval. The City does not have a formal policy for separating the functions of writing and reviewing or approving journal entries.

**Context:** While documenting our understanding of the internal controls over journal entries, we noted that employees can originate, complete, and record a transaction without approval or review.

**Effect:** The employee can originate, complete, and record a transaction without conflict.

**Cause:** Lack of segregation of duties.

**Recommendation:** Restrict posting of journal entries that are not approved and reviewed by the Finance Director.

**Name of Contact Person:** Rick Howell, City Manager

**Management's Response/Corrective action:** The City recognizes that the journal entry process needs additional review prior to posting of these entries to the financial records. The City has put procedures in place that separates the functions of writing journal entries and posting journal entries. The Finance Director also will review all journal entries posted by the finance department on a weekly or monthly basis.

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**2. Findings Related to the Audit of the Basic Financial Statements (continued):**

**Finding 2011-04**

**Criteria:** Contractual arrangements require the City to file the annual secondary market disclosures with the Local Government Commission for the fiscal year end June 30, no later than January 31 immediately following the fiscal year end.

**Condition:** The City of Shelby filed the annual secondary market disclosures for the fiscal year ended June 30, 2010 on March 3, 2011, which was after the required deadline of January 31, 2011.

**Context:** While investigating the City's compliance with contractual arrangements, we noted that the City failed to comply with the required annual secondary market disclosures for the fiscal year ended June 30, 2010.

**Effect:** The City failed to file the required annual secondary market disclosures with the Local Government Commission by the required deadline.

**Cause:** Failure to comply with contractual arrangements.

**Recommendation:** The City should develop and implement policies and procedures to insure the required annual secondary market disclosures are filed in a timely manner.

**Name of Contact Person:** Rick Howell, City Manager

**Management's Response/Corrective action:** The City has put policies and procedures in place to insure that the required annual secondary market disclosures are timely filed in future years. The City filed the required secondary market disclosures for June 30, 2011 prior to the January 31, 2012 deadline.

**3. Findings Related to the Audit of Federal Awards**

None reported.

**4. Findings Related to the Audit of State Awards**

None reported.

**CITY OF SHELBY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
<b>Federal Grants:</b>				
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
Low Rent Housing Program:				
Public Housing Authority Owned Rental Housing	14.850	NC034-00000111D	\$ 414,375	\$ -
Capital Fund Program (CFP)--2009	14.872	N/A	196,887	-
Capital Fund Program (CFP)--2010	14.872	NC19P034501-10	3,470	-
Passed-Through the N.C. Department of Commerce - Community Investment and Assistance:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - Chestnut Street Sewer Project	14.228	09-C-2053	586,900	-
Total U.S. Department of Housing and Urban Development			1,201,632	-
<u>U.S. Department of Justice</u>				
Direct Program:				
Weed and Seed Grant	16.595	N/A	85,683	-
Justice Assistance Grant	16.738	N/A	132	-
Bulletproof Vest Partnership Program	16.607	N/A	5,217	-
Passed-Through the N.C. Department of Crime Control and Public Safety:				
Project Safe Neighborhoods	16.609	N/A	100,739	-
Total U.S. Department of Justice			191,771	-
<u>U.S. Department of Transportation</u>				
Passed-Through the N.C. Department of Transportation:				
Airport Improvement Program	20.106	36237.16.8.1	33,400	-
Airport Improvement Program	20.106	36237.16.8.2	5,585	-
Airport Improvement Program	20.106	36237.16.9.1	3,000	-
State Aid to Airports Program	N/A	36244.23.9.1	-	315,028
State Aid to Airports Program	N/A	36244-23.10.1	-	11,447
State and Community Highway Safety - Governors Highway Safety Program	20.600	52011.5.18	9,490	-
Total U.S. Department of Transportation			51,475	326,475
Total assistance - federal programs			1,444,878	326,475
<b>State Grants:</b>				
<u>N.C. Department of Transportation:</u>				
Powell Bill	N/A	32570	-	446,326
Total N.C. Department of Transportation			-	446,326
L				
<u>N.C. Department of Parks and Recreation Authority:</u>				
Part F Recreation Grant	N/A	N/A	-	1,146,065
Total N.C. Department of Parks and Recreation Authority			-	1,146,065
<u>N.C. Housing Finance Agency:</u>				
NC Housing Trust Fund/Urgent Repair Program	N/A	NC19S034501-09	-	75,102
Total N.C. Housing Finance Agency			-	75,102

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>
<u>N.C. Rural Economic Development Center, Inc.:</u>				
Infrastructure Grants Programs:				
Clean Water Planning Grants:				
Rural Center Grant - Water Sewer Asset Management Plan	N/A	2009-397-40101-112	-	21,300
Clean Water Supplemental Grants:				
Rural Center Grant - Keeter Stadium Sewer Line	N/A	2011-147-40101-112	-	43,670
Rural Center Grant - Keeter Stadium Waterline	N/A	2011-147-40101-112	-	67,666
Rural Center Grant - Westside Sewer	N/A	2008-289-40101-112	-	34,283
Rural Center Grant - Wastewater Treatment Plant upgrade	N/A	2008-289-40101-112	-	14,999
Economic Infrastructure Grants:				
Rural Center Grant - Clearwater Sewer Project	N/A	2011-213-40401-107	-	78,647
Rural Center Grant - Clearwater Water Project	N/A	2011-213-40401-107	-	159,450
Building Reuse and Restoration Development Grant:				
Royster Building Rehabilitation	N/A	2011-089-60501-107	-	51,000
Total N.C. Rural Economic Development Center, Inc.			-	471,015
<u>N.C. Department of Commerce:</u>				
Industrial Development Fund	N/A	U-402	-	969,294
Total N.C. Department of Commerce			-	969,294
Total assistance - State programs			-	3,107,802
Total assistance			\$ 1,444,878	\$ 3,434,277

Notes to the Schedule of Expenditures of Federal and State Awards:

1. The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Shelby and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2. Subrecipients

Of the State expenditures presented in the schedule, the City of Shelby provided State awards to subrecipients as follows:

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>State Expenditures</u>
Building Reuse and Restoration Grants Programs: Royster Building	2011-089-60501-107	\$ 51,000

