

**CITY OF SHELBY
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012



CITY OF SHELBY, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2012

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INTRODUCTORY SECTION





October 18, 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, 2012.

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, 2012, 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, 2012, 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 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 shell building was sold to Schletter Incorporated, a manufacturer of solar panel components, in October 2012. Schletter plans to employ over 300 jobs within Shelby by the year 2016 and invest over \$20 million. The average wage of employees is expected to be well above the average wage currently found in Cleveland County.

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. Construction is now complete at the facility and full production is expected by November 2012.

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 2012

The City tax rate of 43.5 cents remained the same for FY 1d21. 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 12. A 5% electric rate increase was implemented across all classes of customer in FY 12. 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 \$1,250,000. The loan term is 59 months with annual payments, beginning June 2012, with an interest rate of 1.43 percent.

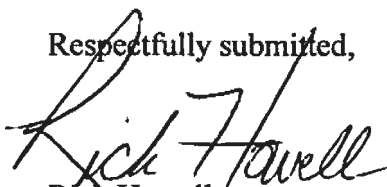
AWARDS AND ACKNOWLEDGMENTS

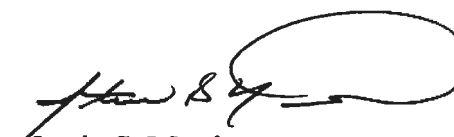
The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the fourteenth consecutive year that the City has 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


Justin S. Merritt
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, 2011

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.



Christopher P. Morill

President

Jeffrey R. Emmer

Executive Director

City of Shelby, North Carolina

List of Principal Officials
June 30, 2012

Elected Officials

Oliver Stanhope Anthony, III
Mayor

Christopher H. Mabry

Joel R. Shores, Jr.
Mayor Pro Tem

Dennis C. Bailey

David W. White.

Jeanette D. Patterson

Dicky Amaya

City Administration

Rick Howell
City Manager

Justin S. Merritt
Director of Finance

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

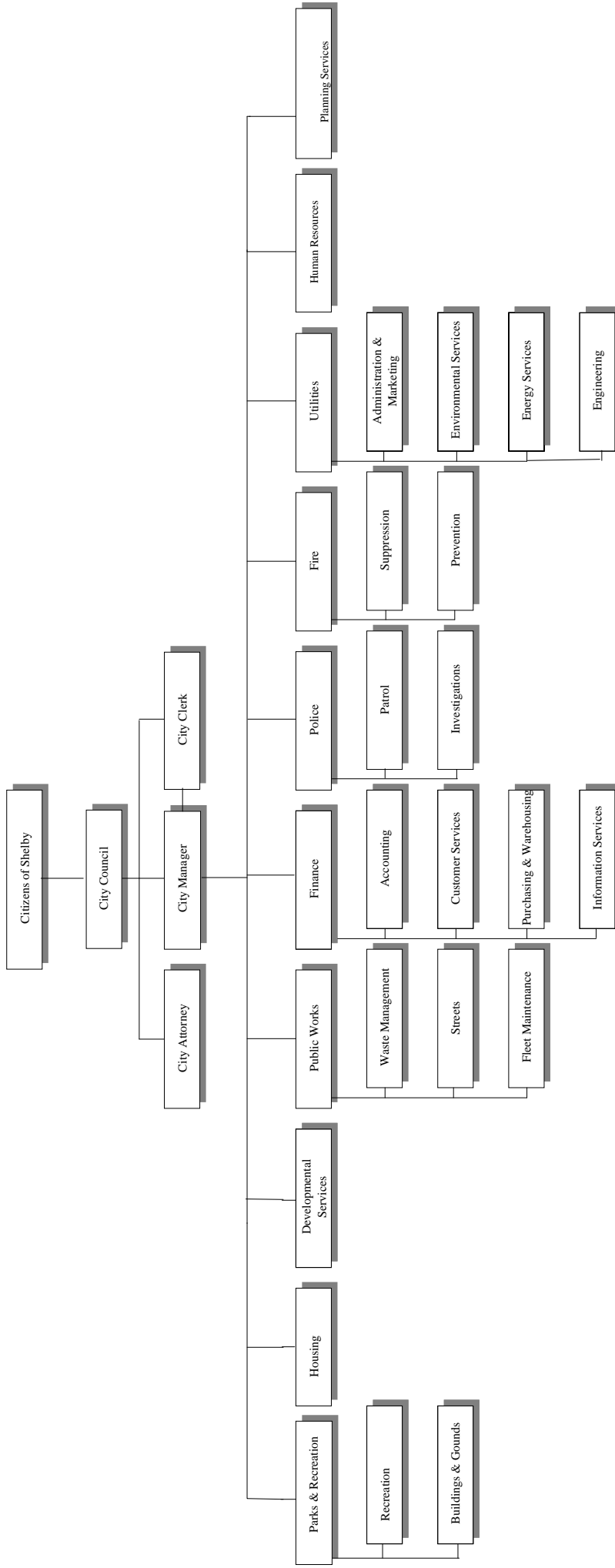
Bryan T. Howell
Director of Housing

Walter Scharer, AICP
Director Planning Services

Brian Pruett
Director of Development Services

Robert (Bob) Yelton
City Attorney

City of Shelby Organization Chart







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, 2012, 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 opinions 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 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.

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, and other auditors, 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.

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 nonmajor 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 nonmajor 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.

Martin Starnes & Associates, CPAs, P.A.
October 18, 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, 2012. 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

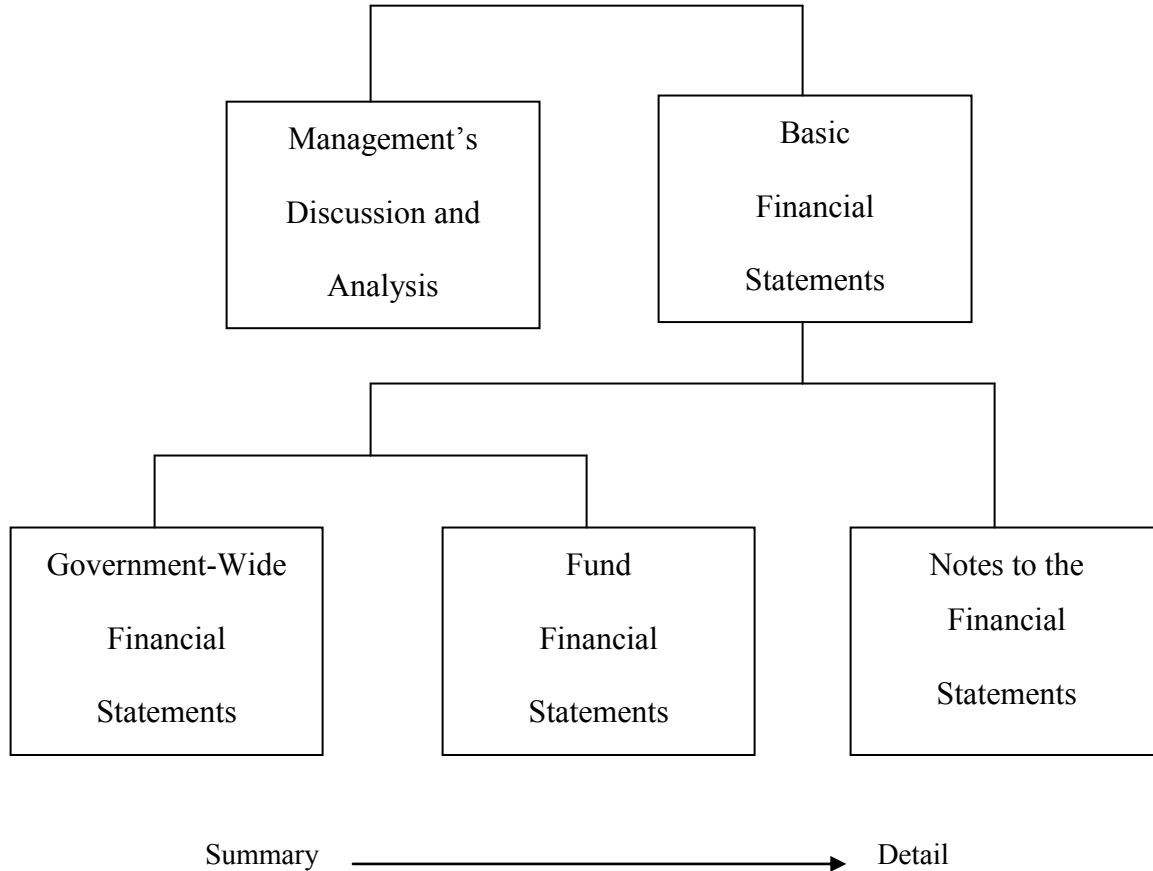
- The assets of the City of Shelby exceed its liabilities at the close of the fiscal year by \$122,346,979 (*net assets*)
- The government's total net assets increased by \$2,714,939, due to a decrease of \$281,307 in governmental activities net assets and an increase of \$2,996,246 in business-type 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 \$8,880,433, with a net change in fund balance of \$152,119. Approximately 62.82 percent of this total amount, or \$5,579,209, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,246,086, or 17.13% 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 \$1,250,000. The loan term is 59 months, with annual payments beginning June 2012, with an annual interest rate of 1.43 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 governmental 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	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 9,708,455	\$ 9,453,755	\$ 25,891,676	\$ 28,193,485	\$ 35,600,131	\$ 37,647,240
Capital assets, net	33,752,720	33,569,667	92,471,759	91,152,298	126,224,479	124,721,965
Total assets	43,461,175	43,023,422	118,363,435	119,345,783	161,824,610	162,369,205
Liabilities:						
Long-term liabilities	4,923,922	5,719,081	26,833,386	31,976,257	31,757,308	37,695,338
Other liabilities	1,893,063	378,744	5,827,260	4,662,983	7,720,323	5,041,727
Total liabilities	6,816,985	6,097,825	32,660,646	36,639,240	39,477,631	42,737,065
Net Assets:						
Invested in capital assets, net of related debt	30,598,026	32,851,876	63,275,629	60,461,259	93,873,655	93,313,135
Restricted	4,686,554	5,638,394	-	-	4,686,554	5,638,394
Unrestricted	1,359,610	(1,564,773)	22,427,160	22,245,284	23,786,770	20,680,511
Total net assets	\$ 36,644,190	\$ 36,925,497	\$ 85,702,789	\$ 82,706,543	\$ 122,346,979	\$ 119,632,040

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 \$122,346,979 as of June 30, 2012. The City's net assets increased by \$2,714,939 for the fiscal year ended June 30, 2012. 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, \$4,686,554, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$23,786,770 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 97.03%.
- 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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 2,267,884	\$ 1,957,132	\$ 37,296,446	\$ 42,113,871	\$ 39,564,330	\$ 44,071,003
Operating grants and contributions	1,212,394	1,173,468	427,932	573,644	1,640,326	1,747,112
Capital grants and contributions	790,561	1,012,581	3,124,834	2,915,339	3,915,395	3,927,920
General revenues:						
Property taxes	7,719,357	7,663,452	-	-	7,719,357	7,663,452
Other taxes	4,534,317	4,408,917	-	-	4,534,317	4,408,917
Investment earnings	212,154	142,588	123,254	111,233	335,408	253,821
Total revenues	<u>16,736,667</u>	<u>16,358,138</u>	<u>40,972,466</u>	<u>45,714,087</u>	<u>57,709,133</u>	<u>62,072,225</u>
Expenses:						
General government	2,344,445	3,258,195	-	-	2,344,445	3,258,195
Public safety	10,053,997	9,700,978	-	-	10,053,997	9,700,978
Transportation	2,638,453	2,481,039	-	-	2,638,453	2,481,039
Environmental protection	1,875,510	1,479,341	-	-	1,875,510	1,479,341
Culture and recreational	2,150,671	938,606	-	-	2,150,671	938,606
Housing and redevelopment	321,244	266,607	-	-	321,244	266,607
Interest on long-term debt	68,004	73,287	-	-	68,004	73,287
Water	-	-	3,761,350	3,693,020	3,761,350	3,693,020
Sewer	-	-	3,715,909	3,686,724	3,715,909	3,686,724
Electric	-	-	18,518,633	17,887,877	18,518,633	17,887,877
Gas	-	-	8,407,977	11,453,207	8,407,977	11,453,207
Housing Assistance	-	-	1,138,001	1,163,031	1,138,001	1,163,031
Total expenses	<u>19,452,324</u>	<u>18,198,053</u>	<u>35,541,870</u>	<u>37,883,859</u>	<u>54,994,194</u>	<u>56,081,912</u>
Increase (decrease) in net assets before transfers	(2,715,657)	(1,839,915)	5,430,596	7,830,228	2,714,939	5,990,313
Transfers in (out)	<u>2,434,350</u>	<u>3,280,450</u>	<u>(2,434,350)</u>	<u>(3,280,450)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(281,307)	1,440,535	2,996,246	4,549,778	2,714,939	5,990,313
Net Assets:						
Beginning of year - July 1	<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>
End of year - June 30	<u>\$ 36,644,190</u>	<u>\$ 36,925,497</u>	<u>\$ 85,702,789</u>	<u>\$ 82,706,543</u>	<u>\$ 122,346,979</u>	<u>\$ 119,632,040</u>

Governmental Activities. Governmental activities decreased the City's net assets by \$263,738. Key elements of this decrease 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.
- One-time transfer of restricted Wireless Communication funds out of General Fund.

Business-Type Activities. Business-type activities increased the City of Shelby's net assets by \$2,996,246. 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 \$4,601,273, while total fund balance reached \$7,701,814. 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 24.28% of total General Fund expenditures and transfers to other funds, while total fund balance represents 40.64% of that same amount.

At June 30, 2012, the governmental funds of the City of Shelby reported a combined fund balance of \$8,880,433, an increase of \$152,119 over last year. The primary reasons for this increase are due to an increase in the local option sales tax and franchise tax revenues.

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 \$617,084 (3.59%). 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 \$3,498,615; in the Sewer Fund were \$1,214,179; in the Electric Fund were \$4,980,447; and in the Gas Fund were \$10,495,901. 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, 2012 totaled \$126,224,479 (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 PPG Meter Station Upgrade Project of \$558,423.
- Transfer of assets from construction in progress to depreciable assets for the Shelby Middle School Sewer Project of \$413,465.
- Transfer of assets from construction in progress to depreciable assets for the Chestnut Street CDBG Sewer Project of \$951,587.
- Transfer of assets from construction in progress to depreciable assets for the Park Enhancement Project of \$1,293,757.
- Construction in Progress of the Airport Apron Pavement Rehab Project of \$736,618.
- Construction in progress of the Water Treatment Plant FY11 Project of \$447,512.
- Construction in progress of the Westside Sewer FY11 Project of \$5,253,560.
- Construction in progress of the Foothills Commerce Center Project of \$5,893,240.
- Construction in progress of the Electric Line Extension Project of \$984,477.
- Purchase of police vehicles in the current year.

City of Shelby’s Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 5,006,681	\$ 4,982,070	\$ 496,365	\$ 471,467	\$ 5,503,046	\$ 5,453,537
Buildings and system Improvements other than buildings	13,224,935	13,167,744	81,528,543	41,022,597	94,753,478	54,190,341
Machinery and equipment	9,830,782	8,300,848	41,403,301	75,597,584	51,234,083	83,898,432
Infrastructure	6,713,452	6,394,553	5,608,989	5,350,452	12,322,441	11,745,005
Vehicles and motorized equipment	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Construction in progress	8,180,297	7,743,577	2,681,404	2,546,037	10,861,701	10,289,614
Subtotal	<u>899,498</u>	<u>1,495,555</u>	<u>12,783,642</u>	<u>15,291,500</u>	<u>13,683,140</u>	<u>16,787,055</u>
Accumulated Less: accumulated depreciation	<u>55,340,520</u>	<u>53,569,222</u>	<u>144,502,244</u>	<u>140,279,637</u>	<u>199,842,764</u>	<u>193,848,859</u>
Capital assets, net	<u>(21,587,800)</u>	<u>(19,999,555)</u>	<u>(52,030,485)</u>	<u>(49,127,339)</u>	<u>(73,618,285)</u>	<u>(69,126,894)</u>
	<u>\$ 33,752,720</u>	<u>\$ 33,569,667</u>	<u>\$ 92,471,759</u>	<u>\$ 91,152,298</u>	<u>\$ 126,224,479</u>	<u>\$ 124,721,965</u>

Additional information on the City’s capital assets can be found in Note 2.A. of the basic financial statements located on pages 39-45.

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

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchase notes	\$ 3,283,037	\$ 3,184,759	\$ 3,747,806	\$ 4,044,288	\$ 7,030,843	\$ 7,229,047
Revenue bonds	-	-	25,448,647	27,298,671	25,448,647	27,298,671
Compensated absences	965,417	935,889	259,069	261,526	1,224,486	1,197,415
Net pension obligation	349,812	281,812	-	-	349,812	281,812
Other post-employment benefits	1,718,750	1,316,621	485,531	371,772	2,204,281	1,688,393
Total	\$ 6,317,016	\$ 5,719,081	\$ 29,941,053	\$ 31,976,257	\$ 36,258,069	\$ 37,695,338

In FY 2011, the City entered into a financing agreement for the purchase of rolling stock; the loan proceeds received amounted to \$1,250,000. The loan term is 59 months with annual payments, beginning June 2011 with an interest rate of 1.43 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 approximately \$106,700,000.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2.B. on pages 46-52 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

- The State of North Carolina unemployment numbers changed from 9.9% in June 2011 to 9.4% in June 2012. Cleveland County's numbers changed from 12.1% in June 2011 to 10.4% in June 2012. 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.
- Schletter, Inc., one of the largest designers and manufacturers of solar power mounting systems, will establish a production and distribution facility in Shelby in the 4th quarter of 2012. The Company plans to create 305 jobs in Shelby by the end of 2016, and invest more than \$27 million in its Cleveland County facility. The Shelby facility will also become Schletter Inc.'s North American headquarters.
- Cleveland Yutaka Inc. has plans to invest an additional \$5,000,000 in their Shelby facility that will result in at least 8 new jobs during the 2013 Fiscal Year.

- The Foothills Commerce Center infrastructure improvements were completed in the 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. This building is expected to be sold to Schletter Incorporated in the fall of 2012.
- 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.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities. The City tax rate of 43.5 cents remains the same for FY 2013. Budgeted expenditures in the General Fund are expected to increase minimally to \$17,656,147 in FY 2013.

Business-Type Activities. The City’s water and sewer rates have no increases for FY 2013. Electric wholesale rates charged to the City were increased by 5.1 percent in both FY 2013 by North Carolina Power Agency #1. The City electric rates were increased 5.9% in FY 2013. 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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
Assets:				
Current assets:				
Cash and cash equivalents	\$ 4,751,180	\$ 18,204,698	\$ 22,955,878	\$ 378,402
Taxes receivable, net	247,430	-	247,430	-
Accounts receivable, net	454,312	5,150,135	5,604,447	-
Loans receivable	80,623	-	80,623	-
Interest receivable	31,586	-	31,586	-
Due from other governments	1,780,036	391,506	2,171,542	-
Internal balances	62,036	(62,036)	-	-
Inventories	211,366	1,627,572	1,838,938	524,606
Prepaid items	225,725	32,673	258,398	3,526
Cash and cash equivalents, restricted	1,864,161	547,128	2,411,289	-
Total current assets	<u>9,708,455</u>	<u>25,891,676</u>	<u>35,600,131</u>	<u>906,534</u>
Non-current assets:				
Capital assets, non-depreciable	5,906,179	13,280,007	19,186,186	182,567
Capital assets, net	<u>27,846,541</u>	<u>79,191,752</u>	<u>107,038,293</u>	<u>141,759</u>
Total non-current assets	<u>33,752,720</u>	<u>92,471,759</u>	<u>126,224,479</u>	<u>324,326</u>
Total assets	<u>43,461,175</u>	<u>118,363,435</u>	<u>161,824,610</u>	<u>1,230,860</u>
Liabilities and Net Assets:				
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	487,098	1,957,434	2,444,532	210,023
Accrued interest payable	-	180,185	180,185	-
Due to other governments	1,200	-	1,200	-
Customer deposits	-	547,128	547,128	-
Unearned revenue	11,671	34,846	46,517	-
Current portion of long-term liabilities	<u>1,393,094</u>	<u>3,107,667</u>	<u>4,500,761</u>	<u>-</u>
Total current liabilities	<u>1,893,063</u>	<u>5,827,260</u>	<u>7,720,323</u>	<u>210,023</u>
Long-term liabilities:				
Due in more than one year	<u>4,923,922</u>	<u>26,833,386</u>	<u>31,757,308</u>	<u>-</u>
Total liabilities	<u>6,816,985</u>	<u>32,660,646</u>	<u>39,477,631</u>	<u>210,023</u>
Net Assets:				
Invested in capital assets, net of related debt	30,598,026	63,275,629	93,873,655	324,326
Restricted for:				
Stabilization by State statute	2,786,807	-	2,786,807	-
Perpetual	583,907	-	583,907	-
Public safety	479,856	-	479,856	-
Streets - Powell Bill	1,291,548	-	1,291,548	-
General Government	128,343	-	128,343	-
Working capital	-	-	-	107,944
Unrestricted	<u>775,703</u>	<u>22,427,160</u>	<u>23,202,863</u>	<u>588,567</u>
Total net assets	<u>\$ 36,644,190</u>	<u>\$ 85,702,789</u>	<u>\$ 122,346,979</u>	<u>\$ 1,020,837</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, 2012**

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 2,344,445	\$ 441,487	\$ 144,370	\$ -
Public safety	10,053,997	20,553	1,047,777	6,140
Transportation	2,638,453	376,662	20,000	784,421
Environmental protection	1,875,510	994,130	-	-
Cultural and recreation	2,150,671	294,461	247	-
Housing and redevelopment	321,244	140,591	-	-
Interest on long-term debt	68,004	-	-	-
Total governmental activities	<u>19,452,324</u>	<u>2,267,884</u>	<u>1,212,394</u>	<u>790,561</u>
Business-Type Activities:				
Water Fund	3,761,350	3,859,278	111,356	113,967
Sewer Fund	3,715,909	4,388,464	45,524	832,828
Electric Fund	18,518,633	18,924,213	-	1,778,807
Gas Fund	8,407,977	9,554,765	12,922	-
Housing Assistance Fund	1,138,001	569,726	258,130	399,232
Total business-type activities	<u>35,541,870</u>	<u>37,296,446</u>	<u>427,932</u>	<u>3,124,834</u>
Total primary government	<u>\$ 54,994,194</u>	<u>\$ 39,564,330</u>	<u>\$ 1,640,326</u>	<u>\$ 3,915,395</u>
Component Unit:				
City of Shelby ABC Board	<u>\$ 2,797,050</u>	<u>\$ 2,817,050</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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
\$ (1,758,588)	\$ -	\$ (1,758,588)	\$ -
(8,979,527)	-	(8,979,527)	-
(1,457,370)	-	(1,457,370)	-
(881,380)	-	(881,380)	-
(1,855,963)	-	(1,855,963)	-
(180,653)	-	(180,653)	-
(68,004)	-	(68,004)	-
<u>(15,181,485)</u>	<u>-</u>	<u>(15,181,485)</u>	<u>-</u>
-	323,251	323,251	-
-	1,550,907	1,550,907	-
-	2,184,387	2,184,387	-
-	1,159,710	1,159,710	-
-	89,087	89,087	-
-	<u>5,307,342</u>	<u>5,307,342</u>	-
<u>(15,181,485)</u>	<u>5,307,342</u>	<u>(9,874,143)</u>	-
-	-	-	20,000
7,719,357	-	7,719,357	-
2,865,854	-	2,865,854	-
1,559,642	-	1,559,642	-
108,821	-	108,821	-
212,154	123,254	335,408	71
<u>12,465,828</u>	<u>123,254</u>	<u>12,589,082</u>	<u>71</u>
<u>2,434,350</u>	<u>(2,434,350)</u>	<u>-</u>	<u>-</u>
<u>14,900,178</u>	<u>(2,311,096)</u>	<u>12,589,082</u>	<u>71</u>
(281,307)	2,996,246	2,714,939	20,071
<u>36,925,497</u>	<u>82,706,543</u>	<u>119,632,040</u>	<u>1,000,766</u>
<u>\$ 36,644,190</u>	<u>\$ 85,702,789</u>	<u>\$ 122,346,979</u>	<u>\$ 1,020,837</u>

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

CITY OF SHELBY, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 3,808,206	\$ 942,974	\$ 4,751,180
Receivables, net:			
Taxes	242,892	4,538	247,430
Accounts	442,518	11,794	454,312
Interest	28,009	3,577	31,586
Loans	-	80,623	80,623
Due from other funds	532,167	-	532,167
Due from other governments	1,660,757	119,279	1,780,036
Inventories	211,366	-	211,366
Prepaid items	225,725	-	225,725
Restricted cash and cash equivalents	1,291,548	572,613	1,864,161
	<u>\$ 8,443,188</u>	<u>\$ 1,735,398</u>	<u>\$ 10,178,586</u>
Total assets			
	<u>\$ 8,443,188</u>	<u>\$ 1,735,398</u>	<u>\$ 10,178,586</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 486,810	\$ 288	\$ 487,098
Due to other funds	-	470,131	470,131
Due to other governments	-	1,200	1,200
Deferred revenue	254,564	85,160	339,724
Total liabilities	<u>741,374</u>	<u>556,779</u>	<u>1,298,153</u>
Fund Balances:			
Non-spendable:			
Inventories	211,366	-	211,366
Prepays	225,725	-	225,725
Perpetual	-	583,907	583,907
Restricted:			
Stabilization by State statute	2,663,450	123,357	2,786,807
Public safety	-	479,856	479,856
Streets - Powell Bill	1,291,548	-	1,291,548
Assigned:			
Subsequent year's expenditures	63,639	-	63,639
Economic development	-	263,830	263,830
Unassigned	3,246,086	(272,331)	2,973,755
Total fund balances	<u>7,701,814</u>	<u>1,178,619</u>	<u>8,880,433</u>
	<u>\$ 8,443,188</u>	<u>\$ 1,735,398</u>	
Total liabilities and fund balances			
	<u>\$ 8,443,188</u>	<u>\$ 1,735,398</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.	33,752,720
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.	328,053
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.	(6,317,016)
Net assets of governmental activities per Exhibit A	<u>\$ 36,644,190</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, 2012

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 7,606,681	\$ 124,120	\$ 7,730,801
Other taxes and licenses	2,866,109	-	2,866,109
Unrestricted intergovernmental	1,732,974	-	1,732,974
Restricted intergovernmental	1,121,145	884,544	2,005,689
Permits and fees	174,393	-	174,393
Sales and services	1,693,520	-	1,693,520
Investment earnings	160,662	51,492	212,154
Donations	-	58,080	58,080
Miscellaneous	260,316	-	260,316
Total revenues	<u>15,615,800</u>	<u>1,118,236</u>	<u>16,734,036</u>
Expenditures:			
Current:			
General government	2,045,650	94,956	2,140,606
Public safety	9,012,387	484,588	9,496,975
Transportation	2,325,664	879,607	3,205,271
Environmental protection	1,925,002	-	1,925,002
Cultural and recreation	1,978,618	-	1,978,618
Housing and redevelopment	-	321,244	321,244
Debt service:			
Principal retirement	713,560	-	713,560
Interest and other charges	68,004	-	68,004
Total expenditures	<u>18,068,885</u>	<u>1,780,395</u>	<u>19,849,280</u>
Revenues over (under) expenditures	<u>(2,453,085)</u>	<u>(662,159)</u>	<u>(3,115,244)</u>
Other Financing Sources (Uses):			
Transfers from other funds	2,334,350	1,032,921	3,367,271
Transfers to other funds	(932,921)	-	(932,921)
Long-term debt issued	811,838	-	811,838
Proceeds from sale of capital assets	21,175	-	21,175
Total other financing sources (uses)	<u>2,234,442</u>	<u>1,032,921</u>	<u>3,267,363</u>
Net change in fund balances	(218,643)	370,762	152,119
Fund Balances:			
Beginning of year - July 1	<u>7,920,457</u>	<u>807,857</u>	<u>8,728,314</u>
End of year - June 30	<u>\$ 7,701,814</u>	<u>\$ 1,178,619</u>	<u>\$ 8,880,433</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, 2012

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)	\$ 152,119
<p>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:</p>	
Property taxes	(11,444)
Miscellaneous revenues	(7,100)
<p>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.</p>	
	(499,657)
<p>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.</p>	
	1,841,280
<p>Loss on capital asset disposed of during the year, not recognized on modified accrual basis</p>	
	(566)
<p>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.</p>	
	(811,838)
<p>Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.</p>	
	(1,657,661)
<p>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.</p>	
	<u>713,560</u>
Change in net assets of governmental activities per Exhibit B	<u>\$ (281,307)</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 7,508,100	\$ 7,508,100	\$ 7,606,681	\$ 98,581
Other taxes and licenses	2,749,500	2,649,500	2,866,109	216,609
Unrestricted intergovernmental	1,719,100	1,725,240	1,732,974	7,734
Restricted intergovernmental	745,850	1,018,584	1,121,145	102,561
Permits and fees	275,100	275,100	174,393	(100,707)
Sales and services	1,545,200	1,711,200	1,693,520	(17,680)
Investment earnings	52,000	52,000	160,662	108,662
Miscellaneous	174,000	174,000	260,316	86,316
Total revenues	<u>14,768,850</u>	<u>15,113,724</u>	<u>15,615,800</u>	<u>502,076</u>
Expenditures:				
Current:				
General government	2,225,600	2,191,151	2,045,650	145,501
Public safety	8,930,500	9,102,180	9,012,387	89,793
Transportation	2,329,550	2,668,429	2,325,664	342,765
Environmental protection	1,584,250	1,934,550	1,925,002	9,548
Cultural and recreation	1,971,750	2,008,597	1,978,618	29,979
Debt service:				
Principal retirement	692,700	692,700	713,560	(20,860)
Interest and other charges	100,300	91,300	68,004	23,296
Total expenditures	<u>17,834,650</u>	<u>18,688,907</u>	<u>18,068,885</u>	<u>620,022</u>
Revenues over (under) expenditures	<u>(3,065,800)</u>	<u>(3,575,183)</u>	<u>(2,453,085)</u>	<u>1,122,098</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,335,000	2,335,000	2,334,350	(650)
Transfers to other funds	(63,700)	(932,958)	(932,921)	37
Long-term debt issued	682,000	817,600	811,838	(5,762)
Proceeds from sale of capital assets	25,000	25,000	21,175	(3,825)
Appropriated fund balance	87,500	1,330,541	-	(1,330,541)
Total other financing sources (uses)	<u>3,065,800</u>	<u>3,575,183</u>	<u>2,234,442</u>	<u>(1,340,741)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(218,643)</u>	<u>\$ (218,643)</u>
Fund Balances:				
Beginning of year - July 1			<u>7,920,457</u>	
End of year - June 30			<u>\$ 7,701,814</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, 2012

	Enterprise Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund	
Assets:						
Current assets:						
Cash and cash equivalents	\$ 2,897,778	\$ 1,568,605	\$ 2,457,613	\$ 8,964,319	\$ 2,316,383	\$ 18,204,698
Accounts receivable, net	588,341	630,910	3,238,148	688,259	4,477	5,150,135
Due from other funds	-	-	-	970,000	-	970,000
Due from other governments	6,166	215,689	161,344	485	7,822	391,506
Inventories	273,445	85,295	842,627	426,205	-	1,627,572
Prepaid items	13,213	7,843	38	10,538	1,041	32,673
Total current assets	<u>3,778,943</u>	<u>2,508,342</u>	<u>6,699,770</u>	<u>11,059,806</u>	<u>2,329,723</u>	<u>26,376,584</u>
Non-current assets:						
Restricted cash and cash equivalents	44,933	44,932	208,736	209,676	38,851	547,128
Capital assets, non-depreciable	552,532	5,452,663	6,953,401	62,102	259,309	13,280,007
Capital assets, net	<u>22,829,910</u>	<u>25,143,008</u>	<u>12,055,716</u>	<u>14,621,926</u>	<u>4,541,192</u>	<u>79,191,752</u>
Total non-current assets	<u>23,427,375</u>	<u>30,640,603</u>	<u>19,217,853</u>	<u>14,893,704</u>	<u>4,839,352</u>	<u>93,018,887</u>
Total assets	<u>27,206,318</u>	<u>33,148,945</u>	<u>25,917,623</u>	<u>25,953,510</u>	<u>7,169,075</u>	<u>119,395,471</u>
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	54,753	54,195	1,520,184	314,927	13,375	1,957,434
Accrued interest payable	46,976	54,438	42,413	36,358	-	180,185
Customer deposits	44,933	44,932	208,736	209,676	38,851	547,128
Due to other funds	1,851	1,027,258	584	1,958	385	1,032,036
Unearned revenue	317	9,708	8,559	16,262	-	34,846
Compensated absences payable	41,000	33,000	48,000	40,000	22,000	184,000
Current portion of long-term debt	<u>560,049</u>	<u>1,180,164</u>	<u>492,639</u>	<u>690,815</u>	<u>-</u>	<u>2,923,667</u>
Total current liabilities	<u>749,879</u>	<u>2,403,695</u>	<u>2,321,115</u>	<u>1,309,996</u>	<u>74,611</u>	<u>6,859,296</u>
Non-current liabilities:						
Compensated absences payable	22,738	2,712	11,347	28,408	9,864	75,069
Other long-term debt	8,338,220	8,241,328	5,160,523	4,532,715	-	26,272,786
Other post-employment benefits	<u>112,693</u>	<u>112,852</u>	<u>88,236</u>	<u>125,992</u>	<u>45,758</u>	<u>485,531</u>
Total non-current liabilities	<u>8,473,651</u>	<u>8,356,892</u>	<u>5,260,106</u>	<u>4,687,115</u>	<u>55,622</u>	<u>26,833,386</u>
Total liabilities	<u>9,223,530</u>	<u>10,760,587</u>	<u>7,581,221</u>	<u>5,997,111</u>	<u>130,233</u>	<u>33,692,682</u>
Net Assets:						
Invested in capital assets, net of related debt	14,484,173	21,174,179	13,355,955	9,460,498	4,800,501	63,275,306
Unrestricted	<u>3,498,615</u>	<u>1,214,179</u>	<u>4,980,447</u>	<u>10,495,901</u>	<u>2,238,341</u>	<u>22,427,483</u>
Total net assets	<u>\$ 17,982,788</u>	<u>\$ 22,388,358</u>	<u>\$ 18,336,402</u>	<u>\$ 19,956,399</u>	<u>\$ 7,038,842</u>	<u>\$ 85,702,789</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, 2012

	Enterprise Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund	
Operating Revenues:						
Charges for services	\$ 3,670,899	\$ 4,210,563	\$ 18,778,283	\$ 9,365,602	\$ 564,411	\$ 36,589,758
Other fees	36,460	18,129	-	33,240	-	87,829
Other operating revenues	151,919	159,772	145,930	155,923	5,315	618,859
Total operating revenues	<u>3,859,278</u>	<u>4,388,464</u>	<u>18,924,213</u>	<u>9,554,765</u>	<u>569,726</u>	<u>37,296,446</u>
Operating Expenses:						
Administration	661,004	614,112	877,749	1,210,618	325,330	3,688,813
Operations and maintenance	763,082	707,320	16,835,822	6,377,307	610,734	25,294,265
Treatment plant	1,111,907	1,070,879	-	-	-	2,182,786
Depreciation	723,746	906,686	567,887	571,337	201,937	2,971,593
Total operating expenses	<u>3,259,739</u>	<u>3,298,997</u>	<u>18,281,458</u>	<u>8,159,262</u>	<u>1,138,001</u>	<u>34,137,457</u>
Operating income (loss)	<u>599,539</u>	<u>1,089,467</u>	<u>642,755</u>	<u>1,395,503</u>	<u>(568,275)</u>	<u>3,158,989</u>
Non-Operating Revenues (Expenses):						
Operating grants	-	-	-	-	258,130	258,130
Refund of interest expense	111,356	45,524	-	12,922	-	169,802
Investment earnings	16,525	7,363	39,248	34,216	25,902	123,254
Interest expense and fiscal charges	(501,611)	(416,912)	(237,175)	(248,715)	-	(1,404,413)
Total non-operating revenues (expenses)	<u>(373,730)</u>	<u>(364,025)</u>	<u>(197,927)</u>	<u>(201,577)</u>	<u>284,032</u>	<u>(853,227)</u>
Income (loss) before capital contributions and transfers	<u>225,809</u>	<u>725,442</u>	<u>444,828</u>	<u>1,193,926</u>	<u>(284,243)</u>	<u>2,305,762</u>
Capital contributions	113,967	832,828	1,778,807	-	399,232	3,124,834
Transfers from other funds	-	-	15,000	-	-	15,000
Transfers to other funds	(5,000)	(5,000)	(534,350)	(1,905,000)	-	(2,449,350)
Change in net assets	334,776	1,553,270	1,704,285	(711,074)	114,989	2,996,246
Net Assets:						
Beginning year - July	<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>
End of year - June 30	<u>\$ 17,982,788</u>	<u>\$ 22,388,358</u>	<u>\$ 18,336,402</u>	<u>\$ 19,956,399</u>	<u>\$ 7,038,842</u>	<u>\$ 85,702,789</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, 2012

	Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Cash Flows from Operating Activities:						
Cash received from customers	\$ 3,813,186	\$ 4,348,000	\$ 18,465,665	\$ 9,698,857	\$ 570,427	\$ 36,896,135
Cash paid for goods and services	(2,056,291)	(2,464,625)	(17,824,809)	(6,370,669)	(629,735)	(29,346,129)
Cash paid to employees	(631,509)	(589,310)	(861,146)	(1,182,320)	(313,226)	(3,577,511)
Net cash provided (used) by operating activities	<u>1,125,386</u>	<u>1,294,065</u>	<u>(220,290)</u>	<u>2,145,868</u>	<u>(372,534)</u>	<u>3,972,495</u>
Cash Flows from Non-Capital Financing Activities:						
Proceeds from operating grants	-	-	-	-	258,130	258,130
Increase (decrease) in due from other funds	58,230	1,210,083	807,684	19,095	160,251	2,255,343
Transfers from (to) other funds	(5,000)	(5,000)	(519,350)	(1,905,000)	-	(2,434,350)
Net cash provided (used) by non-capital financing activities	<u>53,230</u>	<u>1,205,083</u>	<u>288,334</u>	<u>(1,885,905)</u>	<u>418,381</u>	<u>79,123</u>
Cash Flows from Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(519,623)	(1,344,310)	(1,906,605)	(272,689)	(248,695)	(4,291,922)
Capital contributions - grants	113,967	832,828	1,778,807	-	399,232	3,124,834
Proceeds from issuance of long-term debt	18,711	311,563	130,000	161,414	-	621,688
Principal paid on long-term debt	(538,178)	(1,139,923)	(454,317)	(635,776)	-	(2,768,194)
Interest paid on long-term debt	(390,255)	(371,388)	(237,175)	(235,793)	-	(1,234,611)
Net cash provided (used) for capital and related financing activities	<u>(1,315,378)</u>	<u>(1,711,230)</u>	<u>(689,290)</u>	<u>(982,844)</u>	<u>150,537</u>	<u>(4,548,205)</u>
Cash Flows from Investing Activities:						
Interest received from investments	<u>16,525</u>	<u>7,363</u>	<u>39,248</u>	<u>34,216</u>	<u>25,902</u>	<u>123,254</u>
Net cash provided (used) by investing activities	<u>16,525</u>	<u>7,363</u>	<u>39,248</u>	<u>34,216</u>	<u>25,902</u>	<u>123,254</u>
Net increase (decrease) in cash and cash equivalents	(120,237)	795,281	(581,998)	(688,665)	222,286	(373,333)
Cash and Cash Equivalents:						
Beginning of year - July 1	<u>3,062,948</u>	<u>818,256</u>	<u>3,248,347</u>	<u>9,862,660</u>	<u>2,132,948</u>	<u>19,125,159</u>
End of year - June 30	<u>\$ 2,942,711</u>	<u>\$ 1,613,537</u>	<u>\$ 2,666,349</u>	<u>\$ 9,173,995</u>	<u>\$ 2,355,234</u>	<u>\$ 18,751,826</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, 2012

	Enterprise Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Nonmajor Fund	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 599,539	\$ 1,089,467	\$ 642,755	\$ 1,395,503	\$ (568,275)	\$ 3,158,989
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	723,746	906,686	567,887	571,337	201,937	2,971,593
Loss on sale	-	867	-	-	-	867
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(45,984)	(23,137)	(486,441)	117,552	-	(438,010)
Increase (decrease) in accounts payable and accrued liabilities	(183,591)	(681,258)	(1,076,330)	(11,429)	(18,202)	(1,970,810)
Increase (decrease) in unearned revenues	(109)	(17,327)	(1,117)	26,544	-	7,991
Increase (decrease) in customer deposits	1	-	29,010	(4)	701	29,708
Net cash provided (used) by operating activities	<u>\$ 1,125,386</u>	<u>\$ 1,294,065</u>	<u>\$ (220,290)</u>	<u>\$ 2,145,868</u>	<u>\$ (372,534)</u>	<u>\$ 3,972,495</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, 2012

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, 2012

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 Funds maintained by the City are the Economic Development Commission Fund and the Emergency Telephone System 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, 2012

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.

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.

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 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 water and sewer 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.

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

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 Fund Equity

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

North Carolina Capital Management Trust (“NCCMT”), an SEC-registered (2a-7) money market mutual fund.

The City's 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.

Cash and Investments

The City pools money 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. Donations for redevelopment, revitalization, and beautification of downtown Shelby and for perpetual care of the municipal cemetery are restricted by donors. 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, 2011. 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the 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 type statement of net assets. 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.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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, 2012.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

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:

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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	\$ 211,366	\$ -
<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	225,725	-
<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.	<u>-</u>	<u>583,907</u>
Total	<u>\$ 437,091</u>	<u>\$ 583,907</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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>Nonmajor 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)]	\$ 2,663,450	\$ 121,730	\$ 1,627
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures	-	-	479,856
<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.	<u>1,291,548</u>	-	-
Total	<u>\$ 3,954,998</u>	<u>\$ 121,730</u>	<u>\$ 481,483</u>

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the City Council has budgeted. The governing board has the authority to assign fund balance through the budget process.

	<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.	\$ 63,639	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	<u>-</u>	<u>263,830</u>
Total	<u>\$ 63,639</u>	<u>\$ 263,830</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 is 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)	\$ 7,701,814
Less:	
Non-spendable	(437,091)
Stabilization by State statute	<u>(2,663,450)</u>
Available for appropriation	<u>\$ 4,601,273</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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. 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 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

At June 30, 2012, the City's deposits had a carrying amount of \$6,054,070 and a bank balance of \$6,454,227. The ABC Board's deposits had a carrying amount of \$371,322 and a bank balance of \$393,205.

Of the City's bank balance, \$654,998 was covered by federal depository insurance, and \$5,799,229 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,645 at June 30, 2012, and the ABC Board had cash on hand of \$7,080.

Investments

At June 30, 2012, 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	\$ 6,116,260	\$ -	\$ 5,112,243	\$ 1,004,017
First National Bank CD	2,981,742	2,670,994	319,236	-
US Bank CD	910,507	910,507	-	-
Shelby Savings CD	1,546,220	1,546,220	-	-
NCCMT	7,753,723	7,753,723	-	-
Total	<u>\$ 19,308,452</u>	<u>\$ 12,881,444</u>	<u>\$ 5,431,479</u>	<u>\$ 1,004,017</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 Poors 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, 2012. All certificates of 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Subsequent to June 30, 2012, 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. More than 5 percent of the City's investments are in US Government Agencies; Federal Home Loan Banks Bond, Fannie Mae, Federal National Mortgage Association UNNT, Freddie Mac UNNT by 5.7%, 5.2%, 15.6% and 5.2% respectively.

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	<u>46,368</u>	<u>1,216,104</u>	<u>1,262,472</u>
Total	<u>\$ 229,368</u>	<u>\$ 1,216,104</u>	<u>\$ 1,445,472</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 4,982,070	\$ 24,611	\$ -	\$ 5,006,681
Construction in progress	<u>1,495,555</u>	<u>939,469</u>	<u>(1,535,526)</u>	<u>899,498</u>
Total non-depreciable capital assets	<u>6,477,625</u>	<u>964,080</u>	<u>(1,535,526)</u>	<u>5,906,179</u>
Depreciable Capital Assets:				
Buildings	13,167,744	57,191	-	13,224,935
Other improvements	8,300,848	1,535,526	(5,592)	9,830,782
Machinery and equipment	6,394,553	367,607	(48,708)	6,713,452
Vehicles	7,743,577	452,402	(15,682)	8,180,297
Infrastructure	<u>11,484,875</u>	<u>-</u>	<u>-</u>	<u>11,484,875</u>
Total depreciable capital assets	<u>47,091,597</u>	<u>2,412,726</u>	<u>(69,982)</u>	<u>49,434,341</u>
Less Accumulated Depreciation:				
Buildings	5,178,175	317,206	-	5,495,381
Other improvements	1,444,591	220,593	(5,592)	1,659,592
Machinery and equipment	4,152,051	472,975	(48,142)	4,576,884
Vehicles	5,813,092	471,429	(15,682)	6,268,839
Infrastructure	<u>3,411,646</u>	<u>175,458</u>	<u>-</u>	<u>3,587,104</u>
Total accumulated depreciation	<u>19,999,555</u>	<u>\$ 1,657,661</u>	<u>\$ (69,416)</u>	<u>21,587,800</u>
Total depreciable capital assets, net	<u>27,092,042</u>			<u>27,846,541</u>
Governmental activity capital assets, net	<u>\$ 33,569,667</u>			<u>\$ 33,752,720</u>

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

Governmental Activities:	
General government	\$ 214,175
Public safety	523,764
Transportation	519,569
Environmental protection	175,488
Cultural and recreation	<u>224,665</u>
Total depreciation expense-governmental activities	<u>\$ 1,657,661</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Water Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 49,483	\$ -	\$ -	\$ 49,483
Construction in progress	3,039,698	220,615	(2,757,264)	503,049
Total non-depreciable capital assets	<u>3,089,181</u>	<u>220,615</u>	<u>(2,757,264)</u>	<u>552,532</u>
Depreciable Capital Assets:				
Buildings and system	12,099,420	104,711	-	12,204,131
Water extensions	19,254,237	2,932,820	-	22,187,057
Machinery and equipment	1,261,885	-	-	1,261,885
Vehicles	225,378	18,741	-	244,119
Total depreciable capital assets	<u>32,840,920</u>	<u>3,056,272</u>	<u>-</u>	<u>35,897,192</u>
Less Accumulated Depreciation:				
Buildings and system	6,321,541	195,997	-	6,517,538
Water extensions	4,860,376	470,355	-	5,330,731
Machinery and equipment	971,782	46,323	-	1,018,105
Vehicles	189,837	11,071	-	200,908
Total accumulated depreciation	<u>12,343,536</u>	<u>\$ 723,746</u>	<u>\$ -</u>	<u>13,067,282</u>
Total depreciable capital assets, net	<u>20,497,384</u>			<u>22,829,910</u>
Total capital assets, net	<u>\$ 23,586,565</u>			<u>\$ 23,382,442</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 58,401	\$ -	\$ -	\$ 58,401
Construction in progress	<u>6,444,084</u>	<u>949,961</u>	<u>(1,999,783)</u>	<u>5,394,262</u>
Total non-depreciable capital assets	<u>6,502,485</u>	<u>949,961</u>	<u>(1,999,783)</u>	<u>5,452,663</u>
Depreciable Capital Assets:				
Buildings and system	16,148,732	52,196	-	16,200,928
Sewer extensions	18,234,051	2,127,608	-	20,361,659
Machinery and equipment	1,801,927	115,809	-	1,917,736
Vehicles	671,170	37,812	(38,162)	670,820
System Improvements	<u>-</u>	<u>60,707</u>	<u>-</u>	<u>60,707</u>
Total depreciable capital assets	<u>36,855,880</u>	<u>2,394,132</u>	<u>(38,162)</u>	<u>39,211,850</u>
Less Accumulated Depreciation:				
Buildings and system	5,760,253	326,783	-	6,087,036
Sewer extensions	5,814,170	373,547	-	6,187,717
Machinery and equipment	1,112,027	158,715	-	1,270,742
Vehicles	513,001	44,605	(37,295)	520,311
System Improvements	<u>-</u>	<u>3,036</u>	<u>-</u>	<u>3,036</u>
Total accumulated depreciation	<u>13,199,451</u>	<u>\$ 906,686</u>	<u>\$ (37,295)</u>	<u>14,068,842</u>
Total depreciable capital assets, net	<u>23,656,429</u>			<u>25,143,008</u>
Total capital assets, net	<u>\$ 30,158,914</u>			<u>\$ 30,595,671</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Electric Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 75,683	\$ -	\$ -	\$ 75,683
Construction in progress	<u>5,249,294</u>	<u>1,758,101</u>	<u>(129,677)</u>	<u>6,877,718</u>
Total non-depreciable capital assets	<u>5,324,977</u>	<u>1,758,101</u>	<u>(129,677)</u>	<u>6,953,401</u>
Depreciable Capital Assets:				
Buildings and system	4,158,645	-	-	4,158,645
Electric extensions	15,145,106	149,323	-	15,294,429
Machinery and equipment	1,072,115	-	-	1,072,115
Vehicles	<u>976,947</u>	<u>128,857</u>	-	<u>1,105,804</u>
Total depreciable capital assets	<u>21,352,813</u>	<u>278,180</u>	-	<u>21,630,993</u>
Less Accumulated Depreciation:				
Buildings and system	1,646,502	97,046	-	1,743,548
Electric extensions	5,850,710	334,144	-	6,184,854
Machinery and equipment	734,191	74,024	-	808,215
Vehicles	<u>775,987</u>	<u>62,673</u>	-	<u>838,660</u>
Total accumulated depreciation	<u>9,007,390</u>	<u>\$ 567,887</u>	<u>\$ -</u>	<u>9,575,277</u>
Total depreciable capital assets, net	<u>12,345,423</u>			<u>12,055,716</u>
Total capital assets, net	<u>\$ 17,670,400</u>			<u>\$ 19,009,117</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Gas Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 53,489	\$ -	\$ -	\$ 53,489
Construction in progress	<u>558,424</u>	<u>8,613</u>	<u>(558,424)</u>	<u>8,613</u>
Total non-depreciable capital assets	<u>611,913</u>	<u>8,613</u>	<u>(558,424)</u>	<u>62,102</u>
Depreciable Capital Assets:				
Buildings and system	475,462	-	-	475,462
Sewer extensions	22,300,059	660,501	-	22,960,560
Machinery and equipment	1,044,313	142,728	-	1,187,041
Vehicles	<u>539,332</u>	<u>19,271</u>	<u>(31,152)</u>	<u>527,451</u>
Total depreciable capital assets	<u>24,359,166</u>	<u>822,500</u>	<u>(31,152)</u>	<u>25,150,514</u>
Less Accumulated Depreciation:				
Buildings and system	384,568	16,500	-	401,068
Sewer extensions	8,592,863	427,696	-	9,020,559
Machinery and equipment	563,414	96,914	-	660,328
Vehicles	<u>447,558</u>	<u>30,227</u>	<u>(31,152)</u>	<u>446,633</u>
Total accumulated depreciation	<u>9,988,403</u>	<u>\$ 571,337</u>	<u>\$ (31,152)</u>	<u>10,528,588</u>
Total depreciable capital assets, net	<u>14,370,763</u>			<u>14,621,926</u>
Gas Fund capital assets, net	<u>\$ 14,982,676</u>			<u>\$ 14,684,028</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Housing Assistance Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 234,411	\$ 24,898	\$ -	\$ 259,309
Total non-depreciable capital assets	<u>234,411</u>	<u>24,898</u>	<u>-</u>	<u>259,309</u>
Depreciable Capital Assets:				
Buildings and system	8,140,338	223,797	-	8,364,135
Other improvements	664,131	-	-	664,131
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>133,210</u>	<u>-</u>	<u>-</u>	<u>133,210</u>
Total depreciable capital assets	<u>9,107,891</u>	<u>223,797</u>	<u>-</u>	<u>9,331,688</u>
Less Accumulated Depreciation:				
Buildings and system	3,753,019	181,981	-	3,935,000
Other improvements	542,535	16,280	-	558,815
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>122,793</u>	<u>3,676</u>	<u>-</u>	<u>126,469</u>
Total accumulated depreciation	<u>4,588,559</u>	<u>\$ 201,937</u>	<u>\$ -</u>	<u>4,790,496</u>
Total depreciable capital assets, net	<u>4,519,332</u>			<u>4,541,192</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,753,743</u>			<u>\$ 4,800,501</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Construction Commitments

The City has active construction projects as of June 30, 2012. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Water Treatment Plant FY11	\$ 8,250
Foothills Commerce Center	2,926
Electric Line Extension to Foothill	1,456
Plato Lee Gas Line Relocation	3,388
Airport 9.1	51,426
Airport Apron Pavement Rehab	4,116
Airport 10.1	<u>10,500</u>
Total	<u>\$ 82,062</u>

Activity for the ABC Board for the year ended June 30, 2012 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Non-Depreciable Capital Assets:				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
Depreciable Capital Assets:				
Buildings	683,639	3,701	-	687,340
Office and store equipment	310,231	926	-	311,157
Vehicle	<u>32,322</u>	<u>-</u>	<u>(8,072)</u>	<u>24,250</u>
Total capital assets being depreciated	<u>1,026,192</u>	<u>4,627</u>	<u>(8,072)</u>	<u>1,022,747</u>
Less Accumulated Depreciation:				
Buildings	595,855	17,184	-	613,039
Office and store equipment	252,471	10,224	-	262,695
Vehicle	<u>10,900</u>	<u>2,426</u>	<u>(8,072)</u>	<u>5,254</u>
Total accumulated depreciation	<u>859,226</u>	<u>29,834</u>	<u>(8,072)</u>	<u>880,988</u>
Total ABC capital assets				
being depreciated	<u>166,966</u>	<u>(25,207)</u>	<u>-</u>	<u>141,759</u>
ABC capital assets, net	<u>\$ 349,533</u>	<u>\$ (25,207)</u>	<u>\$ -</u>	<u>\$ 324,326</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012 were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 349,597	\$ 184,188
Accrued gas and electric purchases	-	1,707,103
Accrued payroll liabilities	137,501	66,143
Total accounts payable and accrued liabilities	\$ 487,098	\$ 1,957,434

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, 2012 are summarized as follows:

Financing Agreements:	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2012					
				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	\$ 139,167	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer extension	5.56%	03/2015	300,000	-	-	60,000	-	-	60,000
State revolving loan	2.89%	05/2015	11,800,000	-	-	2,341,478	-	-	2,341,478
Park and recreation improvements	3.24%	04/2015	1,352,345	405,704	-	-	-	-	-
Cleveland County	1.68%	03/2022	183,526	-	-	183,526	-	-	183,526
Powell Bill	1.43%	05/2017	158,000	158,000	-	-	-	-	-
2012 Purchase of equipment	1.43%	05/2017	1,250,000	653,838	18,711	128,037	130,000	161,414	438,162
2008 Purchase of equipment	3.25%	05/2013	720,945	52,444	2,277	81,951	8,538	8,630	101,396
2009 Purchase of equipment	3.20%	06/2014	688,496	153,352	16,327	19,212	76,070	23,511	135,120
Capital projects	3.64%	06/2019	1,250,000	875,000	-	-	-	-	-
2010 Purchase of equipment	2.36%	05/2015	903,162	434,196	27,100	55,497	25,110	12,707	120,414
2011 Purchase of equipment	1.69%	05/2016	965,726	411,336	3,124	275,805	33,149	55,632	367,710
Total			\$ 20,407,200	\$ 3,283,037	\$ 67,539	\$ 3,145,506	\$ 272,867	\$ 261,894	\$ 3,747,806

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Governmental Activities Long-Term Debt

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2012 are as follows:

Year Ending	Governmental Activities		
	Principal	Interest	Total
June 30			
2013	\$ 843,094	\$ 89,349	\$ 932,443
2014	800,364	62,016	862,380
2015	702,340	39,973	742,313
2016	395,196	23,951	419,147
2017	292,043	15,378	307,421
2018-2021	250,000	11,843	261,843
Total	\$ 3,283,037	\$ 242,510	\$ 3,525,547

Business-Type Activities Long-Term Debt

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

Year Ending	Water Fund		
	Principal	Interest	Total
June 30			
2013	\$ 23,528	\$ 1,553	\$ 25,081
2014	21,781	954	22,735
2015	13,784	393	14,177
2016	4,597	123	4,720
2017	3,849	55	3,904
Total	\$ 67,539	\$ 3,078	\$ 70,617

Year Ending	Sewer Fund		
	Principal	Interest	Total
June 30			
2013	\$ 825,274	\$ 87,791	\$ 913,065
2014	745,547	64,452	809,999
2015	737,775	43,507	781,282
2016	700,449	23,099	723,548
2017	44,698	4,078	48,776
2018-2021	91,763	9,249	101,012
Total	\$ 3,145,506	\$ 232,176	\$ 3,377,682

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Year Ending	Electric Fund			
	June 30	Principal	Interest	Total
2013	\$	87,485	\$ 5,716	\$ 93,201
2014		80,838	3,567	84,405
2015		42,923	1,611	44,534
2016		34,873	898	35,771
2017		26,748	385	27,133
Total	\$	272,867	\$ 12,177	\$ 285,044

Year Ending	Gas Fund			
	June 30	Principal	Interest	Total
2013	\$	69,258	\$ 4,576	\$ 73,834
2014		61,776	3,167	64,943
2015		50,634	1,987	52,621
2016		47,014	1,174	48,188
2017		33,212	478	33,690
Total	\$	261,894	\$ 11,382	\$ 273,276

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, 2012 are as follows:

	Interest Rates	Date Series Matures	Amount of Original Issue	Balance Outstanding June 30, 2012
Combined Enterprise System, Series 2004	4.62%	2029	\$ 18,465,000	\$ 11,650,000
Combined Enterprise System, Series 2005	3.29%	2017	6,605,000	3,010,000
Combined Enterprise System, Series 2008	3.69%	2028	3,835,500	3,288,417
Combined Enterprise System, Series 2010	6.20%	2025	8,346,400	7,500,230
Total				\$ 25,448,647

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Revenue bond debt service requirements to maturity are as follows:

Year Ending	Water Fund		
	Principal	Interest	Total
June 30			
2013	\$ 536,521	\$ 472,830	\$ 1,009,351
2014	556,634	446,221	1,002,855
2015	578,713	418,279	996,992
2016	598,428	388,899	987,327
2017	624,415	357,476	981,891
2018-2022	2,861,709	1,308,802	4,170,511
2023-2027	2,531,129	445,242	2,976,371
2028-2029	543,181	37,960	581,141
Total	<u>\$ 8,830,730</u>	<u>\$ 3,875,709</u>	<u>\$ 12,706,439</u>

Year Ending	Sewer Fund		
	Principal	Interest	Total
June 30			
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	411,983	224,086	636,069
2018-2022	1,944,758	838,823	2,783,581
2023-2027	1,969,385	326,091	2,295,476
2028-2029	449,147	23,315	472,462
Total	<u>\$ 6,275,986</u>	<u>\$ 2,483,851</u>	<u>\$ 8,759,837</u>

Year Ending	Electric Fund		
	Principal	Interest	Total
June 30			
2013	\$ 405,154	\$ 229,630	\$ 634,784
2014	417,884	216,091	633,975
2015	433,119	201,808	634,927
2016	447,558	186,672	634,230
2017	463,588	170,016	633,604
2018-2022	1,120,126	665,164	1,785,290
2023-2027	1,425,424	361,267	1,786,691
2028-2029	667,442	46,645	714,087
Total	<u>\$ 5,380,295</u>	<u>\$ 2,077,293</u>	<u>\$ 7,457,588</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Year Ending	Gas Fund			
	June 30	Principal	Interest	Total
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		710,107	101,045	811,152
2018-2022		703,218	310,705	1,013,923
2023-2027		745,769	129,697	875,466
2028-2029		191,804	10,226	202,030
Total	\$	4,961,636	\$ 1,194,134	\$ 6,155,770

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 \$35,079,634. Principal and interest paid for the current year and total customer net revenues were \$3,113,100 and \$36,726,720, 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, 2012 is as follows:

Operating revenues	\$ 36,726,720
Operating expenses*	<u>30,290,507</u>
Income available for debt service	<u>\$ 6,436,213</u>
 Debt service, principal and interest paid (Revenue Bond only)	 <u>\$ 3,113,100</u>
 Debt service coverage ratio	 <u>206.75%</u>

*Per rate covenants, this does not include the depreciation expense of \$2,768,138.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Changes in Long-Term Liabilities. Long-term liability activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental Activities:					
Other debt	\$ 3,184,759	\$ 811,838	\$ (713,560)	\$ 3,283,037	\$ 843,094
Net pension obligations	281,812	123,809	(55,809)	349,812	-
Compensated absences	935,889	609,642	(580,114)	965,417	550,000
Other post-employment benefits	<u>1,316,621</u>	<u>737,170</u>	<u>(335,041)</u>	<u>1,718,750</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 5,719,081</u>	<u>\$ 2,282,459</u>	<u>\$ (1,684,524)</u>	<u>\$ 6,317,016</u>	<u>\$ 1,393,094</u>
Business-Type Activities:					
Water Fund					
Revenue bonds	\$ 9,349,000	\$ -	\$ (518,270)	\$ 8,830,730	\$ 536,521
Other debt	68,736	18,711	(19,908)	67,539	23,528
Compensated absences	61,864	43,561	(41,687)	63,738	41,000
Other post-employment benefits	<u>85,072</u>	<u>50,633</u>	<u>(23,012)</u>	<u>112,693</u>	<u>-</u>
Water Fund long-term liabilities	<u>\$ 9,564,672</u>	<u>\$ 112,905</u>	<u>\$ (602,877)</u>	<u>\$ 9,074,700</u>	<u>\$ 601,049</u>
Sewer Fund:					
Revenue bonds	\$ 6,618,728	\$ -	\$ (342,742)	\$ 6,275,986	\$ 354,890
Other debt	3,631,124	311,563	(797,181)	3,145,506	825,274
Compensated absences	37,990	31,487	(33,765)	35,712	33,000
Other post-employment benefits	<u>85,772</u>	<u>49,642</u>	<u>(22,562)</u>	<u>112,852</u>	<u>-</u>
Sewer Fund long-term liabilities	<u>\$ 10,373,614</u>	<u>\$ 392,692</u>	<u>\$ (1,196,250)</u>	<u>\$ 9,570,056</u>	<u>\$ 1,213,164</u>
Electric Fund:					
Revenue bonds	\$ 5,771,010	\$ -	\$ (390,715)	\$ 5,380,295	\$ 405,154
Other debt	206,469	130,000	(63,602)	272,867	87,485
Compensated absences	63,328	44,915	(48,896)	59,347	48,000
Other post-employment benefits	<u>67,652</u>	<u>37,734</u>	<u>(17,150)</u>	<u>88,236</u>	<u>-</u>
Electric Fund long-term liabilities	<u>\$ 6,108,459</u>	<u>\$ 212,649</u>	<u>\$ (520,363)</u>	<u>\$ 5,800,745</u>	<u>\$ 540,639</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Gas Fund:					
Revenue bonds	\$ 5,559,933	\$ -	\$ (598,297)	\$ 4,961,636	\$ 621,557
Other debt	137,959	161,414	(37,479)	261,894	69,258
Compensated absences	67,162	42,105	(40,859)	68,408	40,000
Other post-employment benefits	98,940	49,590	(22,538)	125,992	-
Gas Fund long-term liabilities	<u>\$ 5,863,994</u>	<u>\$ 253,109</u>	<u>\$ (699,173)</u>	<u>\$ 5,417,930</u>	<u>\$ 730,815</u>
Housing Assistance Fund:					
Compensated absences	\$ 31,182	\$ 22,789	\$ (22,107)	\$ 31,864	\$ 22,000
Other post-employment benefits	34,336	20,938	(9,516)	45,758	-
Housing Assistance long-term liabilities	<u>\$ 65,518</u>	<u>\$ 43,727</u>	<u>\$ (31,623)</u>	<u>\$ 77,622</u>	<u>\$ 22,000</u>
Total Business-Type Activities					
Revenue bonds	\$ 27,298,671	\$ -	\$ (1,850,024)	\$ 25,448,647	\$ 1,918,122
Other debt	4,044,288	621,688	(918,170)	3,747,806	1,005,545
Compensated absences	261,526	184,856	(187,313)	259,069	184,000
Other post-employment benefits	371,772	208,537	(94,778)	485,531	-
Business-type activities long-term liabilities	<u>\$ 31,976,257</u>	<u>\$ 1,015,081</u>	<u>\$ (3,050,285)</u>	<u>\$ 29,941,053</u>	<u>\$ 3,107,667</u>

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

At June 30, 2012, the City has a legal debt margin of approximately \$106,700,000.

Unearned Revenues/Deferred Revenues. The balance in unearned revenues/deferred revenues 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	\$ 247,430	\$ (247,430)	\$ -	\$ -
Prepayments - privilege licenses	11,671	-	11,671	-
Loans	80,623	(80,623)	-	-
Special assessments	-	-	-	9,098
Prepayments - customers	-	-	-	25,748
Total	<u>\$ 339,724</u>	<u>\$ (328,053)</u>	<u>\$ 11,671</u>	<u>\$ 34,846</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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	\$ 33,752,720
Outstanding balance on related debt	(3,283,037)
Unspent debt proceeds	<u>128,343</u>
 Total governmental activities	 <u><u>\$ 30,598,026</u></u>

Business-Type Activities:

Capital assets, net of accumulated depreciation	\$ 23,382,442
Outstanding balance on related debt	(8,898,269)
Unspent debt proceeds	<u>-</u>
Total Water	<u>14,484,173</u>

Capital assets, net of accumulated depreciation	30,595,671
Outstanding balance on related debt	(9,421,492)
Unspent debt proceeds	<u>-</u>
Total Sewer	<u>21,174,179</u>

Capital assets, net of accumulated depreciation	19,009,117
Outstanding balance on related debt	(5,653,162)
Unspent debt proceeds	<u>-</u>
Total Electric	<u>13,355,955</u>

Capital assets, net of accumulated depreciation	14,684,028
Outstanding balance on related debt	(5,223,530)
Unspent debt proceeds	<u>-</u>
Total Gas	<u>9,460,498</u>

Capital assets, net of accumulated depreciation	4,800,501
Total Housing Assistance	<u>4,800,501</u>

Total business-type activities	\$ <u><u>63,275,306</u></u>
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CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 6.97% and 7.05%, 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, 2012, 2011, and 2010 were \$803,779, \$767,739, and \$564,661, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$38,016, \$35,053, and \$33,330 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, 2012

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to, but not yet, receiving benefits	4
Active plan members	<u>74</u>
Total	<u><u>78</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, 2010 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 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of assets was determined using the market value of investment. The unfunded actuarial accrued liability is being amortized as a level percentage of projected pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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	\$ 126,530
Interest on net pension obligation	14,091
Adjustment to annual required contribution	<u>(16,812)</u>
Annual pension cost	123,809
Contributions made	<u>55,809</u>
Increase (decrease) in net pension obligation	68,000
Net pension obligation:	
Beginning of year - July 1	<u>281,812</u>
End of year - June 30	<u>\$ 349,812</u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 123,809	45.08%	\$ 349,812
2011	135,939	58.85%	281,812
2010	112,327	67.01%	225,870

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$1,093,380, and the unfunded actuarial accrued liability (UAAL) was \$1,093,380. The covered payroll (annual payroll of active employees covered by the plan) was \$2,946,990, and the ratio of the UAAL to the covered payroll was 37.10 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, 2012

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, 2012 were \$740,770, which consisted of \$571,445 from the City and \$169,325 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 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, 2012**

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, 2011, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers	Firefighters
Active plan members	<u>192</u>	<u>74</u>	<u>53</u>

The City has 45 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 8.07% of annual covered payroll. For the current year, the City contributed \$429,819, or 3.70% 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, 2012**

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 No. 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	\$ 936,437
Interest on net OPEB obligation	67,536
Adjustments to annual required contribution	<u>(58,266)</u>
Annual OPEB cost (expense)	945,707
Contributions made	<u>(429,819)</u>
Increase (decrease) in net OPEB obligation	515,888
Net OPEB obligation:	
Beginning of year - July 1	<u>1,688,393</u>
End of year - June 30	<u><u>\$ 2,204,281</u></u>

The City's net OPEB obligation is comprised of \$1,718,750 and \$485,531 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 2012 were as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$ 945,707	45.44%	\$ 2,204,281
2011	909,333	49.40%	1,688,393
2010	1,039,595	41.10%	1,228,179

Fund Status and Funding Progress

As of December 31, 2011, 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 \$11,727,758. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,602,746, and the ratio of the UAAL to the covered payroll was 101.08 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, 2012

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, 2011 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 9.5% to 5% annually. Both rates included a 3.00% 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, 2011, 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, 2012

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 Board 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 ABC Board considers these contributions to be immaterial.

On-Behalf Payments for Fringe Benefits and Salaries

For the year ended June 30, 2012, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$10,318 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 \$30,942 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, 2012. 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.

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 2012 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, 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.

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.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

C. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Capital Projects Fund	\$ 470,131
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>\$ 1,502,167</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, 2012 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
Electric Fund	Gas Fund	5,000
Electric Fund	Sewer Fund	5,000
Electric Fund	Water Fund	5,000
Economic Development Fund	Gas Fund	100,000
Emergency Telephone Systems Fund	General Fund	869,253
Capital Projects Fund	General Fund	16,668
Economic Development Fund	General Fund	<u>47,000</u>
Total		<u>\$ 3,382,271</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012 were \$15,091,457.

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 \$14,822 to the Commission during the year ended June 30, 2012.

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, 2012, the City reported revenues and expenditures for the payments of \$10,318 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, 2012. 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, 2012

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	B				
12/31/2011	\$ -	\$ 1,093,380	\$ 1,093,380	0.00%	\$ 2,946,990	37.10%	
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%	

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution		Amount Contributed By Employer	Percentage of ARC Contributed
	(ARC)	(ARC)		
2012	\$ 126,530	\$ 55,809	44.11%	
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%	

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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	5.00%
Projected salary increases *	4.25% to 7.85%
Cost of living adjustments	N/A
* Includes inflation at 3.00%	

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

CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS - RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

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
12/31/2011	\$ -	\$	11,727,758	\$ 11,727,758	0.00%	\$ 11,602,746	101.08%
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
2012	\$ 936,437	\$ 429,819	45.90%
2011	902,590	449,119	49.76%
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	12/31/2011
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	9.50% - 5.00%
Year of Ultimate trend rate	2018
* Includes inflation at 3.00%	



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, 2012

	2012		
	Budget	Actual	Variance Over/Under
Revenues:			
Ad Valorem Taxes:			
Current year	\$ 7,223,100	\$ 7,339,519	\$ 116,419
Prior years	250,000	230,614	(19,386)
Tax discounts	(15,000)	(15,669)	(669)
Interest and penalties	50,000	52,217	2,217
Total	<u>7,508,100</u>	<u>7,606,681</u>	<u>98,581</u>
Other Taxes and Licenses:			
Local option sales tax	2,642,000	2,865,854	223,854
Privilege licenses	7,500	255	(7,245)
Total	<u>2,649,500</u>	<u>2,866,109</u>	<u>216,609</u>
Unrestricted Intergovernmental Revenues:			
Payment in lieu of taxes	56,100	18,860	(37,240)
Utility franchise tax	1,525,000	1,559,642	34,642
Beer and wine tax	93,000	89,706	(3,294)
ABC revenue	45,000	64,766	19,766
Wireless 911 grant	6,140	-	(6,140)
Total	<u>1,725,240</u>	<u>1,732,974</u>	<u>7,734</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	569,000	600,166	31,166
Local occupancy tax	100,000	140,591	40,591
Federal and State grants	317,084	340,252	23,168
ABC Law enforcement revenue	7,500	8,268	768
Rental vehicle gross receivable tax	25,000	31,868	6,868
Total	<u>1,018,584</u>	<u>1,121,145</u>	<u>102,561</u>
Permits and Fees:			
Building permits/inspection fees	200,000	126,649	(73,351)
Other permits	75,100	46,630	(28,470)
Filing fees	-	1,114	1,114
Total	<u>275,100</u>	<u>174,393</u>	<u>(100,707)</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, 2012

	2012		
	Budget	Actual	Variance Over/Under
Sales and Services:			
Parking penalties	-	25	25
Court costs and fees	12,000	9,785	(2,215)
Cemetery revenue	-	15,735	15,735
Golf cart rentals	72,000	71,720	(280)
Recreation revenue	280,750	222,988	(57,762)
Garbage disposal fees	694,200	692,362	(1,838)
Recycling fees	126,000	133,418	7,418
Utility late fees	200,000	168,350	(31,650)
Airport fuel sales	311,750	362,652	50,902
Other rent	14,500	16,485	1,985
Total	<u>1,711,200</u>	<u>1,693,520</u>	<u>(17,680)</u>
Investment Earnings	<u>52,000</u>	<u>160,662</u>	<u>108,662</u>
Miscellaneous:			
Student resource officer	114,000	114,000	-
Public nuisance	50,000	63,054	13,054
Other	10,000	83,262	73,262
Total	<u>174,000</u>	<u>260,316</u>	<u>86,316</u>
Total revenues	<u>15,113,724</u>	<u>15,615,800</u>	<u>502,076</u>
Expenditures:			
General Government:			
Mayor and council	46,755	45,738	1,017
Administration and general	204,400	196,166	8,234
Finance	282,475	275,159	7,316
Purchasing	19,270	14,040	5,230
Legal	9,700	9,529	171
Human resources	242,250	229,817	12,433
City hall	203,315	186,632	16,683
Building and zoning	312,280	288,390	23,890
Community development	358,080	353,429	4,651
Special appropriations	512,626	446,750	65,876
Total general government	<u>2,191,151</u>	<u>2,045,650</u>	<u>145,501</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, 2012

	2012		Variance Over/Under
	Budget	Actual	
Public Safety:			
Police department	5,796,789	5,759,180	37,609
Fire department	3,305,391	3,253,207	52,184
Total public safety	9,102,180	9,012,387	89,793
Transportation:			
Streets and highways	919,220	916,449	2,771
Street maintenance and repairs - Powell Bill	389,800	338,599	51,201
Street construction and improvement - Powell Bill	490,434	213,325	277,109
Garage	391,025	389,097	1,928
Airport	477,950	468,194	9,756
Total transportation	2,668,429	2,325,664	342,765
Environmental Protection:			
Sanitation	1,557,950	1,549,347	8,603
Recycling	376,600	375,655	945
Total environmental protection	1,934,550	1,925,002	9,548
Cultural and Recreational:			
Parks and recreation	2,008,597	1,978,618	29,979
Debt Service:			
Principal retirement	692,700	713,560	(20,860)
Interest	91,300	68,004	23,296
Total debt service	784,000	781,564	2,436
Total expenditures	18,688,907	18,068,885	620,022

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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue over (under) expenditures	(3,575,183)	(2,453,085)	1,122,098
Other Financing Sources (Uses):			
Transfers from other funds	2,335,000	2,334,350	(650)
Transfers to other funds	(932,958)	(932,921)	37
Long-term debt issued	817,600	811,838	(5,762)
Proceeds from the sale of capital assets	25,000	21,175	(3,825)
Appropriated fund balance	<u>1,330,541</u>	<u>-</u>	<u>(1,330,541)</u>
Total other financing sources (uses)	<u>3,575,183</u>	<u>2,234,442</u>	<u>(1,340,741)</u>
Net change in fund balance	<u>\$ -</u>	<u>(218,643)</u>	<u>\$ (218,643)</u>
Fund Balance:			
Beginning of year - July 1		<u>7,920,457</u>	
End of year - June 30		<u>\$ 7,701,814</u>	



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 Funds

- **Emergency Telephone System Fund** - This fund accounts for collection of monies to provide enhanced 911 services.
- **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, 2012**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Fund	Nonmajor Permanent Funds	Total
Assets:				
Cash and cash equivalents	\$ 743,686	\$ 199,288	\$ -	\$ 942,974
Receivables, net:				
Taxes	4,538	-	-	4,538
Accounts	500	-	11,294	11,794
Interest	622	2,955	-	3,577
Loans	80,623	-	-	80,623
Due from other governments	504	118,775	-	119,279
Cash and cash equivalents - restricted	<u>-</u>	<u>-</u>	<u>572,613</u>	<u>572,613</u>
Total assets	<u>\$ 830,473</u>	<u>\$ 321,018</u>	<u>\$ 583,907</u>	<u>\$ 1,735,398</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 288	\$ -	\$ 288
Due to other funds	-	470,131	-	470,131
Due to other governments	-	1,200	-	1,200
Deferred revenue	<u>85,160</u>	<u>-</u>	<u>-</u>	<u>85,160</u>
Total liabilities	<u>85,160</u>	<u>471,619</u>	<u>-</u>	<u>556,779</u>
Fund Balances:				
Non-spendable:				
Perpetual	-	-	583,907	583,907
Restricted:				
Stabilization by State statute	1,627	121,730	-	123,357
Public safety	479,856			479,856
Assigned:				
Economic development	263,830	-	-	263,830
Unassigned	<u>-</u>	<u>(272,331)</u>	<u>-</u>	<u>(272,331)</u>
Total fund balances	<u>745,313</u>	<u>(150,601)</u>	<u>583,907</u>	<u>1,178,619</u>
Total liabilities and fund balances	<u>\$ 830,473</u>	<u>\$ 321,018</u>	<u>\$ 583,907</u>	<u>\$ 1,735,398</u>

CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2012**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Fund	Nonmajor Permanent Funds	Total
Revenues:				
Ad valorem taxes	\$ 124,120	\$ -	\$ -	\$ 124,120
Restricted intergovernmental	100,123	784,421	-	884,544
Investment earnings	4,723	41,784	4,985	51,492
Donations	-	-	58,080	58,080
Total revenues	<u>228,966</u>	<u>826,205</u>	<u>63,065</u>	<u>1,118,236</u>
Expenditures:				
General government	-	93,934	1,022	94,956
Public safety	432,338	52,250	-	484,588
Transportation	-	879,607	-	879,607
Housing and redevelopment	321,244	-	-	321,244
Total expenditures	<u>753,582</u>	<u>1,025,791</u>	<u>1,022</u>	<u>1,780,395</u>
Revenues over (under) expenditures	<u>(524,616)</u>	<u>(199,586)</u>	<u>62,043</u>	<u>(662,159)</u>
Other Financing Sources (Uses):				
Transfers from other funds	<u>1,016,253</u>	<u>16,668</u>	-	<u>1,032,921</u>
Total other financing sources (uses)	<u>1,016,253</u>	<u>16,668</u>	-	<u>1,032,921</u>
Net change in fund balances	491,637	(182,918)	62,043	370,762
Fund Balances:				
Beginning of year - July 1	<u>253,676</u>	<u>32,317</u>	<u>521,864</u>	<u>807,857</u>
End of year - June 30	<u>\$ 745,313</u>	<u>\$ (150,601)</u>	<u>\$ 583,907</u>	<u>\$ 1,178,619</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	<u>Emergency Telephone System Fund</u>	<u>Economic Development Commission Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
Assets:			
Cash and cash equivalents	\$ 479,856	\$ 263,830	\$ 743,686
Receivables, net:			
Taxes	-	4,538	4,538
Accounts	-	500	500
Interest	-	622	622
Loans	-	80,623	80,623
Due from other governments	-	504	504
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 479,856</u>	<u>\$ 350,617</u>	<u>\$ 830,473</u>
Liabilities and Fund Balances:			
Liabilities:			
Deferred revenue	<u>\$ -</u>	<u>\$ 85,160</u>	<u>\$ 85,160</u>
Total liabilities	<u> </u>	<u>85,160</u>	<u>85,160</u>
Fund Balances:			
Restricted:			
Stabilization by state statute	-	1,627	1,627
Public safety	479,856	-	479,856
Assigned:			
Economic development	<u> </u>	<u>263,830</u>	<u>263,830</u>
Total fund balances	<u>479,856</u>	<u>265,457</u>	<u>745,313</u>
Total liabilities and fund balances	<u>\$ 479,856</u>	<u>\$ 350,617</u>	<u>\$ 830,473</u>

CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Emergency Telephone System Fund</u>	<u>Economic Development Commission Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues:			
Ad valorem taxes	\$ -	\$ 124,120	\$ 124,120
Restricted intergovernmental	42,941	57,182	100,123
Investment earnings	-	4,723	4,723
Total revenues	<u>42,941</u>	<u>186,025</u>	<u>228,966</u>
Expenditures:			
Public safety	432,338	-	432,338
Housing and redevelopment	-	321,244	321,244
Total expenditures	<u>432,338</u>	<u>321,244</u>	<u>753,582</u>
Revenues over (under) expenditures	<u>(389,397)</u>	<u>(135,219)</u>	<u>(524,616)</u>
Other Financing Sources (Uses):			
Transfers from other funds	<u>869,253</u>	<u>147,000</u>	<u>1,016,253</u>
Total other financing sources (uses)	<u>869,253</u>	<u>147,000</u>	<u>1,016,253</u>
Net change in fund balances	479,856	11,781	491,637
Fund Balances:			
Beginning of year - July 1	<u>-</u>	<u>253,676</u>	<u>253,676</u>
End of year - June 30	<u>\$ 479,856</u>	<u>\$ 265,457</u>	<u>\$ 745,313</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUND
 EMERGENCY TELEPHONE SYSTEM FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Over/Under
Revenues:			
Restricted intergovernmental	\$ 36,025	\$ 42,941	\$ 6,916
Expenditures:			
Public safety:			
Furniture	-	4,647	(4,647)
Software	-	13,060	(13,060)
Hardware	-	441	(441)
Phone system	36,025	15,927	20,098
S.L. 2010-158 expenditures	407,530	398,263	9,267
Contingencies	461,723	-	461,723
Total expenditures	<u>905,278</u>	<u>432,338</u>	<u>472,940</u>
Revenues over (under) expenditures	(869,253)	(389,397)	479,856
Other Financing Sources (Uses):			
Transfers from other funds	<u>869,253</u>	<u>869,253</u>	<u>-</u>
Total other financing sources (uses)	<u>869,253</u>	<u>869,253</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>479,856</u>	<u>\$ 479,856</u>
Fund Balance:			
Beginning of year - July 1		<u>-</u>	
End of year - June 30		<u>\$ 479,856</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, 2012

	2012		
	Budget	Actual	Variance Over/Under
Revenues:			
Ad valorem taxes	\$ 109,250	\$ 124,120	\$ 14,870
Restricted intergovernmental	1,800	57,182	55,382
Investment earnings	3,000	4,723	1,723
Total revenues	<u>114,050</u>	<u>186,025</u>	<u>71,975</u>
Expenditures:			
Housing and redevelopment	<u>325,892</u>	<u>321,244</u>	<u>4,648</u>
Revenues over (under) expenditures	<u>(211,842)</u>	<u>(135,219)</u>	<u>76,623</u>
Other Financing Sources (Uses):			
Transfers from other funds	147,000	147,000	-
Appropriated fund balance	64,842	-	(64,842)
Total other financing sources (uses)	<u>211,842</u>	<u>147,000</u>	<u>(64,842)</u>
Net change in fund balance	<u>\$ -</u>	<u>11,781</u>	<u>\$ 11,781</u>
Fund Balance:			
Beginning of year - July 1		<u>253,676</u>	
End of year - June 30		<u>\$ 265,457</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, 2012

	Project Authorization	Actual		
		Prior Years	Current Year	Total
Revenues:				
Airport improvements grants	\$ 3,445,003	\$ 3,144,056	\$ 19,599	\$ 3,163,655
2010 airport grant	158,333	12,416	(9,716)	2,700
Airport apron pavement rehab	712,499	10,874	689,153	700,027
Weed and seed grant	774,856	655,941	60,385	716,326
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	500,000	-	500,000
Ballistic recovery system	39,000	39,000	-	39,000
Safe Routes to Schools '11	173,875	-	-	-
Trail grant	75,000	-	25,000	25,000
Investment earnings	-	34,376	41,784	76,160
Total revenues	<u>6,452,266</u>	<u>4,868,356</u>	<u>826,205</u>	<u>5,694,561</u>
Expenditures:				
Airport improvements	4,320,704	4,120,923	136,247	4,257,170
2010 airport grant	166,667	-	3,000	3,000
Airport apron pavement rehab	749,999	11,447	725,172	736,619
Weed and seed grant	803,806	605,721	52,250	657,971
Fit community program	56,000	29,722	-	29,722
Destination Cleveland County	370,350	344,988	34,071	379,059
Communication upgrade	1,160,000	1,167,919	-	1,167,919
Safe routes to schools	50,000	22,739	-	22,739
Fueling station	497,700	489,737	-	489,737
Urgent repair program	75,000	75,102	-	75,102
Park enhancement project	1,306,231	1,233,894	59,863	1,293,757
Ballistic recovery system	39,000	39,000	-	39,000
Safe Routes to Schools '11	173,875	-	15,188	15,188
Carolina Thread Trail	75,000	-	-	-
Total expenditures	<u>9,844,332</u>	<u>8,141,192</u>	<u>1,025,791</u>	<u>9,166,983</u>
Revenues over (under) expenditures	<u>(3,392,066)</u>	<u>(3,272,836)</u>	<u>(199,586)</u>	<u>(3,472,422)</u>
Other Financing Sources (Uses):				
Transfers from other funds	1,982,066	2,055,153	16,668	2,071,821
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>3,305,153</u>	<u>16,668</u>	<u>3,321,821</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 32,317</u>	<u>\$ (182,918)</u>	<u>\$ (150,601)</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
Assets:			
Accounts receivable, net	\$ 11,294	\$ -	\$ 11,294
Cash and cash equivalents - restricted	<u>331,732</u>	<u>240,881</u>	<u>572,613</u>
Total assets	<u>\$ 343,026</u>	<u>\$ 240,881</u>	<u>\$ 583,907</u>
Fund Balances:			
Non-spendable:			
Perpetual	<u>\$ 343,026</u>	<u>\$ 240,881</u>	<u>\$ 583,907</u>
Total fund balances	<u>343,026</u>	<u>240,881</u>	<u>583,907</u>
Total liabilities and fund balances	<u>\$ 343,026</u>	<u>\$ 240,881</u>	<u>\$ 583,907</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, 2012**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
Revenues:			
Investment earnings	\$ 4,985	\$ -	\$ 4,985
Donations	<u>3,825</u>	<u>54,255</u>	<u>58,080</u>
Total revenues	<u>8,810</u>	<u>54,255</u>	<u>63,065</u>
Expenditures:			
General government	<u>1,022</u>	<u>-</u>	<u>1,022</u>
Net change in fund balances	7,788	54,255	62,043
Fund Balances:			
Beginning of year - July 1	<u>335,238</u>	<u>186,626</u>	<u>521,864</u>
End of year - June 30	<u>\$ 343,026</u>	<u>\$ 240,881</u>	<u>\$ 583,907</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 FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 3,688,850	\$ 3,670,899	\$ (17,951)
Water taps	65,000	35,200	(29,800)
Water cutoffs	2,000	1,260	(740)
Other	103,850	151,919	48,069
Total operating revenues	<u>3,859,700</u>	<u>3,859,278</u>	<u>(422)</u>
Non-operating revenues:			
Grant - refund of interest expense	111,350	111,356	6
Investment earnings	17,500	144	(17,356)
Total non-operating revenues	<u>128,850</u>	<u>111,500</u>	<u>(17,350)</u>
Total revenues	<u>3,988,550</u>	<u>3,970,778</u>	<u>(17,772)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	701,788	654,905	46,883
Operations	703,375	634,979	68,396
Maintenance and repairs	145,969	117,672	28,297
Treatment plant	1,286,039	1,098,942	187,097
Capital outlay	364,414	299,008	65,406
Total costs of sales and services	<u>3,201,585</u>	<u>2,805,506</u>	<u>396,079</u>
Debt service:			
Principal retirement	538,500	538,178	322
Interest	500,950	501,611	(661)
Total debt service	<u>1,039,450</u>	<u>1,039,789</u>	<u>(339)</u>
Total operating expenditures	<u>4,241,035</u>	<u>3,845,295</u>	<u>395,740</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue over (under) expenditures	(252,485)	125,483	377,968
Other Financing Sources (Uses):			
Transfers to other funds	(127,244)	(127,244)	-
Long-term debt issued	20,000	18,711	(1,289)
Appropriated fund balance	359,729	-	(359,729)
Total other financing sources (uses)	<u>252,485</u>	<u>(108,533)</u>	<u>(361,018)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>16,950</u>	<u>\$ 16,950</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Reconciling items:			
Debt principal		538,178	
Long-term debt issued		(18,711)	
Capital outlay		299,008	
Decrease (increase) in compensated absences		(1,874)	
Decrease (increase) in other post-employment benefits		(27,621)	
Depreciation		(723,746)	
Net water capital projects fund activity		<u>252,592</u>	
Total reconciling items		<u>317,826</u>	
Change in net assets		<u>\$ 334,776</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, 2012

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Capital Grants:				
Project #823 - Water Sewer Asset Management Plan - Rural Center Grant	\$ 40,000	\$ 40,000	\$ -	\$ 40,000
Project #825 - Clearwater Water	107,450	-	84,626	84,626
Project #827 - Keeter Stadium Water Line	88,247	50,120	29,341	79,461
Project #828 - Baldor Water Metering Vault	17,835	-	-	-
Investment earnings	-	50,605	16,381	66,986
Total revenues	<u>253,532</u>	<u>140,725</u>	<u>130,348</u>	<u>271,073</u>
Expenditures:				
Project #818 - Westside Pumpstation	2,440,000	2,442,753	-	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	47,256	-	47,256
Project #823 - Water Sewer Asset Management Plan	70,000	67,000	-	67,000
Project #824 - Parks Water Project	-	54,754	-	54,754
Project #825 - Clearwater Water Project	214,950	159,450	83	159,533
Project #826 - Water Treatment Plant FY11	515,000	267,819	179,694	447,513
Project #827 - Keeter Stadium Water Line	119,133	67,666	32,638	100,304
Project #828 - Baldor Water Metering Vault	34,379	-	2,500	2,500
Project #829 - Plato Lee Water Line Relocation	105,700	-	5,700	5,700
Total expenditures	<u>7,092,662</u>	<u>6,459,718</u>	<u>220,615</u>	<u>6,680,333</u>
Revenues over (under) expenditures	<u>(6,839,130)</u>	<u>(6,318,993)</u>	<u>(90,267)</u>	<u>(6,409,260)</u>
Other Financing Sources (Uses):				
Transfers from other funds	299,244	30,000	-	30,000
Transfers to other funds	-	-	122,244	122,244
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>6,839,130</u>	<u>5,503,569</u>	<u>122,244</u>	<u>5,625,813</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (815,424)</u>	<u>\$ 31,977</u>	<u>\$ (783,447)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 4,393,550	\$ 4,210,563	\$ (182,987)
Other fees	50,000	18,129	(31,871)
Other operating revenues	66,000	159,772	93,772
Total operating revenue	<u>4,509,550</u>	<u>4,388,464</u>	<u>(121,086)</u>
Non-operating revenues:			
Grant - refund of interest expense	45,500	45,524	24
Investment earnings	7,500	272	(7,228)
Total non-operating revenues	<u>53,000</u>	<u>45,796</u>	<u>(7,204)</u>
Total revenues	<u>4,562,550</u>	<u>4,434,260</u>	<u>(128,290)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	665,440	612,805	52,635
Line operation	379,025	394,199	(15,174)
Maintenance and repairs	339,963	304,762	35,201
Treatment plant	1,205,357	1,054,880	150,477
Capital outlay	485,580	394,351	91,229
Total costs of sales and services	<u>3,075,365</u>	<u>2,760,997</u>	<u>314,368</u>
Debt service:			
Principal retirement	1,158,150	1,139,923	18,227
Interest	416,850	416,912	(62)
Total debt service	<u>1,575,000</u>	<u>1,556,835</u>	<u>18,165</u>
Total operating expenditures	<u>4,650,365</u>	<u>4,317,832</u>	<u>332,533</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(87,815)	116,428	204,243
Other Financing Sources (Uses):			
Transfers to other funds	(243,645)	(243,645)	-
Long-term debt issued	151,000	128,037	(22,963)
Appropriated fund balance	180,460	-	(180,460)
Total other financing sources (uses)	<u>87,815</u>	<u>(115,608)</u>	<u>(203,423)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>820</u>	<u>\$ 820</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		1,139,923	
Long-term debt issued		(128,037)	
Capital outlay		394,351	
Loss on sale of asset		(863)	
Decrease (increase) in compensated absences		2,278	
Decrease (increase) in other post-employment benefits		(27,080)	
Depreciation		(906,686)	
Net sewer capital projects fund activity		<u>1,078,564</u>	
Total reconciling items		<u>1,552,450</u>	
Change in net assets		<u>\$ 1,553,270</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, 2012

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #843 - Westside sewer - Rural Center Grant	\$ 3,890,000	\$ 3,258,622	\$ 190,000	\$ 3,448,622
Project #845 - Hallelujah communities	569,500	335,269	-	335,269
Project #856 - Wastewater treatment plant upgrades - EPA STAG Grant	192,900	-	191,619	191,619
Project #846 - Shelby Middle School sewer project - County share	401,600	-	229,940	229,940
Project #858 - Chestnut street CDBG sewer project	750,000	586,900	163,100	750,000
Project #859 - Clearwater Sewer - rural center	41,400	-	38,608	38,608
Project #860 - Keeter Stadium sewer line	58,831	32,346	19,561	51,907
Investment earnings	-	62,933	7,091	70,024
Total revenues	<u>5,904,231</u>	<u>4,276,070</u>	<u>839,919</u>	<u>5,115,989</u>
Expenditures:				
Project #840 - Eastside sewer project	3,309,100	3,170,508	-	3,170,508
Project #843 - Westside sewer	5,735,000	5,251,566	-	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	42,061	365,979	408,040
Project #846 - Shelby Middle School sewer project	422,600	310,807	102,658	413,465
Project #857 - Parks sewer project	-	65,664	-	65,664
Project #858 - Chestnut street CDBG sewer project	961,600	586,900	364,687	951,587
Project #859 - Clearwater sewer project	82,750	78,647	89	78,736
Project #860 - Keeter Stadium sewer line	79,422	43,670	38,621	82,291
Project #862 - Mall area lift station project	-	-	63,185	63,185
Project #863 - Baldor sewer pump station project	-	-	14,740	14,740
Total expenditures	<u>12,024,272</u>	<u>10,281,886</u>	<u>949,959</u>	<u>11,231,845</u>
Revenues over (under) expenditures	<u>(6,120,041)</u>	<u>(6,005,816)</u>	<u>(110,040)</u>	<u>(6,115,856)</u>
Other Financing Sources (Uses):				
Transfers from other funds	390,500	-	-	-
Transfers to other funds	-	-	238,645	238,645
Long-term debt issued	4,546,600	4,998,901	183,526	5,182,427
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>422,171</u>	<u>6,421,072</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (6,915)</u>	<u>\$ 312,131</u>	<u>\$ 305,216</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 18,937,090	\$ 18,778,283	\$ (158,807)
Other fees	225,000	-	(225,000)
Other operating revenues	<u>108,850</u>	<u>145,930</u>	<u>37,080</u>
Total operating revenue	<u>19,270,940</u>	<u>18,924,213</u>	<u>(346,727)</u>
Non-Operating Revenues:			
Investment earnings	<u>37,500</u>	<u>20,765</u>	<u>(16,735)</u>
Total non-operating revenues	<u>37,500</u>	<u>20,765</u>	<u>(16,735)</u>
Total revenues	<u>19,308,440</u>	<u>18,944,978</u>	<u>(363,462)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	923,825	877,655	46,170
Line operation	16,891,959	16,819,313	72,646
Capital outlay	<u>307,000</u>	<u>148,503</u>	<u>158,497</u>
Total costs of sales and services	<u>18,122,784</u>	<u>17,845,471</u>	<u>277,313</u>
Debt service:			
Principal repayment	529,600	454,317	75,283
Interest	<u>258,100</u>	<u>237,175</u>	<u>20,925</u>
Total debt service	<u>787,700</u>	<u>691,492</u>	<u>96,208</u>
Total expenditures	<u>18,910,484</u>	<u>18,536,963</u>	<u>373,521</u>
Revenues over (under) expenditures	<u>397,956</u>	<u>408,015</u>	<u>10,059</u>
Other Financing Sources (Uses):			
Transfers from other funds	15,000	15,000	-
Transfers to other funds	(554,350)	(554,350)	-
Long-term debt issued	130,000	130,000	-
Appropriated fund balance	<u>11,394</u>	<u>-</u>	<u>(11,394)</u>
Total other financing sources (uses)	<u>(397,956)</u>	<u>(409,350)</u>	<u>(11,394)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(1,335)	\$ (1,335)
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		454,317	
Long-term debt issued		(130,000)	
Capital outlay		148,503	
Decrease (increase) in compensated absences		3,981	
Decrease (increase) in other post-employment benefits		(20,584)	
Depreciation		(567,887)	
Net Electric Capital Projects Fund activity		1,808,664	
Net Electric Reserve Fund activity		<u>8,626</u>	
Total reconciling items		<u>1,705,620</u>	
Change in net assets		<u>\$ 1,704,285</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, 2012

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #859 - Cleveland County Contribution	\$ 2,353,000	\$ 1,159,996	\$ 1,107,637	\$ 2,267,633
Project #859 - Golden Leaf Grant	1,000,000	193,827	644,929	838,756
Project #859 - Commerce Grant	800,000	477,759	22,241	500,000
Project #859 - State Grant	4,000	-	4,000	4,000
Project #860 - NC DOT Grant	39,100	-	-	-
Project #862 - Solar farm electric line	160,000	143,254	-	143,254
Project #864 - UOC Lighting Project	20,000	-	-	-
Investment earnings	-	109,438	9,857	119,295
Total revenues	<u>4,376,100</u>	<u>2,084,274</u>	<u>1,788,664</u>	<u>3,872,938</u>
Expenditures:				
Project #853 - Aerial mapping	523,550	471,443	-	471,443
Project #859 - Foothills commerce center	6,210,000	4,439,701	1,453,540	5,893,241
Project #860 - Dekalb street	39,100	-	-	-
Project #861 - Electric line extension	642,400	760,457	224,020	984,477
Project #862 - Solar farm electric line	320,000	284,215	-	284,215
Project #863 - Underground cable FY11	150,000	49,136	80,542	129,678
Project #864 - UOC Lighting Project	40,000	-	-	-
Total expenditures	<u>7,925,050</u>	<u>6,004,952</u>	<u>1,758,102</u>	<u>7,763,054</u>
Revenues over (under) expenditures	<u>(3,548,950)</u>	<u>(3,920,678)</u>	<u>30,562</u>	<u>(3,890,116)</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,715,400	1,274,457	20,000	1,294,457
Long-term debt issued	523,550	523,550	-	523,550
Appropriated fund balance	310,000	-	-	-
Total other financing sources (uses)	<u>3,548,950</u>	<u>1,798,007</u>	<u>20,000</u>	<u>1,818,007</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (2,122,671)</u>	<u>\$ 50,562</u>	<u>\$ (2,072,109)</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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Non-operating revenues:			
Investment earnings	\$ -	\$ 8,626	\$ 8,626
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 8,626</u>	<u>\$ 8,626</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 12,876,145	\$ 9,365,602	\$ (3,510,543)
Other fees	40,000	33,240	(6,760)
Other operating revenues	15,000	155,923	140,923
Total operating revenue	<u>12,931,145</u>	<u>9,554,765</u>	<u>(3,376,380)</u>
Non-Operating Revenues:			
Grant - refund of interest expense	12,900	12,922	22
Investment earnings	45,000	20,379	(24,621)
Total non-operating revenues	<u>57,900</u>	<u>33,301</u>	<u>(24,599)</u>
Total revenues	<u>12,989,045</u>	<u>9,588,066</u>	<u>(3,400,979)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	1,266,247	1,203,083	63,164
Line operation	8,774,418	6,356,544	2,417,874
Capital outlay	360,800	264,076	96,724
Total costs of sales and services	<u>10,401,465</u>	<u>7,823,703</u>	<u>2,577,762</u>
Debt service:			
Principal repayment	642,900	635,776	7,124
Interest	220,950	248,715	(27,765)
Total debt service	<u>863,850</u>	<u>884,491</u>	<u>(20,641)</u>
Total expenditures	<u>11,265,315</u>	<u>8,708,194</u>	<u>2,557,121</u>
Revenues over (under) expenditures	<u>1,723,730</u>	<u>879,872</u>	<u>(843,858)</u>
Other Financing Sources (Uses):			
Transfers to other funds	(2,017,000)	(2,017,000)	-
Long-term debt issued	165,800	161,414	(4,386)
Appropriated fund balance	127,470	-	(127,470)
Total other financing sources (uses)	<u>(1,723,730)</u>	<u>(1,855,586)</u>	<u>(131,856)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(975,714)	\$ (975,714)
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		635,776	
Long-term debt issued		(161,414)	
Capital outlay		264,076	
Decrease (increase) in compensated absences		(1,246)	
Decrease (increase) in other post-employment benefits		(27,052)	
Depreciation		(571,337)	
Net gas capital projects fund activity		<u>125,837</u>	
Total reconciling items		<u>264,640</u>	
Change in net assets		<u>\$ (711,074)</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, 2012

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Investment earnings	\$ -	\$ 29,867	\$ 13,837	\$ 43,704
Total revenues	-	29,867	13,837	43,704
Expenditures:				
Project #876 - Airport road gas line	175,000	131,934	-	131,934
Project #877 - PPG meter station upgrade	635,000	681,012	-	681,012
Project #878 - Plato Lee gas line relocation	112,000	-	8,613	8,613
Total expenditures	922,000	812,946	8,613	821,559
Revenues over (under) expenditures	(922,000)	(783,079)	5,224	(777,855)
Other Financing Sources (Uses):				
Transfers from other funds	112,000	-	112,000	112,000
Long-term debt issued	810,000	635,161	-	635,161
Total other financing sources (uses)	922,000	635,161	112,000	747,161
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (147,918)	\$ 117,224	\$ (30,694)

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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 496,200	\$ 564,411	\$ 68,211
Other operating revenues	5,000	5,315	315
Total operating revenue	<u>501,200</u>	<u>569,726</u>	<u>68,526</u>
Non-Operating Revenues:			
Operating and capital grants	852,425	657,362	(195,063)
Investment earnings	31,000	25,902	(5,098)
Total non-operating revenues	<u>883,425</u>	<u>683,264</u>	<u>(200,161)</u>
Total revenues	<u>1,384,625</u>	<u>1,252,990</u>	<u>(131,635)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	331,000	325,330	5,670
Operating and maintenance	582,500	598,630	(16,130)
Capital outlay	572,743	223,797	348,946
Total costs of sales and services	<u>1,486,243</u>	<u>1,147,757</u>	<u>338,486</u>
Total expenditures	<u>1,486,243</u>	<u>1,147,757</u>	<u>338,486</u>
Revenues over (under) expenditures	<u>(101,618)</u>	<u>105,233</u>	<u>206,851</u>
Other Financing Sources (Uses):			
Appropriated fund balance	101,618	-	(101,618)
Total other financing sources (uses)	<u>101,618</u>	<u>-</u>	<u>(101,618)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>105,233</u>	<u>\$ 105,233</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Capital outlay		223,797	
Decrease (increase) in compensated absences		(682)	
Decrease (increase) in other post-employment benefits		(11,422)	
Depreciation		<u>(201,937)</u>	
Total reconciling items		<u>9,756</u>	
Change in net assets		<u>\$ 114,989</u>	

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND
HOUSING CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Expenditures:				
Land	\$ 239,750	\$ -	\$ 24,898	\$ 24,898
Total expenditures	<u>239,750</u>	<u>-</u>	<u>24,898</u>	<u>24,898</u>
Revenues over (under) expenditures	<u>(239,750)</u>	<u>-</u>	<u>(24,898)</u>	<u>(24,898)</u>
Other Financing Sources (Uses):				
Transfers from other funds	<u>239,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>239,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,898)</u>	<u>\$ (24,898)</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, 2012**

Fiscal Year	Uncollected Balance July 1, 2011	Additions	Collections and Credits	Uncollected Balance June 30, 2012
2010-2011	\$ -	\$ 7,687,759	\$ 7,459,511	\$ 228,248
2009-2010	232,396	-	180,761	51,635
2008-2009	51,136	-	21,268	29,868
2007-2008	29,274	-	8,668	20,606
2006-2007	24,574	-	6,969	17,605
2005-2006	22,662	-	5,341	17,321
2004-2005	22,045	-	4,808	17,237
2003-2004	16,383	-	2,401	13,982
2002-2003	14,947	-	1,034	13,913
2001-2002	16,361	-	884	15,477
2000-2001	<u>12,096</u>	<u>-</u>	<u>12,096</u>	<u>-</u>
Total	\$ 441,874	\$ 7,687,759	\$ 7,703,741	425,892
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(183,000)</u>
Ad valorem taxes receivable, net				<u>\$ 242,892</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 7,606,681
Ad valorem taxes - Special Revenue Fund				124,120
Interest and penalties collected				(56,244)
Discounts allowed				15,657
Miscellaneous adjustments				1,431
Arrears written off for tax year 2000-2001 per Statute of Limitations				<u>12,096</u>
Total collections and credits				<u>\$ 7,703,741</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, 2012

	<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>
Original Levy:					
Property taxed at current year's rate	\$ 1,656,113,793	\$ 0.435	\$ 7,204,095	\$ 6,679,492	\$ 524,603
Municipal service district taxed at current year's rate	<u>49,110,382</u>	0.655	<u>321,673</u>	<u>306,957</u>	<u>14,716</u>
Total	<u>1,705,224,175</u>		<u>7,525,768</u>	<u>6,986,449</u>	<u>539,319</u>
Discoveries:					
Property taxed at current year's rate	36,789,655	0.435	160,035	157,900	2,135
Municipal service district taxed at current year's rate	<u>4,871,908</u>	0.655	<u>31,911</u>	<u>31,911</u>	<u>-</u>
Total	<u>41,661,563</u>		<u>191,946</u>	<u>189,811</u>	<u>2,135</u>
Abatements:					
Property taxed at current year's rate	5,844,828	0.435	25,425	12,878	12,547
Municipal service district taxed at current year's rate	<u>691,603</u>	0.655	<u>4,530</u>	<u>4,252</u>	<u>278</u>
Total	<u>6,536,431</u>		<u>29,955</u>	<u>17,130</u>	<u>12,825</u>
Total property valuation	<u>\$ 1,740,349,307</u>				
Net Levy			7,687,759	7,159,130	528,629
Uncollected taxes at June 30, 2012			<u>228,248</u>	<u>154,202</u>	<u>74,046</u>
Current Year's Taxes Collected			<u>\$ 7,459,511</u>	<u>\$ 7,004,928</u>	<u>\$ 454,583</u>
Current Levy Collection Percentage			<u>97.03%</u>	<u>97.85%</u>	<u>85.99%</u>
Prior Year Levy Collection Percentage			<u>96.96%</u>	<u>97.76%</u>	<u>85.93%</u>

CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2012

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 1,656,113,793	\$ 0.435	\$ 7,204,095	\$ 6,679,492	\$ 524,603
Discoveries:					
Property taxed at current year's rate	36,789,655	0.435	160,035	157,900	2,135
Abatements:					
Property taxed at current year's rate	<u>5,844,828</u>	0.435	<u>25,425</u>	<u>12,878</u>	<u>12,547</u>
Total property valuation	<u>\$ 1,687,058,621</u>				
Net Levy			7,338,705	6,824,514	514,191
Uncollected taxes at June 30, 2012			<u>221,713</u>	<u>148,256</u>	<u>73,457</u>
Current Year's Taxes Collected			<u>\$ 7,116,992</u>	<u>\$ 6,676,258</u>	<u>\$ 440,734</u>
Current Levy Collection Percentage			<u>96.98%</u>	<u>97.83%</u>	<u>85.71%</u>
Prior Year Levy Collection Percentage			<u>97.03%</u>	<u>97.88%</u>	<u>85.58%</u>

CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY
MUNICIPAL SERVICE DISTRICT LEVY
FOR THE YEAR ENDED JUNE 30, 2012

	<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>
Original Levy:					
Property taxed at current year's rate	\$ 49,110,382	\$ 0.655	\$ 321,673	\$ 306,957	\$ 14,716
Discoveries:					
Property taxed at current year's rate	4,871,908	0.655	31,911	31,911	-
Abatements:					
Property taxed at current year's rate	<u>691,603</u>	0.655	<u>4,530</u>	<u>4,252</u>	<u>278</u>
Total property valuation	<u>\$ 53,290,687</u>				
Net Levy			349,054	334,616	14,438
Uncollected taxes at June 30, 2012			<u>6,535</u>	<u>5,946</u>	<u>589</u>
Current Year's Taxes Collected			<u>\$ 342,519</u>	<u>\$ 328,670</u>	<u>\$ 13,849</u>
Current Levy Collection Percentage			<u>98.13%</u>	<u>98.22%</u>	<u>95.92%</u>
Prior Year Levy Collection Percentage			<u>95.39%</u>	<u>95.31%</u>	<u>96.88%</u>

CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2012

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Assets:				
Current assets:				
Cash:				
111	Cash - unrestricted	\$ 350,676	\$ -	\$ 350,676
114	Cash - tenant security deposits	38,851	-	38,851
100	Total cash	<u>389,527</u>	<u>-</u>	<u>389,527</u>
Accounts and notes receivables:				
124	Accounts receivable - other governments	8,808	-	8,808
126	Accounts receivable - tenant - dwelling rents	(986)	-	(986)
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-
129	Accrued interest receivable	4,477	-	4,477
120	Total receivables, net allowances for uncollectibles	<u>12,299</u>	<u>-</u>	<u>12,299</u>
131	Investments - unrestricted	1,965,707	-	1,965,707
142	Prepaid expenses and other assets	1,041	-	1,041
150	Total current assets	<u>2,368,574</u>	<u>-</u>	<u>2,368,574</u>
Non-current assets:				
Fixed assets:				
161	Land	259,309	-	259,309
162	Buildings	8,629,034	399,232	9,028,266
163	Furniture, equipment and machinery - dwellings	303,422	-	303,422
166	Accumulated depreciation	(4,790,496)	-	(4,790,496)
160	Total fixed assets, net of accumulated depreciation	<u>4,401,269</u>	<u>399,232</u>	<u>4,800,501</u>
180	Total non-current assets	<u>4,401,269</u>	<u>399,232</u>	<u>4,800,501</u>
190	Total assets	<u>\$ 6,769,843</u>	<u>\$ 399,232</u>	<u>\$ 7,169,075</u>
Liabilities and Equity:				
Liabilities:				
Current liabilities:				
312	Accounts payable < 90 days	\$ 9,457	\$ -	\$ 9,457
321	Accrued wages/payroll taxes payable	4,303	-	4,303
322	Accrued compensated absences	22,000	-	22,000
341	Tenant security deposits	38,851	-	38,851
342	Deferred revenues	-	-	-
310	Total current liabilities	<u>74,611</u>	<u>-</u>	<u>74,611</u>
Non-current liabilities:				
354	Accrued compensated absences - non-current	9,864	-	9,864
	Other post-employment benefits	45,758	-	45,758
350	Total non-current liabilities	<u>55,622</u>	<u>-</u>	<u>55,622</u>
300	Total liabilities	<u>130,233</u>	<u>-</u>	<u>130,233</u>
Net assets:				
508.1	Invested in capital assets, net of related debt	4,401,269	399,232	4,800,501
512.1	Unrestricted net assets	2,238,341	-	2,238,341
513	Total net assets	<u>6,639,610</u>	<u>399,232</u>	<u>7,038,842</u>
600	Total liabilities and net assets	<u>\$ 6,769,843</u>	<u>\$ 399,232</u>	<u>\$ 7,169,075</u>

CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Revenue:				
703	Net tenant rental revenue	\$ 560,376	\$ -	\$ 560,376
704	Tenant revenue - other	4,035	-	4,035
705	Total tenant revenue	564,411	-	564,411
706	HUD PHA operating grants	258,130	-	258,130
706.1	HUD PHA capital grants	-	399,232	399,232
711	Investment income - unrestricted	25,902	-	25,902
715	Other revenues	5,315	-	5,315
700	Total revenues	853,758	399,232	1,252,990
Expenses:				
Administrative:				
911	Administrative salaries	241,265	-	241,265
912	Audit services	7,624	-	7,624
915	Employee benefit contributions - administrative	105,390	-	105,390
Tenant services:				
924	Tenant services - other	1,995	-	1,995
Utilities:				
931	Water	101,669	-	101,669
932	Electricity	123,024	-	123,024
933	Gas	100,637	-	100,637
942	Ordinary maintenance and operation - materials and other	99,244	-	99,244
943	Ordinary maintenance and operation - contract costs	55,541	-	55,541
General expenses:				
961	Insurance premiums	24,854	-	24,854
962	Other general expenses	11,566	-	11,566
962.1	Compensated absences	31,864	-	31,864
963	Payments in lieu of taxes	21,144	-	21,144
964	Bad debt - tenant rents	8,561	-	8,561
969	Total operating expenses	934,378	-	926,754
970	Excess operating revenue over operating expenses	(80,620)	399,232	326,236
971	Extraordinary maintenance	1,684	-	1,684
974	Depreciation expense	201,939	-	201,939
900	Total expenses	1,138,001	-	1,130,377
1000	Excess (deficiency) of revenue over expenses	\$ (284,243)	\$ 399,232	\$ 122,613
MEMO Account Information:				
1103	Beginning equity	\$ 6,723,496	\$ 200,357	\$ 6,923,853
1104	Prior period adjustments, equity transfers and corrections of errors	200,357	(200,357)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,060	-	2,060

CITY OF SHELBY, NORTH CAROLINA

Schedule I-3

STATEMENT OF PROGRAM COSTS - COMPLETED
FOR THE YEAR ENDED JUNE 30, 2012

Program Name	CFDA #	Funds Approved		Funds Advanced		Funds Expended		Excess (Deficiency of)		
		Funds Approved	Ending Balance	Prior Audit	Current Year	Ending Balance	Prior Audit	Current Year	Funds Approved	Funds Advanced
Capital Fund Program (CFP): NC19PO3450110	14.872	\$ 286,118	\$ 286,118	\$ 3,470	\$ 282,648	\$ 286,118	\$ 3,470	\$ 282,648	\$ -	\$ -
Capital Fund Program (CFP): NC19PO3450110	14.872	\$ 243,001	\$ 113,835	\$ -	\$ 113,835	\$ 116,584	\$ -	\$ 116,584	\$ 286,118	\$ (2,749)





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 102-107)

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 108-111)

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

Debt Capacity (Page 112-117)

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 118-120)

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 121-122)

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 Ten Fiscal Years
 (accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
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	\$ 30,598
Restricted	1,201	718	755	832	1,035	1,183	1,465	1,571	5,639	4,687
Unrestricted	4,528	4,233	4,151	5,283	5,576	5,490	6,281	4,906	(1,565)	1,360
Total governmental activities net assets	\$ 23,718	\$ 24,037	\$ 23,573	\$ 24,870	\$ 31,210	\$ 32,507	\$ 34,723	\$ 35,486	\$ 36,926	\$ 36,645
Business-Type Activities										
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	\$ 63,276
Unrestricted	17,142	16,735	21,173	20,507	23,828	23,064	18,436	24,731	22,245	22,427
Total business-type activities net assets	\$ 54,916	\$ 58,037	\$ 59,734	\$ 62,085	\$ 67,836	\$ 69,956	\$ 74,852	\$ 78,156	\$ 82,706	\$ 85,703
Primary Government										
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	\$ 93,874
Restricted	1,201	718	755	832	1,035	1,183	1,465	1,571	5,639	4,687
Unrestricted	21,670	20,968	25,324	25,790	29,404	28,554	24,717	29,637	20,680	23,787
Total primary government net assets	\$ 78,634	\$ 82,074	\$ 83,307	\$ 86,955	\$ 99,046	\$ 102,463	\$ 109,575	\$ 113,642	\$ 119,632	\$ 122,348

Note:
 (1) Ten 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 Ten Fiscal Years
 (accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 1,764	\$ 2,018	\$ 1,882	\$ 1,846	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344
Public safety	7,637	7,998	8,429	8,114	8,683	8,899	9,565	9,669	9,701	10,054
Transportation	2,268	2,263	2,122	1,955	1,677	2,160	2,108	2,532	2,481	2,638
Environmental protection	1,656	1,682	1,755	1,420	1,390	1,427	1,563	1,444	1,479	1,876
Cultural and recreational	1,872	1,984	2,130	2,029	1,982	2,039	2,140	1,967	939	2,151
Housing and redevelopment	340	328	310	281	856	103	192	209	267	321
Interest on long-term debt	130	125	152	175	144	130	75	95	73	68
Total governmental activities expenses	15,667	16,398	16,780	15,820	16,940	17,161	18,046	18,228	18,198	19,452
Business-type activities:										
Water	2,927	2,620	3,007	2,920	2,970	3,334	3,605	3,321	3,693	3,761
Sewer	2,651	2,660	3,003	2,790	2,852	2,976	3,522	3,407	3,687	3,716
Electric	13,996	13,874	14,199	14,806	14,897	15,814	15,980	16,999	17,888	18,519
Gas	24,248	24,020	27,704	34,113	15,780	18,404	16,222	12,806	11,453	8,408
Housing assistance	1,145	1,140	1,330	1,180	1,140	1,030	1,119	1,083	1,163	1,138
Total business-type activities expenses	44,967	44,314	49,243	55,809	37,639	41,558	40,448	37,616	37,884	35,542
Total primary governmental expenses	\$ 60,634	\$ 60,712	\$ 66,023	\$ 71,629	\$ 54,579	\$ 58,719	\$ 58,494	\$ 55,844	\$ 56,082	\$ 54,994

Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 248	\$ 194	\$ 223	\$ 33	\$ 19	\$ 15	\$ 2	\$ 4	\$ 365	\$ 441
Public safety	6	6	6	229	248	357	228	265	23	21
Transportation	-	-	-	1	1	110	195	209	261	377
Environmental protection	448	476	565	595	598	631	873	833	863	994
Cultural and recreational	271	259	272	276	280	309	320	338	318	294
Housing and redevelopment	-	-	-	-	-	-	-	-	127	141
Operating grants and contributions:										
General government	153	258	384	10	-	-	154	4	55	144
Public safety	11	12	9	245	524	252	268	476	1,098	1,048
Transportation	1,110	-	-	-	-	-	26	20	15	20
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	6
Transportation	279	2,070	1,008	1,004	1,329	2,051	2,236	1,664	315	785
Cultural and recreational	-	-	-	-	821	-	-	44	456	-
Housing and redevelopment	-	-	-	-	-	-	194	-	-	-
Total governmental activities program revenues	2,723	3,275	2,467	2,404	4,380	3,728	4,859	4,062	4,143	4,271
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	3,859
Sewer	2,869	2,834	3,319	3,440	3,735	3,763	4,030	3,983	4,485	4,388
Electric	14,632	14,803	14,895	15,529	16,907	17,333	17,398	17,591	18,659	18,924
Gas	28,243	27,853	30,742	36,599	18,758	20,017	18,517	15,676	14,486	9,555
Housing assistance	498	487	484	505	514	521	564	577	575	570

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

	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating grants and contributions										
Water	245	8	15	-	-	-	-	-	105	111
Sewer	5	-	57	-	-	-	-	-	43	46
Electric	196	-	-	214	-	-	-	-	-	-
Gas	3	-	-	-	-	-	-	-	12	13
Housing assistance	506	524	724	500	474	425	430	476	414	258
Capital grants and contributions										
Water	3,740	110	16	-	18	-	-	-	90	114
Sewer	-	-	-	-	112	-	1,670	955	1,589	833
Electric	-	-	-	-	-	-	696	242	1,036	1,779
Housing assistance	500	312	73	263	261	284	576	227	200	399
Total business-type activities program revenues	54,502	50,196	53,496	60,355	44,390	45,807	47,253	43,045	45,603	40,849
Total primary governmental program revenues	\$ 57,225	\$ 53,471	\$ 55,963	\$ 62,759	\$ 48,770	\$ 49,535	\$ 52,112	\$ 47,107	\$ 49,746	\$ 45,120
Net (expense)/revenue	\$ (12,944)	\$ (13,123)	\$ (14,313)	\$ (13,416)	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)
Governmental activities	9,535	5,882	4,253	4,546	6,751	4,249	6,805	5,429	7,719	5,307
Business-type activities	\$ (3,409)	\$ (7,241)	\$ (10,060)	\$ (8,870)	\$ (5,809)	\$ (9,184)	\$ (6,382)	\$ (8,737)	\$ (6,336)	\$ (9,874)
Total primary governmental net expenses (revenues)										
General Revenues and Other Changes in										
Net Assets										
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	\$ 7,719
Sales tax	2,039	2,394	2,522	2,759	2,972	2,967	2,831	2,669	2,732	2,866
Franchise tax	1,511	1,458	1,303	1,362	1,385	1,503	1,551	1,540	1,582	1,560
Other taxes	275	401	344	241	230	298	303	237	95	109
Miscellaneous	143	100	145	335	454	264	270	261	-	-
Unrestricted investment earnings	180	105	145	399	300	304	197	173	143	212
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	2,434
Total governmental activities	12,415	13,442	13,850	14,711	14,654	14,729	15,401	14,925	15,495	14,900
Business-type activities:										
Unrestricted investment earnings	422	216	425	663	1,004	996	441	225	111	123
Miscellaneous	134	30	15	-	106	-	-	-	-	-
Transfers	(3,056)	(3,007)	(2,844)	(2,859)	(2,110)	(2,091)	(2,351)	(2,350)	(3,280)	(2,434)
Total business-type activities	(2,500)	(2,761)	(2,404)	(2,196)	(1,000)	(1,095)	(1,910)	(2,125)	(3,169)	(2,311)
Total primary government	\$ 9,915	\$ 10,681	\$ 11,446	\$ 12,515	\$ 13,654	\$ 13,634	\$ 13,491	\$ 12,800	\$ 12,326	\$ 12,589
Change in Net Assets										
Governmental activities	(529)	319	(463)	1,295	2,094	1,296	2,214	759	1,440	(281)
Business-type activities	7,035	3,121	1,849	2,350	5,751	3,154	4,895	3,304	4,550	2,996
Total primary government	\$ 6,506	\$ 3,440	\$ 1,386	\$ 3,645	\$ 7,845	\$ 4,450	\$ 7,109	\$ 4,063	\$ 5,990	\$ 2,715

Notes:
 (1) Ten 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 2,291	\$ 2,535	\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088	\$ -	\$ -
Unreserved	3,689	3,526	3,721	3,271	3,189	3,424	3,851	2,987	-	-
Non-spendable	-	-	-	-	-	-	-	-	521	437
Restricted	-	-	-	-	-	-	-	-	6,732	3,955
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	88	64
Unassigned	-	-	-	-	-	-	-	-	580	3,246
Total General Fund	\$ 5,980	\$ 6,061	\$ 6,287	\$ 6,486	\$ 6,192	\$ 6,551	\$ 7,344	\$ 8,075	\$ 7,921	\$ 7,702
All other governmental funds										
Reserved	\$ 232	\$ 238	\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285	\$ 487	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Fund	386	326	315	262	324	286	328	247	-	-
Capital Projects Fund	-	(517)	-	-	(88)	-	-	-	-	-
Non-spendable:										
Permanent funds	-	-	-	-	-	-	-	-	522	584
Restricted:										
Special Revenue Fund	-	-	-	-	-	-	-	-	90	745
Capital Projects Fund	-	-	-	-	-	-	-	-	762	122
Assigned:										
Special Revenue Fund	-	-	-	-	-	-	-	-	164	-
Unassigned:										
Capital Projects Fund	-	-	-	-	-	-	-	-	(730)	(272)
Total all other governmental funds	\$ 618	\$ 47	\$ 590	\$ 524	\$ 777	\$ 731	\$ 1,613	\$ 734	\$ 808	\$ 1,179

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Ad valorem taxes	\$ 5,160	\$ 5,923	\$ 6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731
Other taxes and licenses	2,055	2,403	2,524	2,762	2,976	2,969	2,858	2,682	2,733	2,866
Unrestricted intergovernmental revenues	1,812	1,850	1,644	1,627	1,686	1,864	1,887	1,793	1,837	1,733
Restricted intergovernmental revenues	1,723	2,340	1,400	1,307	2,415	2,328	3,172	2,338	1,933	2,006
Permits and fees	156	127	140	221	237	216	213	254	272	174
Sales and services	801	809	926	913	910	1,207	1,405	1,396	1,472	1,694
Investment earnings	180	100	145	335	300	304	197	173	143	212
Donations	-	11	7	17	69	25	42	108	47	58
Miscellaneous	87	119	135	205	319	167	187	189	206	260
Total revenues	11,974	13,682	13,466	14,157	15,641	16,772	17,912	16,688	16,329	16,734
Expenditures										
General government	1,541	1,686	1,638	1,674	2,094	2,280	2,222	2,067	3,004	2,010
Public safety	6,746	6,906	7,898	7,706	8,336	8,598	8,677	8,877	8,969	9,245
Transportation	2,214	2,497	988	1,692	1,362	1,872	1,763	2,034	2,020	2,114
Environmental protection	1,512	1,384	1,917	1,158	1,078	1,111	1,225	1,219	1,277	1,676
Cultural and recreational	1,769	1,799	1,700	1,810	1,731	1,794	1,826	1,703	700	1,886
Housing and redevelopment	226	590	890	287	855	103	192	209	267	296
Capital outlay	1,171	2,630	2,542	1,984	1,240	1,788	3,216	3,356	2,728	1,841
Debt service:										
Principal	317	425	612	1,027	1,147	1,124	1,004	869	716	713
Interest and other charges	127	124	124	186	168	136	79	95	82	68
Total expenditures	15,623	18,041	18,309	17,524	18,011	18,806	20,204	20,429	19,763	19,849
Excess of revenues over (under) expenditures	(3,649)	(4,359)	(4,843)	(3,367)	(2,370)	(2,034)	(2,292)	(3,741)	(3,434)	(3,115)
Other financing sources (uses)										
Transfers from other funds	3,060	3,182	2,982	2,936	2,381	2,155	2,695	2,886	3,685	3,367
Transfers to other funds	(4)	(175)	(137)	(77)	(271)	(64)	(344)	(536)	(404)	(933)
Installment debt issued	494	858	2,747	509	172	246	1,616	707	510	812
Proceeds from sale of assets	84	6	21	131	47	11	13	28	54	21
Increase in inventory	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,634	3,871	5,613	3,499	2,329	2,348	3,980	3,085	3,845	3,267
Net change in fund balance	(15)	(488)	770	132	(41)	314	1,688	(656)	411	152
Debt services as a percentage of non-capital expenditures	3.07%	3.56%	4.67%	7.81%	7.84%	7.40%	6.38%	5.65%	4.68%	4.34%

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
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
2012	7,730,801	2,865,854	-	1,559,642	89,706	-	-	-	12,246,003

* 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)**

Year Ended June 30	Real Property	Personal Property	Public Service Companies	Total Assessed Value*	Total Direct Tax Rate
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
2012	1,265,720	356,019	34,373	1,656,112	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>	<u>Uptown Shelby Municipal Service District</u>	<u>Cleveland County</u>	<u>City School District</u>	<u>County School District</u>
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
2012	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	2012			2003		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
PPG Industries Inc.	\$ 93,400	1	5.64%	\$ -		0.00%
Wal-Mart	75,454	2	4.56%	9,075	6	0.75%
Curtis Wright Controls Inc	14,646	3	0.88%	-		0.00%
Shelby Mall LLC	13,606	4	0.82%	11,541	5	0.96%
Duke Energy Corp	12,277	5	0.74%	7,683	8	0.64%
Lowe's Home Centers Inc.	12,000	6	0.72%	7,523	9	0.62%
Ultra Machine & Fabrication	9,329	7	0.56%	-		0.00%
Bell South Telephone Company	8,137	8	0.49%	13,927	4	1.16%
Carlisle At Delta Park LLC	7,134	9	0.43%	-		0.00%
Shelby Loan & Mortgage Co.	5,906	10	0.36%	-		0.00%
Copeland Corp	-		0.00%	48,652	1	4.04%
Kemet Electronics	-		0.00%	20,945	3	1.74%
Fasco Inc	-		0.00%	21,318	2	1.77%
Dacey Mills	-		0.00%	7,289	10	0.61%
PNC Leasing LLC	-		0.00%	8,140	7	0.68%
Totals	<u>\$ 251,889</u>		<u>15.21%</u>	<u>\$ 156,093</u>		<u>12.96%</u>
Total Taxable Assessed Value	<u>\$ 1,656,112</u>			<u>\$ 1,204,168</u>		

Source: Cleveland County Tax Assessor's Office (Linda Wiggins)

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
2003	\$ 5,188	\$ 4,928	94.99%	\$ 5	255	\$ 5,183	99.90%
2004	5,984	5,711	95.44%	6	267	5,978	99.90%
2005	6,547	6,290	96.07%	5	252	6,542	99.92%
2006	6,723	6,467	96.19%	5	251	6,718	99.93%
2007	7,148	6,489	90.78%	6	653	7,142	99.92%
2008	7,300	7,033	96.34%	5	262	7,295	99.93%
2009	7,791	7,474	95.93%	5	312	7,786	99.94%
2010	7,641	7,398	96.82%	52	191	7,589	99.32%
2011	7,635	7,403	96.96%	52	180	7,583	99.32%
2012	7,688	7,460	97.03%	228	-	7,460	97.03%

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)		
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations	Personal Income (amounts expressed in thousands)		Percentage of Personal Income	Per Capita Personal Income	Per Capita
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%	30,205	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
2012	3,283	-	25,449	2,341	1,406	32,479	N/A	N/A	N/A	1,608

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>
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
2012	-	0.00%	N/A

City of Shelby, North Carolina
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012

	<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>1,100,000</u>	25.19%	<u>277,090</u>
Total direct and overlapping debt	<u>\$ 1,100,000</u>		<u>\$ 277,090</u>

*General obligation bonds only

**Percentage of Direct and Overlapping Debt is based on 2012 Assessed valuation of Cleveland County as compared to the 2012 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>
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%
2012	132,489	1,947	130,542	1.47%

**City of Shelby, North Carolina
 Computation of Legal Debt Margin
 June 30, 2012**

Assessed value of taxable property				\$	<u>1,656,112,000</u>
Debt limit -- eight percent (8%) of assessed value					132,488,960
Gross debt:					
Revenue bonds	\$	25,448,647			
State revolving loan		2,341,478			
Other financing agreements/notes payable		1,947,104	\$	29,737,229	
Statutory deductions:					
Revenue bonds		25,448,647			
State revolving loan		2,341,478		27,790,125	
Total amount of debt applicable to debt limitation					<u>1,947,104</u>
Legal debt margin				\$	<u>130,541,856</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***				
							Principal	Interest	Total	Coverage	
2003	\$	48,809,856	\$	40,967,897	\$	7,841,959	\$	692,566	\$	1,277,566	614%
2004		48,754,821		40,363,242		8,391,579		664,486		1,279,486	656%
2005		52,126,682		44,445,623		7,681,059		634,351		1,279,351	600%
2006		59,087,999		51,392,662		7,695,337		971,269		2,261,269	340%
2007		42,797,066		33,504,075		9,292,991		931,264		2,256,264	412%
2008		44,577,279		37,208,269		7,369,010		1,097,683		2,442,683	302%
2009		43,317,051		35,794,720		7,522,331		1,175,118		2,947,505	255%
2010		40,568,116		32,886,694		7,681,422		910,078		2,748,106	280%
2011		41,539,114		32,635,437		8,903,677		1,283,712		3,266,526	273%
2012		36,726,720		30,290,507		6,436,213		1,263,076		3,113,100	207%

* 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**

Year Ended June 30	(1) Population	(2) Per Capita Income	(2) Median Age	(3) School Enrollment	(4) Unemployment Rate	(5) Personal Income
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	29,990	N/A	15,997	13.2%	2,939,629
2011	20,323	N/A	39.0	15,721	12.1%	N/A
2012	20,202	N/A	40.5	15,374	10.9%	N/A

- (1) N.C. Department of Commerce/Office of State Planning, 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.
Amounts for Shelby, NC from www.bea.gov
N/A - Information not available.

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

Employer	Industry	2012		2008	
		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	500-999
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	9	250-499
Curtis-Wright Controls	Transportation Equipment	8	250-499	8	250-499
Ultra Machining	Machine Shop	9	250-499		
White Oak Manor Inc.	Education and Health Services	10	250-499	7	250-499
Manpower Temporary Services	Professional and Business Services				
Shelby Personnel Services	Professional and Business Services			10	250-499

Source: Cleveland County Chamber of Commerce (704-487-8521)

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	33.5	33.5	32.5	31.5	30.0	38.0	38.0	38.0	38.0	39.0
Public safety:										
Police	82.0	82.0	83.0	86.0	86.0	87.0	87.0	87.0	86.0	86.0
Fire	56.0	56.0	56.0	56.0	54.0	53.0	53.0	53.0	53.0	58.0
Transportation	20.0	21.0	20.5	20.0	18.0	19.0	19.0	19.0	19.0	17.0
Environmental protection	42.0	38.0	38.0	19.0	17.0	17.0	17.0	17.0	17.0	19.0
Cultural and recreation	24.0	24.0	24.0	23.0	19.0	19.0	19.0	19.0	19.0	22.0
Housing and redevelopment	9.5	9.5	10.0	8.5	8.0	9.0	9.0	9.0	9.0	9.0
Business-type activities:										
Water	17.5	17.2	17.75	18.5	18.5	17.5	17.5	17.5	17.5	19.0
Sewer	19.5	19.75	19.5	19.5	21.0	18.5	18.5	18.5	18.3	21.0
Electric	9.5	10.88	11.25	12.5	11.5	10.5	10.5	10.5	10.4	14.0
Gas	17.5	18.67	19.0	20.0	20.5	18.5	18.5	18.5	18.7	18.0
Housing	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	7.0
Total	337.0	336.5	337.5	320.5	309.5	313.0	313.0	313.0	312.0	329.0

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety:										
Police:										
Number of calls for service	46,244	48,388	46,794	46,006	43,246	43,310	40,251	39,741	37,303	39,068
Uniform Crime Report Part I Crimes Reported	1,969	1,987	1,875	1,500	1,348	1,489	1,149	1,149	1,039	1,025
Uniform Crime Report Part II Crimes Reported	874	836	848	771	712	649	625	625	529	554
Fire:										
Number of responses	1,636	1,724	1,740	1,929	1,848	1,883	1,913	1,976	2,179	1,945
Number of inspections	2,028	1,408	1,683	1,645	1,169	1,355	707	1,426	1,502	1,530
Transportation:										
Miles of street repaved	2.5	2.9	2.6	1.6	1.2	-	3.0	-	1.6	1.6
Environmental protection:										
Tons of Solid Waste Collected	9,233	9,133	8,978	8,387	9,928	9,925	10,608	7,937	7,233	6,930
Cultural and recreational:										
Number of Youth Sport Program Participants	1,488	1,540	1,570	1,754	2,019	2,276	2,247	3,566	2,309	3,130
Number of Adult Sport Program Participants	810	820	890	832	1,106	1,044	622	758	944	1,026
Number of Golf Rounds Played	9,497	11,115	10,458	10,894	10,936	12,341	11,818	11,240	10,283	10,491
Housing and redevelopment:										
Building inspections										
Number of permits issued	1,206	1,263	1,137	1,064	994	1,072	1,057	919	1,076	1,261
Number of inspections	6,112	5,473	4,084	3,866	4,067	4,621	4,343	4,205	4,376	5,437
Business-type activities:										
Water system:										
Customers at June 30	9,822	10,137	10,083	10,048	10,090	10,048	9,554	9,601	9,587	9,691
Average of daily consumption	4.28	4.53	4.39	4.39	4.68	4.33	4.97	4.06	4.41	3.87
Peak daily consumption	6.51	5.70	6.50	6.50	6.32	7.02	7.09	5.78	6.10	7.64
Sewer system:										
Customers at June 30	8,361	8,397	8,356	8,350	8,362	8,282	7,826	7,866	7,840	7,952
Average of daily treatment	2.68	2.62	2.81	2.81	2.77	2.42	2.72	2.26	2.25	2.41
Peak daily treatment	4.00	6.00	6.00	6.00	3.20	5.29	7.55	9.98	6.61	5.86
Electric system:										
Customers at June 30	7,939	8,322	8,230	8,212	8,245	8,268	8,290	7,432	7,409	7,414
Natural gas system:										
Customers at June 30	10,168	10,248	10,350	10,372	10,437	10,404	9,755	9,793	9,649	9,615

* 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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	23	22	22	22	31	32	43	43	47	47
Fire:										
Number of stations	3	3	3	3	3	3	3	3	3	3
Transportation:										
Number of airports	1	1	1	1	1	1	1	1	1	1
Miles of paved roads	118.19	120.09	121.55	120.82	121.14	121.33	121.52	122.41	122.34	122.72
Miles of unpaved roads	0.87	0.19	0.20	0.20	0.25	0.25	0.25	0.25	0.25	0.25
Miles of sidewalks	36.0	36.0	36.0	36.0	27.8	27.8	27.8	27.8	27.8	28.0
Cultural and recreation:										
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
Business-type activities:										
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	220	220	206	206	215	214	219	218
Number of fire hydrants	1,280	1,176	1,273	1,273	1,305	1,301	1,305	1,343	1,271	1241
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	181	191	202	204	203	195
Miles of storm sewers	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	4	4	4	4	4	4	4
System capacity	52	52	52	52	65	65	65	65	65	65
Miles of primary lines	207	207	207	207	133	134	135	141	141	141
Miles of secondary lines	173	175	175	175	222	222	202	203	204	163
Natural gas system:										
Miles of gas mains	493	450	462	462	463	465	496	473	506	479

* 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, Responses, and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



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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 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 18, 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 deficiency, 2012-01 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 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.
October 18, 2012

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

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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

Independent Auditors' Report

To the Board of Commissioners
City of Shelby, North Carolina

Compliance

We have audited the City of Shelby's compliance with the types of compliance requirements described in the *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 of Shelby's major federal programs for the year ended June 30, 2012. The City of Shelby's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Question 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City 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, 2012.

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

Internal Control Over Compliance

The 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 in order 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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.
October 18, 2012

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

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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, 2012. 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, 2012.

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.
October 18, 2012

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 weaknesses identified? No
- Significant deficiencies identified? 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 Circular A-133? No

Identification of major federal programs:

<u>Name of Federal Program</u>	<u>CFDA#</u>
Public Housing Authority Owned Rental Housing	14.850
Community Development Block Grants	14.228
Capital Fund Program (CFP) Cluster	14.872

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, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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

Finding 2012-01

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 regard 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, with the available resources, thus, reducing the number of audit adjustments required at year-end.

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

2. Findings Related to the Audit of State Awards

None reported.

3. Findings Related to the Audit of Federal Awards

None reported.

CITY OF SHELBY, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

2011-01 corrected

2011-02 repeated as 2012-01

2011-03 corrected

2011-04 corrected



**CITY OF SHELBY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
<u>U.S. Environmental Protection Agency</u>				
States, Tribes, and Local Government Grant (STAG)	66.202	XP-95471611	\$ 191,619	\$ -
Total U.S. Dept. of Justice			<u>\$ 191,619</u>	<u>\$ -</u>
<u>U.S. Dept. of Housing and Urban Development</u>				
Direct Program:				
Low Rent Housing Program:				
Public Housing Authority Owned Rental Housing	14.850	NC034-00000111D	\$ 258,130	\$ -
Capital Fund Program (CFP)--2010	14.872	NC19P034501-10	102,572	-
Capital Fund Program (CFP)--2011	14.872	NC19P034501-11	121,225	-
Passed-through the N.C. Department of Commerce - Community Investment & Assistance:				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii - Chestnut Street Sewer Project	14.228	09-C-2053	163,100	-
Total U.S. Dept. of Housing and Urban Development			<u>\$ 645,027</u>	<u>\$ -</u>
<u>U.S. Dept. of Justice</u>				
Direct Program:				
Weed and Seed Grant	16.595	N/A	\$ 52,249	\$ -
Justice Assistance Grant	16.592	N/A	11,748	-
Bulletproof Vest Partnership Program	16.607	N/A	6,140	-
Passed-through the N.C. Department of Crime Control and Public Safety:				
Project Safe Neighborhoods	16.609	N/A	25,713	-
Total U.S. Dept. of Justice			<u>\$ 95,850</u>	<u>\$ -</u>
<u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
Airport Improvement Program	20.106	36237.16.8.1	\$ 17,298	\$ -
Airport Improvement Program	20.106	36237.16.9.1	118,949	-
Airport Improvement Program	20.106	36237.16.10.1	3,000	-
State Aid to Airports Program	N/A	36244-23.10.1	-	725,172
State and Community Highway Safety--Governors Highway Safety Program	20.600	52011.5.18	5,879	-
Total U.S. Dept. of Transportation			<u>\$ 145,126</u>	<u>\$ 725,172</u>
<u>Federal Emergency Management Agency</u>				
Department of Homeland Security - Assistance to Firefighters	97.044		\$ 36,720	\$ -
Total assistance - federal programs			<u>\$ 1,114,342</u>	<u>\$ 725,172</u>
State Grants:				
<u>N.C. Department of Transportation:</u>				
Powell Bill	N/A	32570	\$ -	\$ 551,924
<u>N.C. Department of Environment & Natural Resources:</u>				
Recycling Grant	N/A		\$ -	\$ 67,500
<u>N.C. Department of Parks and Recreation Authority:</u>				
Part F Recreation Grant	N/A	N/A	\$ -	\$ 59,863
<u>N.C. Rural Economic Development Center, Inc.:</u>				
Clean Water Supplemental Grants:				
Rural Center Grant - Keeter Stadium Waterline	N/A	2011-147-40101-112	\$ -	\$ 32,638
Rural Center Grant - Keeter Stadium Sewerline	N/A	2011-147-40101-112	-	38,621
Rural Center Grant - Wastewater Treatment Plant upgrade	N/A	2008-289-40101-112	-	177,351
Economic Infrastructure Grants:				
Rural Center Grant - Clearwater Water Project	N/A	2011-213-40401-107	-	83
Rural Center Grant - Clearwater Sewer Project	N/A	2011-213-40401-107	-	89
Total N.C. Rural Economic Development Center, Inc.			<u>\$ -</u>	<u>\$ 248,782</u>

**CITY OF SHELBY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>
<u>N.C. Department of Commerce:</u>				
Industrial Development Fund	N/A	U-402	\$ -	\$ 48,907
Total assistance - State programs			\$ -	\$ 976,975
Total assistance			<u>\$ 1,114,342</u>	<u>\$ 1,702,147</u>

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

- 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 may differ from amounts presented in, or used in, the preparation of the basic financial statements.