

**CITY OF SHELBY
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013



CITY OF SHELBY, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2013

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Post Office Box 207 • Shelby, NC 28151-0207

October 31, 2013

To the Honorable Mayor, Members 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, 2013.

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, 2013, 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, 2013, 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 21,000 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, Schletter Incorporated, KSM Castings Group, 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.

The City continues to develop and market the Foothills Commerce Center in Shelby. 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 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.

Job Ready Shell Building #2 is currently under construction in Foothill Commerce Center and will be completed and available for sale in early 2014. This will be a 100,000 sq. feet facility that will be easily expandable to double the existing footage. The City has received excellent response to the Foothills Commerce Center and expects this to continue with Shell Building #2.

Clearwater Paper Corporation has completed its \$300,000,000 investment in a tissue manufacturing and warehouse facility just outside the city limits. It currently employs over 300 workers and has become the City of Shelby's largest Water, Sewer and Gas utility customer. Clearwater began full production in early 2013.

Schletter Incorporated has purchased Shell Building #1 in the Foothills Commerce Center and added an additional \$27 million in investment at the facility. They are currently in production and employ over 100 employees, with the expectation of adding an additional 70 over the next several years. Schletter Incorporated manufactures solar mounting systems and components. Shelby is the U.S. headquarters for Scheltter Incorporated.

KSM Castings has begun construction of a 110,000 sq. feet facility in west Shelby, which includes an anticipated investment of \$45 million. Additionall, KSM plans to employ up to 189 new employees at the facility over the next 5 years. KSM has annexed into the City and will be a utility customer of the City. KSM Castings manufactures aluminum products for the automotive industry.

Greenheck Fan Corporation has announced plans to invest \$33 million in a facility that will create approximately 184 jobs over the next 5 years in Shelby and Cleveland County. Greenheck will be a City utility customer and had tentatively agreed to annex into the City. Greenheck manufactures equipment that moves and controls air for commercial and industrial climate control systems.

The City continues to see an increase in smaller retail activity, which is an indication that the economic market is continuing to improve and recover from the recession of the past several years.

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 2013

The City tax rate of 43.5 cents remained the same for FY 13. Budgeted expenditures in the General Fund are expected to increase minimally in FY 13. There were no increases in rates for the City's Water, or Sewer Customers in FY 13. A 5.1% electric rate increase was implemented across all classes of customer in FY 13. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas Fund.

In FY 13 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$1,018,850. The loan term is 59 months with annual payments, beginning November 2013, with an interest rate of 1.18 percent.

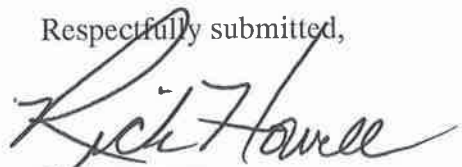
AWARDS AND ACKNOWLEDGMENTS

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, 2012. This was the fifteenth 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



Government Finance Officers Association

**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, 2012

Executive Director/CEO

City of Shelby, North Carolina

List of Principal Officials
June 30, 2013

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

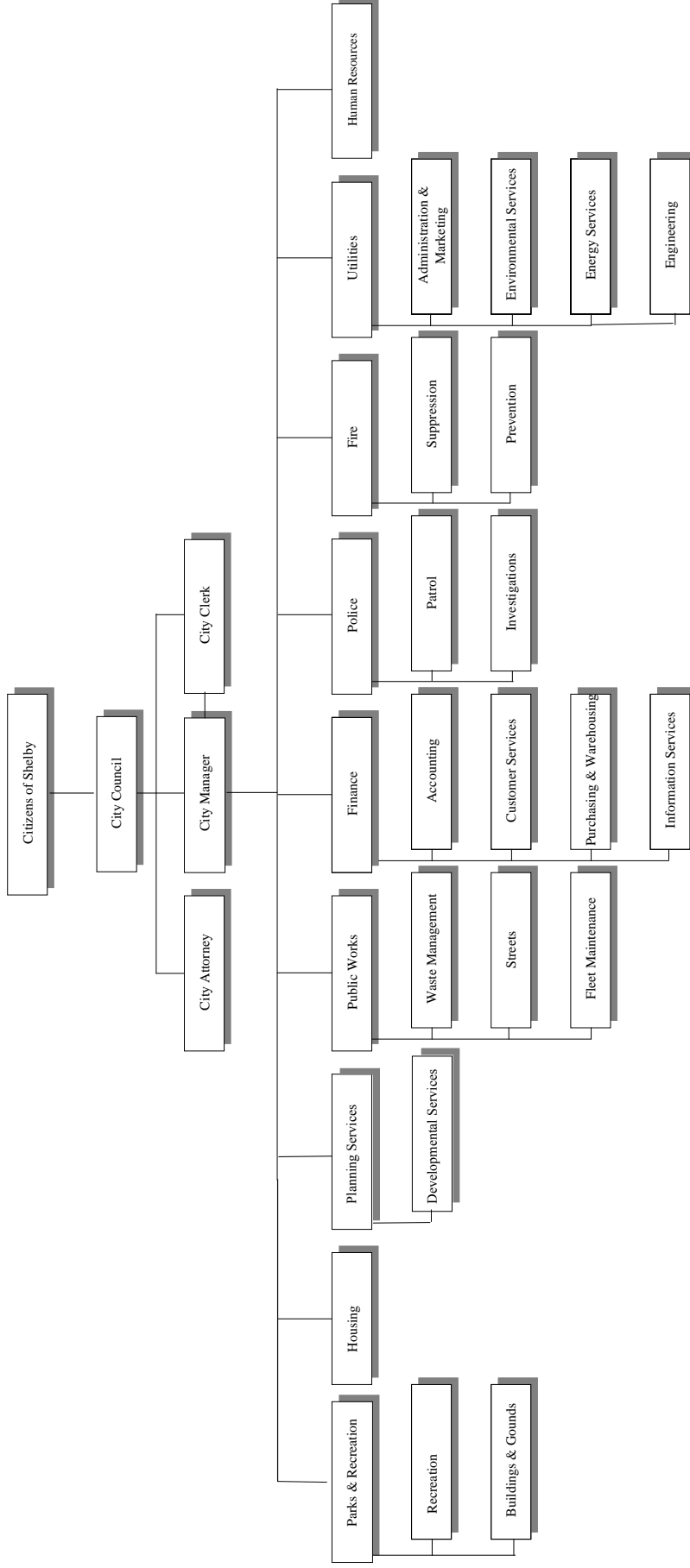
William P. Hunt
Fire Chief

Bryan T. Howell
Director of Housing

Walter Scharer, AICP
Director Planning Services

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 AUDITOR'S REPORT

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

Report On the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Governmental Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Shelby, North Carolina, as of June 30, 2013, and the respective changes in financial position, and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, statistical section, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of basic financial statements and; accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the City of Shelby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013



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, 2013. 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

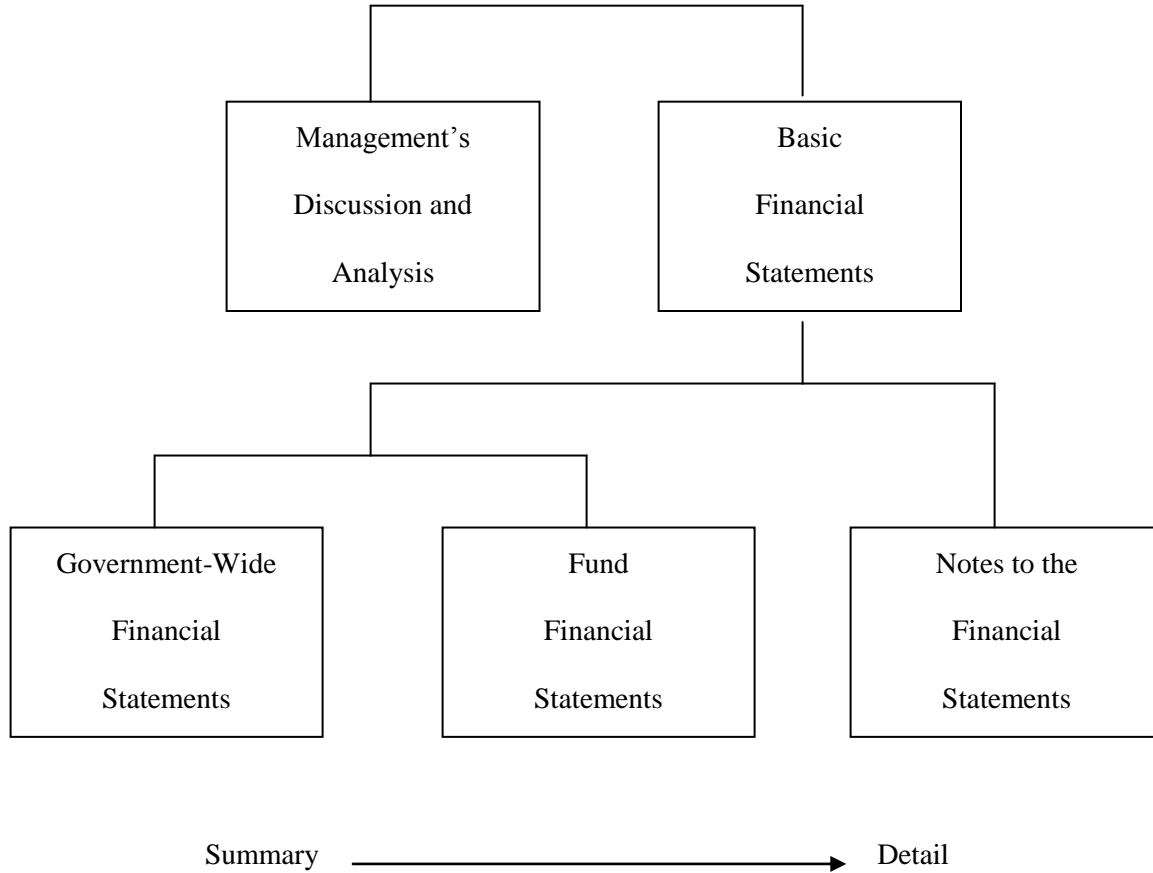
- The assets and deferred outflows of resources of the City of Shelby exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$127,758,022 (*net position*).
- The government's total net position increased by \$5,411,043, due to an increase of \$2,507,792 in governmental activities net position and an increase of \$2,903,251 in business-type activities net position.
- As of the close of the current fiscal year, the City of Shelby's governmental funds reported combined ending fund balances of \$11,230,301, with a net change in fund balance of \$2,349,868. Approximately 52.12 percent of this total amount, or \$5,852,975, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,020,498, or 16.57% percent of total General Fund expenditures and transfers out for the fiscal year.
- In November 2012, the City entered into a financing agreement for the purchase of equipment; the loan proceeds received amounted to \$1,018,850. The loan term is 59 months, with annual payments beginning June 2012, with an annual interest rate of 1.18 percent.

Overview of the Financial Statements

This discussion and analysis is 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 position and how it has changed. Net position are the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position 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 Position 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 Position 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 Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current assets	\$ 9,923,587	\$ 9,708,455	\$ 26,721,126	\$ 25,891,676	\$ 36,644,713	\$ 35,600,131
Non-current assets	<u>36,178,202</u>	<u>33,752,720</u>	<u>92,464,027</u>	<u>92,471,759</u>	<u>128,642,229</u>	<u>126,224,479</u>
Total assets	<u>46,101,789</u>	<u>43,461,175</u>	<u>119,185,153</u>	<u>118,363,435</u>	<u>165,286,942</u>	<u>161,824,610</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>664,999</u>	<u>-</u>	<u>664,999</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>46,101,789</u>	<u>43,461,175</u>	<u>119,850,152</u>	<u>118,363,435</u>	<u>165,951,941</u>	<u>161,824,610</u>
Liabilities:						
Long-term liabilities	5,441,510	4,923,922	25,356,469	26,833,386	30,797,979	31,757,308
Other liabilities	<u>1,508,297</u>	<u>1,893,063</u>	<u>5,887,643</u>	<u>5,827,260</u>	<u>7,395,940</u>	<u>7,720,323</u>
Total liabilities	<u>6,949,807</u>	<u>6,816,985</u>	<u>31,244,112</u>	<u>32,660,646</u>	<u>38,193,919</u>	<u>39,477,631</u>
Net Position:						
Net investment in capital assets	31,063,065	30,598,026	65,346,300	63,275,629	96,409,365	93,873,655
Restricted	5,882,225	4,686,554	-	-	5,882,225	4,686,554
Unrestricted	<u>2,206,692</u>	<u>1,359,610</u>	<u>23,259,740</u>	<u>22,427,160</u>	<u>25,466,432</u>	<u>23,786,770</u>
Total net position	<u>\$ 39,151,982</u>	<u>\$ 36,644,190</u>	<u>\$ 88,606,040</u>	<u>\$ 85,702,789</u>	<u>\$ 127,758,022</u>	<u>\$ 122,346,979</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Shelby exceeded liabilities and deferred inflows by \$127,758,022 as of June 30, 2013. The City's net position increased by \$5,411,043 for the fiscal year ended June 30, 2013. The City's net position also reflects the net 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 net 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 position, \$5,882,225, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$25,466,432 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 96.81%.
- Increase in charges for services and operating grants and contributions increased revenues in the current year.

City of Shelby's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,381,717	\$ 2,267,884	\$ 43,169,216	\$ 37,296,446	\$ 45,550,933	\$ 39,564,330
Operating grants and contributions	2,144,426	1,212,394	420,416	427,932	2,564,842	1,640,326
Capital grants and contributions	467,580	790,561	423,409	3,124,834	890,989	3,915,395
General revenues:						
Property taxes	7,732,736	7,719,357	-	-	7,732,736	7,719,357
Other taxes	6,167,364	4,534,317	-	-	6,167,364	4,534,317
Investment earnings	(115,459)	212,154	(106,454)	123,254	(221,913)	335,408
Total revenues	<u>18,778,364</u>	<u>16,736,667</u>	<u>43,906,587</u>	<u>40,972,466</u>	<u>62,684,951</u>	<u>57,709,133</u>
Expenses:						
General government	1,491,968	2,344,445	-	-	1,491,968	2,344,445
Public safety	9,402,424	10,053,997	-	-	9,402,424	10,053,997
Transportation	3,959,923	2,638,453	-	-	3,959,923	2,638,453
Environmental protection	1,569,800	1,875,510	-	-	1,569,800	1,875,510
Culture and recreational	2,105,578	2,150,671	-	-	2,105,578	2,150,671
Housing and redevelopment	221,476	321,244	-	-	221,476	321,244
Interest on long-term debt	79,403	68,004	-	-	79,403	68,004
Water	-	-	3,851,117	3,761,350	3,851,117	3,761,350
Sewer	-	-	3,935,645	3,715,909	3,935,645	3,715,909
Electric	-	-	19,167,975	18,518,633	19,167,975	18,518,633
Gas	-	-	10,293,972	8,407,977	10,293,972	8,407,977
Housing Assistance	-	-	1,194,627	1,138,001	1,194,627	1,138,001
Total expenses	<u>18,830,572</u>	<u>19,452,324</u>	<u>38,443,336</u>	<u>35,541,870</u>	<u>57,273,908</u>	<u>54,994,194</u>
Increase (decrease) in net position before transfers	(52,208)	(2,715,657)	5,463,251	5,430,596	5,411,043	2,714,939
Transfers in (out)	<u>2,560,000</u>	<u>2,434,350</u>	<u>(2,560,000)</u>	<u>(2,434,350)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	2,507,792	(281,307)	2,903,251	2,996,246	5,411,043	2,714,939
Net Position:						
Beginning of year - July 1	<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>
End of year - June 30	<u>\$ 39,151,982</u>	<u>\$ 36,644,190</u>	<u>\$ 88,606,040</u>	<u>\$ 85,702,789</u>	<u>\$ 127,758,022</u>	<u>\$ 122,346,979</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,507,792. Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the City of Shelby's net position by \$2,903,251. Key elements of this increase are as follows:

- Increase in capital grants and contributions revenue which were used in capital acquisitions and construction-in-progress in the current year.
- New industrial customers increased the City's customer base and utility revenues.

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 \$4,853,477, while total fund balance reached \$8,022,337. 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 27.63% of total General Fund expenditures and transfers to other funds, while total fund balance represents 44.02% of that same amount.

At June 30, 2013, the governmental funds of the City of Shelby reported a combined fund balance of \$11,230,301, an increase of \$2,349,868 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 \$534,471 (3.02%). 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 position at the fiscal year-end in the Water Fund was \$4,086,761; in the Sewer Fund was \$1,116,627; in the Electric Fund was \$5,176,515; and in the Gas Fund was \$10,824,282. 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, 2013 totaled \$126,086,050 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Transfer of assets from construction in progress to depreciable assets for the Airport Apron Pavement Rehab Project of \$736,618.
- Transfer of assets from construction in progress to depreciable assets for the Airport Improvement Projects of \$331,784.
- Transfer of assets from construction in progress to depreciable assets for the Water Treatment Plant FY11 Project of \$447,512.
- Transfer of assets from construction in progress to depreciable assets for the Westside Sewer FY11 Project of \$5,253,560.
- Transfer of assets from construction in progress to depreciable assets for the Electric Line Extension Project of \$984,477.
- Construction in progress of the Job Ready Shell Building #2 Project of \$215,674.
- Construction in progress of the Mall Area Lift Station Project of \$63,185.
- Construction in progress of the Foothills Commerce Center Project of \$5,893,240.

City of Shelby’s Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 5,014,681	\$ 5,006,681	\$ 496,366	\$ 496,365	\$ 5,511,047	\$ 5,503,046
Buildings and system Improvements other than buildings	13,236,275	13,224,935	88,835,152	81,528,543	102,071,427	94,753,478
Machinery and equipment	10,899,183	9,830,782	42,267,412	41,403,301	53,166,595	51,234,083
Infrastructure	6,930,777	6,713,452	5,702,363	5,608,989	12,633,140	12,322,441
Vehicles and motorized equipment	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Construction in progress	8,455,142	8,180,297	2,780,169	2,681,404	11,235,311	10,861,701
Subtotal	<u>1,231,547</u>	<u>899,498</u>	<u>6,871,519</u>	<u>12,783,642</u>	<u>8,103,066</u>	<u>13,683,140</u>
Accumulated Less: accumulated depreciation	<u>57,252,480</u>	<u>55,340,520</u>	<u>146,952,981</u>	<u>144,502,244</u>	<u>204,205,461</u>	<u>199,842,764</u>
Capital assets, net	<u>(23,069,927)</u>	<u>(21,587,800)</u>	<u>(55,049,484)</u>	<u>(52,030,485)</u>	<u>(78,119,411)</u>	<u>(73,618,285)</u>
	<u>\$ 34,182,553</u>	<u>\$ 33,752,720</u>	<u>\$ 91,903,497</u>	<u>\$ 92,471,759</u>	<u>\$ 126,086,050</u>	<u>\$ 126,224,479</u>

Additional information on the City’s capital assets can be found in Note 2.A. of the basic financial statements located on pages 40-47.

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

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Installment purchase notes	\$ 3,119,488	\$ 3,283,037	\$ 1,301,058	\$ 3,747,806	\$ 4,420,546	\$ 7,030,843
Revenue bonds	-	-	25,921,138	25,448,647	25,921,138	25,448,647
Compensated absences	935,889	965,417	214,895	259,069	1,150,784	1,224,486
Net pension obligation	441,825	349,812	-	-	441,825	349,812
Other post-employment benefits	2,096,067	1,718,750	595,178	485,531	2,691,245	2,204,281
Total	<u>\$ 6,593,269</u>	<u>\$ 6,317,016</u>	<u>\$ 28,032,269</u>	<u>\$ 29,941,053</u>	<u>\$ 34,625,538</u>	<u>\$ 36,258,069</u>

In FY 2013, the City entered into a financing agreement for the purchase of rolling stock; the loan proceeds received amounted to \$1,018,850. The loan term is 59 months with annual payments, beginning June 2011 with an interest rate of 1.18 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 \$110,400,000.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2.B. on pages 48-55 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

- The State of North Carolina unemployment numbers changed from 9.4% in June 2012 to 8.8% in June 2013. Cleveland County's numbers changed from 10.9% in June 2012 to 10.5% in June 2013. Cleveland County's industrial base has been hard hit during the current economic downturn but has seen some steady improvement over the past four years.
- Clearwater Paper Corporation, a 1,000,000 sq. foot pulp and paper manufacturing facility, began full production in January 2013 and became 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 is their first manufacturing plant in the Southeast.
- Schletter, Inc., one of the largest designers and manufacturers of solar power mounting systems, established a production and distribution facility in Shelby in early 2013. The Company plans to create 305 jobs in Shelby by the end of 2016, and has invested more than \$27 million in its Cleveland County facility. The Shelby facility has become Schletter Inc.'s North American headquarters.
- KSM Castings Group, a company that manufactures automotive components, will construct a 110,000 sq. feet facility and invest approximately \$45 million in its Shelby facility. KSM plans to create approximately 189 jobs over the next 5 years. KSM has annexed into the City and will be served by City utilities.
- Greenheck Fan Corporation, a company that manufactures industrial air handling equipment, has announced plans to invest \$33 million in their Shelby facility and create approximately 184 jobs within the County. Greenheck has tentatively agreed to annex into the City of Shelby and will be served by City of Shelby utilities.
- The City of Shelby and Cleveland County have begun construction on Job Ready Shell Building #2 in the Foothills Commerce Center. This 100,000 sq. feet facility will be available for sale in early 2014.

Budget Highlights for the Fiscal Year Ending June 30, 2014

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 modestly to \$18,172,900 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 4.9 percent in FY 2014 by North Carolina Power Agency #1. The City electric rates were increased 5.1% in FY 2014. 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 2014.

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 POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
Assets:				
Current assets:				
Cash and cash equivalents	\$ 6,625,816	\$ 19,315,751	\$ 25,941,567	\$ 248,295
Taxes receivable, net	258,874	-	258,874	-
Accounts receivable, net	521,764	5,701,858	6,223,622	-
Loans receivable	73,523	-	73,523	-
Interest receivable	23,473	-	23,473	-
Due from other governments	1,922,351	124,089	2,046,440	-
Internal balances	62,036	(62,036)	-	-
Inventories	187,623	1,602,852	1,790,475	609,504
Prepaid items	248,127	38,612	286,739	4,290
Total current assets	<u>9,923,587</u>	<u>26,721,126</u>	<u>36,644,713</u>	<u>862,089</u>
Non-current assets:				
Cash and cash equivalents, restricted	1,995,649	560,530	2,556,179	-
Capital assets, non-depreciable	6,246,228	7,367,885	13,614,113	182,567
Capital assets, net	<u>27,936,325</u>	<u>84,535,612</u>	<u>112,471,937</u>	<u>170,949</u>
Total non-current assets	<u>36,178,202</u>	<u>92,464,027</u>	<u>128,642,229</u>	<u>353,516</u>
Total assets	<u>46,101,789</u>	<u>119,185,153</u>	<u>165,286,942</u>	<u>1,215,605</u>
Deferred Outflows of Resources:				
Deferred charge on refunding	-	664,999	664,999	-
Total deferred outflows of resources	<u>-</u>	<u>664,999</u>	<u>664,999</u>	<u>-</u>
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	337,544	2,480,282	2,817,826	188,810
Accrued interest payable	-	161,683	161,683	-
Due to other governments	1,200	-	1,200	-
Unearned revenue	-	9,348	9,348	-
Other liabilities	17,794	-	17,794	-
Liabilities to be paid from restricted assets	-	560,530	560,530	-
Current portion of long-term liabilities	<u>1,151,759</u>	<u>2,675,800</u>	<u>3,827,559</u>	<u>-</u>
Total current liabilities	<u>1,508,297</u>	<u>5,887,643</u>	<u>7,395,940</u>	<u>188,810</u>
Long-term liabilities:				
Due in more than one year	<u>5,441,510</u>	<u>25,356,469</u>	<u>30,797,979</u>	<u>-</u>
Total liabilities	<u>6,949,807</u>	<u>31,244,112</u>	<u>38,193,919</u>	<u>188,810</u>
Net Position:				
Net investment in capital assets	31,063,065	65,346,300	96,409,365	353,516
Restricted for:				
Stabilization by State statute	2,988,461	-	2,988,461	-
Perpetual	638,964	-	638,964	-
Public safety	421,821	-	421,821	-
Streets - Powell Bill	1,367,979	-	1,367,979	-
General government	465,000	-	465,000	-
Working capital	-	-	-	107,753
Unrestricted	<u>2,206,692</u>	<u>23,259,740</u>	<u>25,466,432</u>	<u>565,526</u>
Total net position	<u>\$ 39,151,982</u>	<u>\$ 88,606,040</u>	<u>\$ 127,758,022</u>	<u>\$ 1,026,795</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, 2013**

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 1,491,968	\$ 405,636	\$ 1,074,519	\$ -
Public safety	9,402,424	27,163	1,049,907	32,265
Transportation	3,959,923	329,225	20,000	435,315
Environmental protection	1,569,800	1,154,132	-	-
Cultural and recreation	2,105,578	327,055	-	-
Housing and redevelopment	221,476	138,506	-	-
Interest on long-term debt	79,403	-	-	-
Total governmental activities	<u>18,830,572</u>	<u>2,381,717</u>	<u>2,144,426</u>	<u>467,580</u>
Business-Type Activities:				
Water Fund	3,851,117	4,259,773	121,770	-
Sewer Fund	3,935,645	4,926,580	42,988	94,572
Electric Fund	19,167,975	20,258,641	-	33,848
Gas Fund	10,293,972	13,142,487	12,202	-
Housing Assistance Fund	1,194,627	581,735	243,456	294,989
Total business-type activities	<u>38,443,336</u>	<u>43,169,216</u>	<u>420,416</u>	<u>423,409</u>
Total primary government	<u>\$ 57,273,908</u>	<u>\$ 45,550,933</u>	<u>\$ 2,564,842</u>	<u>\$ 890,989</u>
Component Unit:				
City of Shelby ABC Board	<u>\$ 2,806,856</u>	<u>\$ 2,812,754</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes
 Property tax
 Sales tax
 Franchise tax
 Other taxes
 Investment earnings
 Gain on sale of asset
 Total general revenues not including transfers

Transfers

Total general revenues and transfers

Change in net position

Net Position:

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 Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
\$ (11,813)	\$ -	\$ (11,813)	\$ -
(8,293,089)	-	(8,293,089)	-
(3,175,383)	-	(3,175,383)	-
(415,668)	-	(415,668)	-
(1,778,523)	-	(1,778,523)	-
(82,970)	-	(82,970)	-
(79,403)	-	(79,403)	-
<u>(13,836,849)</u>	<u>-</u>	<u>(13,836,849)</u>	<u>-</u>
-	530,426	530,426	-
-	1,128,495	1,128,495	-
-	1,124,514	1,124,514	-
-	2,860,717	2,860,717	-
-	(74,447)	(74,447)	-
<u>-</u>	<u>5,569,705</u>	<u>5,569,705</u>	<u>-</u>
<u>(13,836,849)</u>	<u>5,569,705</u>	<u>(8,267,144)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,898</u>
7,732,736	-	7,732,736	-
2,862,732	-	2,862,732	-
1,571,869	-	1,571,869	-
11,832	-	11,832	-
(115,459)	(106,454)	(221,913)	60
1,720,931	-	1,720,931	-
<u>13,784,641</u>	<u>(106,454)</u>	<u>13,678,187</u>	<u>60</u>
<u>2,560,000</u>	<u>(2,560,000)</u>	<u>-</u>	<u>-</u>
<u>16,344,641</u>	<u>(2,666,454)</u>	<u>13,678,187</u>	<u>60</u>
2,507,792	2,903,251	5,411,043	5,958
<u>36,644,190</u>	<u>85,702,789</u>	<u>122,346,979</u>	<u>1,020,837</u>
<u>\$ 39,151,982</u>	<u>\$ 88,606,040</u>	<u>\$ 127,758,022</u>	<u>\$ 1,026,795</u>

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

CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 3,825,008	\$ 2,800,808	\$ 6,625,816
Receivables, net:			
Taxes	254,336	4,538	258,874
Accounts	509,970	11,794	521,764
Interest	21,565	1,908	23,473
Loans	-	73,523	73,523
Due from other funds	532,167	-	532,167
Due from other governments	1,669,408	252,943	1,922,351
Inventories	187,623	-	187,623
Prepaid items	248,127	-	248,127
Restricted cash and cash equivalents	<u>1,367,979</u>	<u>627,670</u>	<u>1,995,649</u>
Total assets	<u>\$ 8,616,183</u>	<u>\$ 3,773,184</u>	<u>\$ 12,389,367</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 321,716	\$ 15,828	\$ 337,544
Due to other funds	-	470,131	470,131
Due to other governments	-	1,200	1,200
Other liabilities	17,794	-	17,794
Total liabilities	<u>339,510</u>	<u>487,159</u>	<u>826,669</u>
Deferred Inflows of Resources:			
Taxes receivable	254,336	4,538	258,874
Other receivables	-	73,523	73,523
Total deferred inflows of resources	<u>254,336</u>	<u>78,061</u>	<u>332,397</u>
Fund Balances:			
Non-spendable:			
Inventories	187,623	-	187,623
Prepays	248,127	-	248,127
Perpetual	-	638,964	638,964
Restricted:			
Stabilization by State statute	2,733,110	255,351	2,988,461
Public safety	-	421,821	421,821
Streets - Powell Bill	1,367,979	-	1,367,979
Assigned:			
Subsequent year's expenditures	465,000	-	465,000
Economic development	-	1,926,353	1,926,353
Unassigned	3,020,498	(34,525)	2,985,973
Total fund balances	<u>8,022,337</u>	<u>3,207,964</u>	<u>11,230,301</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,616,183</u>	<u>\$ 3,773,184</u>	

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

CITY OF SHELBY, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

Amounts reported for governmental activities in the Statement of Net Position (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. 34,182,553

Deferred inflows of resources in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. 332,397

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. (6,593,269)

Net position of governmental activities per Exhibit A \$ 39,151,982

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, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 7,612,112	\$ 109,180	\$ 7,721,292
Other taxes and licenses	2,862,732	-	2,862,732
Unrestricted intergovernmental	1,760,597	-	1,760,597
Restricted intergovernmental	1,046,013	1,344,522	2,390,535
Permits and fees	149,447	-	149,447
Sales and services	1,822,034	-	1,822,034
Investment earnings	(105,692)	(9,767)	(115,459)
Donations	-	61,980	61,980
Miscellaneous	259,234	140,697	399,931
Total revenues	<u>15,406,477</u>	<u>1,646,612</u>	<u>17,053,089</u>
Expenditures:			
Current:			
General government	2,069,998	7,333	2,077,331
Public safety	8,991,517	100,877	9,092,394
Transportation	2,368,449	1,402,156	3,770,605
Environmental protection	1,635,232	-	1,635,232
Cultural and recreation	1,944,162	-	1,944,162
Housing and redevelopment	-	221,476	221,476
Debt service:			
Principal retirement	821,675	-	821,675
Interest and other charges	79,403	-	79,403
Total expenditures	<u>17,910,436</u>	<u>1,731,842</u>	<u>19,642,278</u>
Revenues over (under) expenditures	<u>(2,503,959)</u>	<u>(85,230)</u>	<u>(2,589,189)</u>
Other Financing Sources (Uses):			
Transfers from other funds	2,460,000	1,915,100	4,375,100
Transfers to other funds	(315,100)	(1,500,000)	(1,815,100)
Long-term debt issued	658,126	-	658,126
Proceeds from sale of capital assets	21,456	1,699,475	1,720,931
Total other financing sources (uses)	<u>2,824,482</u>	<u>2,114,575</u>	<u>4,939,057</u>
Net change in fund balances	320,523	2,029,345	2,349,868
Fund Balances:			
Beginning of year - July 1	<u>7,701,814</u>	<u>1,178,619</u>	<u>8,880,433</u>
End of year - June 30	<u>\$ 8,022,337</u>	<u>\$ 3,207,964</u>	<u>\$ 11,230,301</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, 2013

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)	\$ 2,349,868
<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>	(439,802)
<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>	2,031,347
<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>	(658,126)
<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>	(1,601,514)
<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>821,675</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 2,507,792</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 7,637,000	\$ 7,637,000	\$ 7,612,112	\$ (24,888)
Other taxes and licenses	2,713,500	2,713,500	2,862,732	149,232
Unrestricted intergovernmental	1,744,508	1,696,700	1,760,597	63,897
Restricted intergovernmental	869,324	944,324	1,046,013	101,689
Permits and fees	190,200	190,200	149,447	(40,753)
Sales and services	1,821,350	1,821,350	1,822,034	684
Investment earnings	58,500	58,500	(105,692)	(164,192)
Miscellaneous	179,100	186,100	259,234	73,134
Total revenues	<u>15,213,482</u>	<u>15,247,674</u>	<u>15,406,477</u>	<u>158,803</u>
Expenditures:				
Current:				
General government	2,207,676	2,369,335	2,069,998	299,337
Public safety	9,112,800	9,047,770	8,991,517	56,253
Transportation	2,321,570	2,736,059	2,368,449	367,610
Environmental protection	1,711,640	1,689,140	1,635,232	53,908
Cultural and recreation	1,991,329	1,991,619	1,944,162	47,457
Debt service:				
Principal retirement	821,716	821,716	821,675	41
Interest and other charges	79,490	79,490	79,403	87
Total expenditures	<u>18,246,221</u>	<u>18,735,129</u>	<u>17,910,436</u>	<u>824,693</u>
Revenues over (under) expenditures	<u>(3,032,739)</u>	<u>(3,487,455)</u>	<u>(2,503,959)</u>	<u>983,496</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,335,000	2,460,000	2,460,000	-
Transfers (to) other funds	(44,250)	(315,150)	(315,100)	50
Long-term debt issued	653,350	683,850	658,126	(25,724)
Proceeds from sale of capital assets	25,000	25,000	21,456	(3,544)
Appropriated fund balance	63,639	633,755	-	(633,755)
Total other financing sources (uses)	<u>3,032,739</u>	<u>3,487,455</u>	<u>2,824,482</u>	<u>(662,973)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	320,523	<u>\$ 320,523</u>
Fund Balances:				
Beginning of year - July 1			<u>7,701,814</u>	
End of year - June 30			<u>\$ 8,022,337</u>	

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

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 3,414,911	\$ 1,921,790	\$ 3,071,925	\$ 8,769,678	\$ 2,137,447	\$ 19,315,751
Accounts receivable, net	675,749	791,072	2,974,275	1,258,670	2,092	5,701,858
Due from other funds	-	-	-	960,000	-	960,000
Due from other governments	3,797	14,713	99,882	936	4,761	124,089
Inventories	286,286	80,702	840,415	395,449	-	1,602,852
Prepaid items	10,543	8,106	7,921	11,077	965	38,612
Total current assets	<u>4,391,286</u>	<u>2,816,383</u>	<u>6,994,418</u>	<u>11,395,810</u>	<u>2,145,265</u>	<u>27,743,162</u>
Non-current assets:						
Restricted cash and cash equivalents	44,932	44,932	222,586	209,680	38,400	560,530
Capital assets, non-depreciable	117,305	560,992	6,121,510	308,769	259,309	7,367,885
Capital assets, net	<u>22,705,529</u>	<u>30,210,203</u>	<u>12,789,602</u>	<u>14,191,899</u>	<u>4,638,379</u>	<u>84,535,612</u>
Total non-current assets	<u>22,867,766</u>	<u>30,816,127</u>	<u>19,133,698</u>	<u>14,710,348</u>	<u>4,936,088</u>	<u>92,464,027</u>
Total assets	<u>27,259,052</u>	<u>33,632,510</u>	<u>26,128,116</u>	<u>26,106,158</u>	<u>7,081,353</u>	<u>120,207,189</u>
Deferred Outflows of Resources:						
Advance refunding bond issue	<u>277,186</u>	<u>87,793</u>	<u>225,607</u>	<u>74,413</u>	<u>-</u>	<u>664,999</u>
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	34,104	456,024	1,651,934	329,869	8,351	2,480,282
Accrued interest payable	70,499	48,046	19,693	23,445	-	161,683
Due to other funds	1,851	1,017,258	584	1,958	385	1,022,036
Unearned revenue	620	4,392	4,336	-	-	9,348
Compensated absences payable	19,000	9,000	24,000	16,000	17,000	85,000
Current portion of long-term debt	410,388	1,083,675	432,032	664,705	-	2,590,800
Liabilities payable from restricted assets:						
Customer deposits	<u>44,932</u>	<u>44,932</u>	<u>222,586</u>	<u>209,680</u>	<u>38,400</u>	<u>560,530</u>
Total current liabilities	<u>581,394</u>	<u>2,663,327</u>	<u>2,355,165</u>	<u>1,245,657</u>	<u>64,136</u>	<u>6,909,679</u>
Non-current liabilities:						
Compensated absences payable	39,825	24,225	10,252	48,117	7,476	129,895
Other long-term debt	8,291,267	7,388,183	5,001,284	3,950,662	-	24,631,396
Other post-employment benefits	<u>138,626</u>	<u>140,811</u>	<u>107,104</u>	<u>152,139</u>	<u>56,498</u>	<u>595,178</u>
Total non-current liabilities	<u>8,469,718</u>	<u>7,553,219</u>	<u>5,118,640</u>	<u>4,150,918</u>	<u>63,974</u>	<u>25,356,469</u>
Total liabilities	<u>9,051,112</u>	<u>10,216,546</u>	<u>7,473,805</u>	<u>5,396,575</u>	<u>128,110</u>	<u>32,266,148</u>
Net Position:						
Net investment in capital assets	14,398,365	22,387,130	13,703,403	9,959,714	4,897,688	65,346,300
Unrestricted	<u>4,086,761</u>	<u>1,116,627</u>	<u>5,176,515</u>	<u>10,824,282</u>	<u>2,055,555</u>	<u>23,259,740</u>
Total net position	<u>\$ 18,485,126</u>	<u>\$ 23,503,757</u>	<u>\$ 18,879,918</u>	<u>\$ 20,783,996</u>	<u>\$ 6,953,243</u>	<u>\$ 88,606,040</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 POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Operating Revenues:						
Charges for services	\$ 4,061,161	\$ 4,714,248	\$ 20,022,264	\$ 13,016,458	\$ 575,939	\$ 42,390,070
Other fees	36,385	36,527	-	36,213	-	109,125
Other operating revenues	162,227	175,805	236,377	89,816	5,796	670,021
Total operating revenues	<u>4,259,773</u>	<u>4,926,580</u>	<u>20,258,641</u>	<u>13,142,487</u>	<u>581,735</u>	<u>43,169,216</u>
Operating Expenses:						
Administration	695,310	686,019	927,014	1,238,453	349,097	3,895,893
Operations and maintenance	744,378	710,753	17,480,816	8,220,081	637,998	27,794,026
Treatment plant	1,150,163	1,203,517	-	-	-	2,353,680
Depreciation	807,377	968,226	586,940	604,988	207,532	3,175,063
Total operating expenses	<u>3,397,228</u>	<u>3,568,515</u>	<u>18,994,770</u>	<u>10,063,522</u>	<u>1,194,627</u>	<u>37,218,662</u>
Operating income (loss)	<u>862,545</u>	<u>1,358,065</u>	<u>1,263,871</u>	<u>3,078,965</u>	<u>(612,892)</u>	<u>5,950,554</u>
Non-Operating Revenues (Expenses):						
Operating grants	16,617	-	-	-	243,456	260,073
Refund of interest expense	105,153	42,988	-	12,202	-	160,343
Investment earnings	(28,088)	(13,096)	(45,998)	(8,120)	(11,152)	(106,454)
Interest expense and fiscal charges	(453,889)	(367,130)	(173,205)	(230,450)	-	(1,224,674)
Total non-operating revenues (expenses)	<u>(360,207)</u>	<u>(337,238)</u>	<u>(219,203)</u>	<u>(226,368)</u>	<u>232,304</u>	<u>(910,712)</u>
Income (loss) before capital contributions and transfers	<u>502,338</u>	<u>1,020,827</u>	<u>1,044,668</u>	<u>2,852,597</u>	<u>(380,588)</u>	<u>5,039,842</u>
Capital contributions	-	94,572	33,848	-	294,989	423,409
Transfers to other funds	-	-	(535,000)	(2,025,000)	-	(2,560,000)
Change in net position	502,338	1,115,399	543,516	827,597	(85,599)	2,903,251
Net Position:						
Beginning year - July	<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>
End of year - June 30	<u>\$ 18,485,126</u>	<u>\$ 23,503,757</u>	<u>\$ 18,879,918</u>	<u>\$ 20,783,996</u>	<u>\$ 6,953,243</u>	<u>\$ 88,606,040</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, 2013

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Cash Flows from Operating Activities:						
Cash received from customers	\$ 4,172,667	\$ 4,761,101	\$ 20,532,140	\$ 12,555,868	\$ 583,669	\$ 42,605,445
Cash paid for goods and services	(1,925,362)	(1,508,111)	(17,354,737)	(8,174,922)	(642,948)	(29,606,080)
Cash paid to employees	(674,290)	(660,547)	(933,241)	(1,216,597)	(345,745)	(3,830,420)
Net cash provided (used) by operating activities	<u>1,573,015</u>	<u>2,592,443</u>	<u>2,244,162</u>	<u>3,164,349</u>	<u>(405,024)</u>	<u>9,168,945</u>
Cash Flows from Non-Capital Financing Activities:						
Proceeds from operating grants	16,617	-	-	-	243,456	260,073
Increase (decrease) in due from other funds	2,370	190,976	61,462	9,550	3,064	267,422
Transfers from (to) other funds	-	-	(535,000)	(2,025,000)	-	(2,560,000)
Net cash provided (used) by non-capital financing activities	<u>18,987</u>	<u>190,976</u>	<u>(473,538)</u>	<u>(2,015,450)</u>	<u>246,520</u>	<u>(2,032,505)</u>
Cash Flows from Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(247,768)	(1,143,749)	(488,935)	(421,682)	(304,719)	(2,606,853)
Capital contributions - grants	-	94,572	33,848	-	294,989	423,409
Proceeds from issuance of long-term debt	106,979	155,375	-	83,851	-	346,205
Proceeds from bond refunding	4,029,784	5,369,145	3,985,109	3,770,963	-	17,155,001
Payment to escrow agent	(3,752,019)	(3,877,123)	(3,730,469)	(3,609,661)	-	(14,969,272)
Principal paid on long-term debt	(581,358)	(2,597,031)	(474,486)	(853,316)	-	(4,506,191)
Interest paid on long-term debt	(602,399)	(418,327)	(421,532)	(305,574)	-	(1,747,832)
Net cash provided (used) for capital and related financing activities	<u>(1,046,781)</u>	<u>(2,417,138)</u>	<u>(1,096,465)</u>	<u>(1,335,419)</u>	<u>(9,730)</u>	<u>(5,905,533)</u>
Cash Flows from Investing Activities:						
Interest received from investments	(28,088)	(13,096)	(45,998)	(8,120)	(11,152)	(106,454)
Net cash provided (used) by investing activities	<u>(28,088)</u>	<u>(13,096)</u>	<u>(45,998)</u>	<u>(8,120)</u>	<u>(11,152)</u>	<u>(106,454)</u>
Net increase (decrease) in cash and cash equivalents	517,133	353,185	628,161	(194,640)	(179,386)	1,124,453
Cash and Cash Equivalents:						
Beginning of year - July 1	<u>2,942,710</u>	<u>1,613,537</u>	<u>2,666,350</u>	<u>9,173,998</u>	<u>2,355,233</u>	<u>18,751,828</u>
End of year - June 30	<u>\$ 3,459,843</u>	<u>\$ 1,966,722</u>	<u>\$ 3,294,511</u>	<u>\$ 8,979,358</u>	<u>\$ 2,175,847</u>	<u>\$ 19,876,281</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, 2013

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 862,545	\$ 1,358,065	\$ 1,263,871	\$ 3,078,965	\$ (612,892)	\$ 5,950,554
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	807,377	968,226	586,940	604,988	207,532	3,175,063
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(87,409)	(160,163)	263,872	(580,639)	2,385	(561,954)
(Increase) decrease in inventories	(12,841)	4,593	2,212	30,756	-	24,720
(Increase) decrease in prepaids	2,670	(263)	(7,883)	(539)	76	(5,939)
Increase (decrease) in accounts payable and accrued liabilities	(20,650)	401,829	131,750	14,942	(5,026)	522,845
Increase (decrease) in unearned revenues	303	(5,316)	(4,223)	(5,980)	-	(15,216)
Increase (decrease) in customer deposits	-	-	13,850	-	(451)	13,399
Increase (decrease) in compensated absences	(4,913)	(2,487)	(25,095)	(4,291)	(7,388)	(44,174)
Increase (decrease) in other post-employment benefits	25,933	27,959	18,868	26,147	10,740	109,647
Net cash provided (used) by operating activities	<u>\$ 1,573,015</u>	<u>\$ 2,592,443</u>	<u>\$ 2,244,162</u>	<u>\$ 3,164,349</u>	<u>\$ (405,024)</u>	<u>\$ 9,168,945</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, 2013

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 Position 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, 2013

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 Funds. The Special Revenue Funds account 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 Project Funds. The Capital Project Funds are 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). The Capital Projects maintained by the City are the Capital Projects Fund, the Economic Development Project Fund, and the Economic Development Reserve Fund.

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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cleveland County is responsible for billing and collecting the property taxes on 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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and offset by deferred inflows of resources.

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.

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 is both restricted and unrestricted net position 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

D. Management Estimates

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

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, Deferred Outflows/Inflows, 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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.

Powell Bill funds, in the General Fund, are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.4.

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, 2012. 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Allowance for Doubtful Accounts

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

Inventory and Prepaid Items

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

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

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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion in the current year – deferred charge on refunding. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has no items that meet this criterion.

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 Position. Bond premiums and discounts 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, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 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.

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, 2013.

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.

Net Position/Fund Balances

Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents 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.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

	<u>General Fund</u>	<u>Nonmajor Permanent Funds</u>
<i>Inventories</i> - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources	\$ 187,623	\$ -
<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	248,127	-
<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>638,964</u>
Total	<u>\$ 435,750</u>	<u>\$ 638,964</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 Funds</u>	<u>Nonmajor Special Revenue Funds</u>
<i>Restricted for Stabilization of State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]	\$ 2,733,110	\$ 1,693	\$ 253,658
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures	-	421,821	-
<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>1,367,979</u>	-	-
Total	<u>\$ 4,101,089</u>	<u>\$ 423,514</u>	<u>\$ 253,658</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

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.

	General Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds
<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.	\$ 465,000	\$ -	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	-	309,377	1,616,976
Total	\$ 465,000	\$ 309,377	\$ 1,616,976

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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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)	\$ 8,022,337
Less:	
Non-spendable	(435,750)
Stabilization by State statute	<u>(2,733,110)</u>
Available for appropriation	<u>\$ 4,853,477</u>

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. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the City's deposits had a carrying amount of \$4,137,238 and a bank balance of \$4,197,456. The ABC Board's deposits had a carrying amount of \$241,215 and a bank balance of \$270,680.

Of the City's bank balance, \$913,915 was covered by federal depository insurance, and \$3,283,541 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,645 at June 30, 2013, and the ABC Board had cash on hand of \$7,080.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Investments

At June 30, 2013, 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	\$ 10,953,140	\$ -	\$ 3,111,475	\$ 7,841,665
First National Bank CD	1,582,836	1,582,836	-	-
US Bank CD	479,497	479,497	-	-
NCCMT	11,340,390	11,340,390	-	-
Total	<u>\$ 24,355,863</u>	<u>\$ 13,402,723</u>	<u>\$ 3,111,475</u>	<u>\$ 7,841,665</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, 2013. 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.

Subsequent to June 30, 2013, 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 50 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Receivables - Allowances for Doubtful Accounts

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

	Governmental Activities	Business-Type Activities	Total
Taxes receivable	\$ 216,000	\$ -	\$ 216,000
Accounts receivable	66,627	1,286,117	1,352,744
Total	\$ 282,627	\$ 1,286,117	\$ 1,568,744

Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balances	Additions	Deletions	Transfers	Ending Balances
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 5,006,681	\$ 8,000	\$ -	\$ -	\$ 5,014,681
Construction in progress	899,498	1,400,450	-	(1,068,401)	1,231,547
Total non-depreciable capital assets	5,906,179	1,408,450	-	(1,068,401)	6,246,228
Depreciable Capital Assets:					
Buildings	13,224,935	11,340	-	-	13,236,275
Other improvements	9,830,782	-	-	1,068,401	10,899,183
Machinery and equipment	6,713,452	250,706	(33,381)	-	6,930,777
Vehicles	8,180,297	360,851	(86,006)	-	8,455,142
Infrastructure	11,484,875	-	-	-	11,484,875
Total depreciable capital assets	49,434,341	622,897	(119,387)	1,068,401	51,006,252
Less Accumulated Depreciation:					
Buildings	5,495,381	313,295	-	-	5,808,676
Other improvements	1,659,592	258,558	-	-	1,918,150
Machinery and equipment	4,576,884	417,535	(33,381)	-	4,961,038
Vehicles	6,268,839	436,668	(86,006)	-	6,619,501
Infrastructure	3,587,104	175,458	-	-	3,762,562
Total accumulated depreciation	21,587,800	\$ 1,601,514	\$ (119,387)	\$ -	23,069,927
Total depreciable capital assets, net	27,846,541				27,936,325
Governmental activity capital assets, net	\$ 33,752,720				\$ 34,182,553

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Governmental Activities:	
General government	\$ 190,802
Public safety	540,939
Transportation	578,319
Environmental protection	69,852
Cultural and recreation	<u>221,602</u>
Total depreciation expense-governmental activities	<u>\$ 1,601,514</u>

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balances</u>
Water Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 49,483	\$ -	\$ -	\$ -	\$ 49,483
Construction in progress	<u>503,049</u>	<u>47,265</u>	<u>-</u>	<u>(482,492)</u>	<u>67,822</u>
Total non-depreciable capital assets	<u>552,532</u>	<u>47,265</u>	<u>-</u>	<u>(482,492)</u>	<u>117,305</u>
Depreciable Capital Assets:					
Buildings and system	12,204,131	3,096	-	482,492	12,689,719
Water extensions	22,187,057	103,551	-	-	22,290,608
Machinery and equipment	1,261,885	22,423	(40,300)	-	1,244,008
Vehicles	<u>244,119</u>	<u>71,433</u>	<u>-</u>	<u>-</u>	<u>315,552</u>
Total depreciable capital assets	<u>35,897,192</u>	<u>200,503</u>	<u>(40,300)</u>	<u>482,492</u>	<u>36,539,887</u>
Less Accumulated Depreciation:					
Buildings and system	6,517,537	198,616	-	-	6,716,153
Water extensions	5,330,731	543,675	-	-	5,874,406
Machinery and equipment	1,018,105	47,752	(40,300)	-	1,025,557
Vehicles	<u>200,908</u>	<u>17,334</u>	<u>-</u>	<u>-</u>	<u>218,242</u>
Total accumulated depreciation	<u>13,067,281</u>	<u>\$ 807,377</u>	<u>\$ (40,300)</u>	<u>\$ -</u>	<u>13,834,358</u>
Total depreciable capital assets, net	<u>22,829,911</u>				<u>22,705,529</u>
Total capital assets, net	<u>\$ 23,382,443</u>				<u>\$ 22,822,834</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Beginning</u>				<u>Ending</u>
	<u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balances</u>
Sewer Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 58,402	\$ -	\$ -	\$ -	\$ 58,402
Construction in progress	5,394,262	599,652	-	(5,491,324)	502,590
Total non-depreciable capital assets	<u>5,452,664</u>	<u>599,652</u>	<u>-</u>	<u>(5,491,324)</u>	<u>560,992</u>
Depreciable Capital Assets:					
Buildings and system	16,200,928	73,804	-	-	16,274,732
Sewer extensions	20,361,659	324,779	-	5,491,324	26,177,762
Machinery and equipment	1,917,736	74,809	(19,924)	-	1,972,621
Vehicles	670,820	70,705	(49,027)	-	692,498
System Improvements	60,707	-	-	-	60,707
Total depreciable capital assets	<u>39,211,850</u>	<u>544,097</u>	<u>(68,951)</u>	<u>5,491,324</u>	<u>45,178,320</u>
Less Accumulated Depreciation:					
Buildings and system	6,087,036	328,089	-	-	6,415,125
Sewer extensions	6,187,717	426,449	-	-	6,614,166
Machinery and equipment	1,270,742	171,866	(19,924)	-	1,422,684
Vehicles	520,311	41,822	(49,027)	-	513,106
System Improvements	3,036	-	-	-	3,036
Total accumulated depreciation	<u>14,068,842</u>	<u>\$ 968,226</u>	<u>\$ (68,951)</u>	<u>\$ -</u>	<u>14,968,117</u>
Total depreciable capital assets, net	<u>25,143,008</u>				<u>30,210,203</u>
Total capital assets, net	<u>\$ 30,595,672</u>				<u>\$ 30,771,195</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balances</u>
Electric Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	<u>6,877,718</u>	<u>152,586</u>	<u>-</u>	<u>(984,477)</u>	<u>6,045,827</u>
Total non-depreciable capital assets	<u>6,953,401</u>	<u>152,586</u>	<u>-</u>	<u>(984,477)</u>	<u>6,121,510</u>
Depreciable Capital Assets:					
Buildings and system	4,158,645	-	-	-	4,158,645
Electric extensions	15,294,429	290,204	-	984,477	16,569,110
Machinery and equipment	1,072,115	46,145	-	-	1,118,260
Vehicles	<u>1,105,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,105,804</u>
Total depreciable capital assets	<u>21,630,993</u>	<u>336,349</u>	<u>-</u>	<u>984,477</u>	<u>22,951,819</u>
Less Accumulated Depreciation:					
Buildings and system	1,743,548	97,045	-	-	1,840,593
Electric extensions	6,184,854	336,050	-	-	6,520,904
Machinery and equipment	808,215	74,023	-	-	882,238
Vehicles	<u>838,660</u>	<u>79,822</u>	<u>-</u>	<u>-</u>	<u>918,482</u>
Total accumulated depreciation	<u>9,575,277</u>	<u>\$ 586,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,162,217</u>
Total depreciable capital assets, net	<u>12,055,716</u>				<u>12,789,602</u>
Total capital assets, net	<u>\$ 19,009,117</u>				<u>\$ 18,911,112</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Gas Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 53,489	\$ -	\$ -	\$ -	\$ 53,489
Construction in progress	8,613	246,667	-	-	255,280
Total non-depreciable capital assets	<u>62,102</u>	<u>246,667</u>	<u>-</u>	<u>-</u>	<u>308,769</u>
Depreciable Capital Assets:					
Buildings and system	475,462	-	-	-	475,462
Sewer extensions	22,960,560	112,274	-	-	23,072,834
Machinery and equipment	1,187,041	41,445	(31,224)	-	1,197,262
Vehicles	527,451	21,296	(15,642)	-	533,105
Total depreciable capital assets	<u>25,150,514</u>	<u>175,015</u>	<u>(46,866)</u>	<u>-</u>	<u>25,278,663</u>
Less Accumulated Depreciation:					
Buildings and system	401,068	16,500	-	-	417,568
Sewer extensions	9,020,559	444,209	-	-	9,464,768
Machinery and equipment	660,328	110,976	(31,171)	-	740,133
Vehicles	446,633	33,303	(15,641)	-	464,295
Total accumulated depreciation	<u>10,528,588</u>	<u>\$ 604,988</u>	<u>\$ (46,812)</u>	<u>\$ -</u>	<u>11,086,764</u>
Total depreciable capital assets, net	<u>14,621,926</u>				<u>14,191,899</u>
Gas Fund capital assets, net	<u>\$ 14,684,028</u>				<u>\$ 14,500,668</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balances</u>
Housing Assistance Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 259,309	\$ -	\$ -	\$ -	\$ 259,309
Depreciable Capital Assets:					
Buildings and system	8,364,135	304,719	-	-	8,668,854
Other improvements	664,131	-	-	-	664,131
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	<u>133,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,210</u>
Total depreciable capital assets	<u>9,331,688</u>	<u>304,719</u>	<u>-</u>	<u>-</u>	<u>9,636,407</u>
Less Accumulated Depreciation:					
Buildings and system	3,935,000	187,576	-	-	4,122,576
Other improvements	558,815	16,280	-	-	575,095
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	<u>126,469</u>	<u>3,676</u>	<u>-</u>	<u>-</u>	<u>130,145</u>
Total accumulated depreciation	<u>4,790,496</u>	<u>\$ 207,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,998,028</u>
Total depreciable capital assets, net	<u>4,541,192</u>				<u>4,638,379</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,800,501</u>				<u>\$ 4,897,688</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Construction Commitments

The City has active construction projects as of June 30, 2013. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Artee/Washburn Switch Utility Relocation	\$ 35,740
Mall Lift Station	28,898
Mall Pump Station	408,819
Outfall & WWTP	18,000
WWTP Improvements	528,576
Outfall Improvements	100,319
Artee Rd Electric Line Relocation	20,768
Cable Replacement Project	23,443
Underground Cable Replacement	192,294
Plato Lee Gas Line Relocation	910
Artee/Washburn Switch Gas Line Relocation	14,210
NC226 Gas Line Relocation	7,175
West Lee & Kimbrell Rd Gas Line	6,441
T-Hangar Bldg & Utility Extension	226
Obstruction Removal	10,201
911 Telephone System Upgrade	50,765
Total	<u>\$ 1,446,785</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Capital Asset activity for the ABC Board for the year ended June 30, 2013 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	687,340	55,524	-	742,864
Office and store equipment	311,157	4,666	-	315,823
Vehicle	24,250	-	-	24,250
Total capital assets being depreciated	1,022,747	60,190	-	1,082,937
Less Accumulated Depreciation:				
Buildings	613,039	19,531	-	632,570
Office and store equipment	262,695	9,044	-	271,739
Vehicle	5,254	2,425	-	7,679
Total accumulated depreciation	880,988	31,000	-	911,988
Total ABC capital assets being depreciated	141,759	29,190	-	170,949
ABC capital assets, net	\$ 324,326	\$ 29,190	\$ -	\$ 353,516

B. Liabilities and Net position

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at the fund and government-wide level at June 30, 2013 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 131,121	\$ 676,459
Accrued gas and electric purchases	-	1,755,734
Accrued payroll liabilities	206,423	48,089
Total accounts payable and accrued liabilities	\$ 337,544	\$ 2,480,282

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Advance Refunding

On February 5, 2013, the City issued \$17,155,000 of Revenue Refunding Bond Series 2013 to provide resources to purchase securities that were placed in an irrevocable trust to be used for all future debt payments of \$16,307,138 of the Combined Enterprise System Revenue Bonds Series 2004, 2005, 2008 and the 1995 State Revolving fund Loan. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type actives column of the statement of net position. The carrying account of the old debt exceeded the reacquisition price by \$847,862. This amount is being netted against the new debt and amortized over the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$1,433,569 and resulted in an economic gain of \$1,195,552.

Long-Term Obligations

In November 2012, the City entered into a financing agreement for the acquisition of several pieces of equipment in the amount of \$1,018,850. The terms call for five annual payments through November 2017 at an interest rate of 1.18%.

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, 2013 are summarized as follows:

Financing Agreements	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2013					
				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	\$ 83,500	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer extension	5.56%	03/2015	300,000	-	-	40,000	-	-	40,000
Park and recreation improvements	3.24%	04/2015	1,352,345	270,469	-	-	-	-	-
Cleveland County Powell Bill	1.68%	03/2022	183,526	-	-	165,174	-	-	165,174
Capital projects	3.64%	05/2017	158,000	159,171	-	-	-	-	-
2009 Purchase of equipment	3.20%	06/2019	1,250,000	750,000	-	-	-	-	-
2010 Purchase of equipment	3.20%	06/2014	688,496	77,884	8,290	9,757	38,634	11,940	68,621
2011 Purchase of equipment	2.36%	05/2015	903,162	292,909	18,283	37,438	16,939	8,574	81,234
2012 Purchase of equipment	1.69%	05/2016	965,726	311,102	2,363	208,598	25,071	42,075	278,107
2013 Purchase of equipment	1.43%	05/2017	1,250,000	526,610	15,075	103,156	99,945	130,047	348,223
2013 Purchase of equipment	1.18%	11/2017	<u>1,018,850</u>	<u>647,843</u>	<u>102,267</u>	<u>139,727</u>	<u>-</u>	<u>77,705</u>	<u>319,699</u>
Total			<u>\$ 8,905,105</u>	<u>\$ 3,119,488</u>	<u>\$ 146,278</u>	<u>\$ 703,850</u>	<u>\$ 180,589</u>	<u>\$ 270,341</u>	<u>\$ 1,301,058</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Governmental Activities Long-Term Debt

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2013 are as follows:

Year Ending	Governmental Activities			
	June 30	Principal	Interest	Total
2014	\$	931,759	\$ 69,557	\$ 1,001,316
2015		835,122	46,003	881,125
2016		529,727	28,342	558,069
2017		428,153	18,175	446,328
2018		262,741	9,596	272,337
2019		131,986	8,655	140,641
Total	\$	3,119,488	\$ 180,328	\$ 3,299,816

Business-Type Activities Long-Term Debt

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

Year Ending	Water Fund			
	June 30	Principal	Interest	Total
2014	\$	42,675	\$ 2,223	\$ 44,898
2015		34,926	1,415	36,341
2016		25,990	893	26,883
2017		25,497	572	26,069
2018		17,190	260	17,450
Total	\$	146,278	\$ 5,363	\$ 151,641

Year Ending	Sewer Fund			
	June 30	Principal	Interest	Total
2014	\$	190,524	\$ 66,296	\$ 256,820
2015		183,113	44,991	228,104
2016		146,150	24,218	170,368
2017		76,137	4,829	80,966
2018		50,165	3,459	53,624
2019-2022		57,761	6,166	63,927
Total	\$	703,850	\$ 149,959	\$ 853,809

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Year Ending	Electric Fund					
	June 30	Principal	Interest	Total		
2014	\$	80,838	\$	3,568	\$	84,406
2015		42,923		1,611		44,534
2016		34,873		898		35,771
2017		21,955		385		22,340
Total	\$	180,589	\$	6,462	\$	187,051

Year Ending	Gas Fund					
	June 30	Principal	Interest	Total		
2014	\$	78,153	\$	4,162	\$	82,315
2015		67,206		2,788		69,994
2016		63,781		1,778		65,559
2017		50,179		883		51,062
2018		11,022		204		11,226
Total	\$	270,341	\$	9,815	\$	280,156

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, 2013 are as follows:

	Interest Rates	Series Matures	Original Issue	Outstanding June 30, 2013
Combined Enterprise System, Series 2004A	4.62%	2029	\$ 18,465,000	\$ 1,920,000
Combined Enterprise System, Series 2010	6.20%	2025	8,346,400	7,051,138
Combined Enterprise System, Series 2013A	2.78%	2029	9,645,000	9,535,000
Combined Enterprise System, Series 2013B	1.56%	2017	2,540,000	2,505,000
Combined Enterprise System, Series 2013C	2.69%	2028	3,185,000	3,150,000
Combined Enterprise System, Series 2013D	2.10%	2016	1,785,000	1,760,000
Total				\$ 25,921,138

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Revenue bond debt service requirements to maturity are as follows:

Year Ending	Water Fund		
	Principal	Interest	Total
June 30			
2014	\$ 367,713	\$ 392,563	\$ 760,276
2015	535,211	372,389	907,600
2016	552,314	346,341	898,655
2017	571,972	319,362	891,334
2018	588,524	291,363	879,887
2019-2023	3,273,313	999,258	4,272,571
2024-2028	2,356,859	240,543	2,597,402
2029	309,471	8,796	318,267
Total	\$ 8,555,377	\$ 2,970,615	\$ 11,525,992

Year Ending	Sewer Fund		
	Principal	Interest	Total
June 30			
2014	\$ 893,151	\$ 253,500	\$ 1,146,651
2015	944,144	229,152	1,173,296
2016	951,831	202,873	1,154,704
2017	379,130	176,223	555,353
2018	384,727	161,410	546,137
2019-2023	2,149,410	566,723	2,716,133
2024-2028	1,912,830	158,695	2,071,525
2029	152,785	2,783	155,568
Total	\$ 7,768,008	\$ 1,751,359	\$ 9,519,367

Year Ending	Electric Fund		
	Principal	Interest	Total
June 30			
2014	\$ 351,194	\$ 100,960	\$ 452,154
2015	406,835	97,516	504,351
2016	416,381	89,878	506,259
2017	424,815	82,080	506,895
2018	252,715	74,118	326,833
2019-2023	1,393,914	288,362	1,682,276
2024-2028	1,644,258	136,543	1,780,801
2029	362,615	7,167	369,782
Total	\$ 5,252,727	\$ 876,624	\$ 6,129,351

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Year Ending</u> <u>June 30</u>	<u>Gas Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 586,552	\$ 121,354	\$ 707,906
2015	581,014	112,503	693,517
2016	594,476	103,398	697,874
2017	602,692	94,145	696,837
2018	158,085	84,649	242,734
2019-2023	875,108	306,065	1,181,173
2024-2028	845,513	100,306	945,819
2029	101,586	-	101,586
Total	<u>\$ 4,345,026</u>	<u>\$ 922,420</u>	<u>\$ 5,267,446</u>

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$25,921,138 revenue bonds issued in 2004, 2010, and 2013. 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 \$32,442,156. Principal and interest paid for the current year and total customer net revenues were \$2,799,191 and \$42,892,861, 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, 2013 is as follows:

Operating revenues	\$ 43,169,216
Operating expenses*	<u>34,043,599</u>
Income available for debt service	<u>\$ 9,125,617</u>
Debt service, principal and interest paid (Revenue Bond only)	<u>\$ 2,799,191</u>
Debt service coverage ratio	<u>326.01%</u>

*Per rate covenants, this does not include the depreciation expense of \$3,175,063.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Changes in Long-Term Liabilities. Long-term liability activity for the fiscal year ended June 30, 2013 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:					
Installment debt	\$ 3,283,037	\$ 658,126	\$ (821,675)	\$ 3,119,488	\$ 931,759
Net pension obligations	349,812	127,246	(35,233)	441,825	-
Compensated absences	965,417	190,232	(219,760)	935,889	220,000
Other post-employment benefits	<u>1,718,750</u>	<u>769,553</u>	<u>(392,236)</u>	<u>2,096,067</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 6,317,016</u>	<u>\$ 1,745,157</u>	<u>\$ (1,468,904)</u>	<u>\$ 6,593,269</u>	<u>\$ 1,151,759</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Water Fund:					
Revenue bonds	\$ 8,830,730	\$ 4,029,784	\$ (4,305,137)	\$ 8,555,377	\$ 367,713
Installment debt	67,539	106,979	(28,240)	146,278	42,675
Compensated absences	63,738	14,003	(18,916)	58,825	19,000
Other post-employment benefits	112,693	53,685	(27,752)	138,626	-
Water Fund long-term liabilities	<u>\$ 9,074,700</u>	<u>\$ 4,204,451</u>	<u>\$ (4,380,045)</u>	<u>\$ 8,899,106</u>	<u>\$ 429,388</u>
Sewer Fund:					
Revenue bonds	\$ 6,275,986	\$ 5,369,145	\$ (3,877,123)	\$ 7,768,008	\$ 893,151
Other debt	3,145,506	155,375	(2,597,031)	703,850	190,524
Compensated absences	35,712	6,780	(9,267)	33,225	9,000
Other post-employment benefits	112,852	57,879	(29,920)	140,811	-
Sewer Fund long-term liabilities	<u>\$ 9,570,056</u>	<u>\$ 5,589,179</u>	<u>\$ (6,513,341)</u>	<u>\$ 8,645,894</u>	<u>\$ 1,092,675</u>
Electric Fund:					
Revenue bonds	\$ 5,380,295	\$ 3,985,109	\$ (4,112,677)	\$ 5,252,727	\$ 351,194
Installment debt	272,867	-	(92,278)	180,589	80,838
Compensated absences	59,347	5,978	(31,073)	34,252	24,000
Other post-employment benefits	88,236	39,059	(20,191)	107,104	-
Electric Fund long-term liabilities	<u>\$ 5,800,745</u>	<u>\$ 4,030,146</u>	<u>\$ (4,256,219)</u>	<u>\$ 5,574,672</u>	<u>\$ 456,032</u>
Gas Fund:					
Revenue bonds	\$ 4,961,636	\$ 3,770,963	\$ (4,387,573)	\$ 4,345,026	\$ 586,552
Installment debt	261,894	83,851	(75,404)	270,341	78,153
Compensated absences	68,408	12,100	(16,391)	64,117	16,000
Other post-employment benefits	125,992	53,355	(27,208)	152,139	-
Gas Fund long-term liabilities	<u>\$ 5,417,930</u>	<u>\$ 3,920,269</u>	<u>\$ (4,506,576)</u>	<u>\$ 4,831,623</u>	<u>\$ 680,705</u>
Housing Assistance Fund:					
Compensated absences	\$ 31,864	\$ 9,939	\$ (17,327)	\$ 24,476	\$ 17,000
Other post-employment benefits	45,758	22,233	(11,493)	56,498	-
Housing Assistance long-term liabilities	<u>\$ 77,622</u>	<u>\$ 32,172</u>	<u>\$ (28,820)</u>	<u>\$ 80,974</u>	<u>\$ 17,000</u>
Total Business-Type Activities					
Revenue bonds	\$ 25,448,647	\$ 17,155,001	\$ (16,682,510)	\$ 25,921,138	\$ 2,198,610
Installment debt	3,747,806	346,205	(2,792,953)	1,301,058	392,190
Compensated absences	259,069	48,800	(92,974)	214,895	85,000
Other post-employment benefits	485,531	226,211	(116,564)	595,178	-
Business-type activities long-term liabilities	<u>\$ 29,941,053</u>	<u>\$ 17,776,217</u>	<u>\$ (19,685,001)</u>	<u>\$ 28,032,269</u>	<u>\$ 2,675,800</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

At June 30, 2013, the City has a legal debt margin of approximately \$110,400,000.

Deferred Outflows and Inflows of Resources. The amount of deferred outflows of resources is a charge on refunding of debt for \$664,999.

	Unavailable Revenue
Taxes receivable (General Fund)	\$ 258,874
Loans (General Fund)	<u>73,523</u>
Total	<u>\$ 332,397</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Net Investment in Capital Assets. Net investment in capital assets is comprised of the following:

Governmental Activities:

Capital assets, net of accumulated depreciation	\$ 34,182,553
Outstanding balance on related debt	<u>(3,119,488)</u>
Total governmental activities	<u>\$ 31,063,065</u>

Business-Type Activities:

Water:

Capital assets, net of accumulated depreciation	\$ 22,822,834
Outstanding balance on related debt	(8,701,655)
Deferred charge on refunding	<u>277,186</u>
Total Water	<u>14,398,365</u>

Sewer:

Capital assets, net of accumulated depreciation	30,771,195
Outstanding balance on related debt	(8,471,858)
Deferred charge on refunding	<u>87,793</u>
Total Sewer	<u>22,387,130</u>

Electric:

Capital assets, net of accumulated depreciation	18,911,112
Outstanding balance on related debt	(5,433,316)
Deferred charge on refunding	<u>225,607</u>
Total Electric	<u>13,703,403</u>

Gas:

Capital assets, net of accumulated depreciation	14,500,668
Outstanding balance on related debt	(4,615,367)
Deferred charge on refunding	<u>74,413</u>
Total Gas	<u>9,959,714</u>

Housing:

Capital assets, net of accumulated depreciation	<u>4,897,688</u>
Total Housing Assistance	<u>4,897,688</u>

Total business-type activities	<u>\$ 65,346,300</u>
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CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, 2012, and 2011 were \$774,963, \$803,779, and \$767,739, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$35,062, \$38,016, and \$35,053 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, 2013

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to, but not yet, receiving benefits	3
Active plan members	<u>76</u>
Total	<u>79</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, 2011 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, 2011 was 19 years.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ 131,524
Interest on net pension obligation	17,491
Adjustment to annual required contribution	<u>(21,769)</u>
Annual pension cost	127,246
Contributions made	<u>35,233</u>
Increase (decrease) in net pension obligation	92,013
Net pension obligation:	
Beginning of year - July 1	<u>349,812</u>
End of year - June 30	<u><u>\$ 441,825</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 127,246	27.69%	\$ 441,825
2012	123,809	45.08%	349,812
2011	135,939	58.85%	281,812

Funding Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$1,157,832, and the unfunded actuarial accrued liability (UAAL) was \$1,157,832. The covered payroll (annual payroll of active employees covered by the plan) was \$2,998,021, and the ratio of the UAAL to the covered payroll was 38.62 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, 2013

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, 2013 were \$759,691, which consisted of \$570,480 from the City and \$189,211 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, 2013**

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:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>	<u>Firefighters</u>
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 8.55% of annual covered payroll. For the current year, the City contributed \$508,800, or 4.39% 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, 2013

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	\$ 991,824
Valuation discount rate	4.00%
Interest on net OPEB obligation	88,171
Adjustments to annual required contribution	<u>(84,231)</u>
Annual OPEB cost (expense)	995,764
Contributions made	<u>(508,800)</u>
Increase (decrease) in net OPEB obligation	486,964
Net OPEB obligation:	
Beginning of year - July 1	<u>2,204,281</u>
End of year - June 30	<u>\$ 2,691,245</u>

The City's net OPEB obligation is comprised of \$2,096,065 and \$595,178 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 2013 were as follows:

Year Ended June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 995,764	51.10%	\$ 2,691,245
2012	945,707	45.44%	2,204,281
2011	909,333	49.40%	1,688,393

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, 2013

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, 2013

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, 2013, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$1,395 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 a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$33,300 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, 2013. 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 2013 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, 2013

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, 2013, 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, 2013**

C. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2013 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>960,000</u>
Total		<u>\$ 1,492,167</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, 2013 was \$960,000.

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	\$ 535,000
General Fund	Gas Fund	1,925,000
Economic Development Commission Fund	Gas Fund	100,000
Capital Projects Fund	General Fund	270,850
Economic Development Commission Fund	General Fund	44,250
Economic Development Commission Fund	Economic Development Reserve Fund	<u>1,500,000</u>
Total		<u>\$ 4,375,100</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 were \$15,711,492.

The City is a member of the Isothermal Planning and Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and twenty-nine municipalities comprise the Commission. Participating governments established the Commission to coordinate various funding from Federal and State agencies and to provide assistance for specific projects. Each participating unit of government appoints one member to the Commission's governing board. The City paid membership fees of approximately \$5,700 to the Commission during the year ended June 30, 2013.

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 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, 2013, the City reported revenues and expenditures for the payments of \$33,300 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, 2013. 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.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.





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, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit		Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
		B					
12/31/2012	\$ -	\$ 1,157,832		\$ 1,157,832	0.00%	\$ 2,998,021	38.62%
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 (ARC)	Amount Contributed By Employer	Percentage of ARC Contributed
2013	\$ 131,524	\$ 35,233	26.79%
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%

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	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 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%

CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS - RETIREE HEALTH PLAN
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2013

 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit		Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
		B					
12/31/2011	\$ -	\$ 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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Current year	\$ 7,362,000	\$ 7,378,471	\$ 16,471	\$ 7,339,519
Prior years	240,000	206,814	(33,186)	230,614
Tax discounts	(15,000)	(16,462)	(1,462)	(15,669)
Interest and penalties	50,000	43,289	(6,711)	52,217
Total	<u>7,637,000</u>	<u>7,612,112</u>	<u>(24,888)</u>	<u>7,606,681</u>
Other Taxes and Licenses:				
Local option sales tax	2,706,000	2,862,052	156,052	2,865,854
Privilege licenses	<u>7,500</u>	<u>680</u>	<u>(6,820)</u>	<u>255</u>
Total	<u>2,713,500</u>	<u>2,862,732</u>	<u>149,232</u>	<u>2,866,109</u>
Unrestricted Intergovernmental Revenues:				
Payment in lieu of taxes	8,700	9,582	882	18,860
Utility franchise tax	1,540,000	1,571,869	31,869	1,559,642
Beer and wine tax	93,000	2,250	(90,750)	89,706
ABC revenue	<u>55,000</u>	<u>176,896</u>	<u>121,896</u>	<u>64,766</u>
Total	<u>1,696,700</u>	<u>1,760,597</u>	<u>63,897</u>	<u>1,732,974</u>
Restricted Intergovernmental Revenues:				
Powell Bill allocation	591,824	613,850	22,026	600,166
Local occupancy tax	175,000	138,506	(36,494)	140,591
Federal and State grants	145,000	242,253	97,253	340,252
ABC Law enforcement revenue	7,500	20,583	13,083	8,268
Rental vehicle gross receivable tax	<u>25,000</u>	<u>30,821</u>	<u>5,821</u>	<u>31,868</u>
Total	<u>944,324</u>	<u>1,046,013</u>	<u>101,689</u>	<u>1,121,145</u>
Permits and Fees:				
Building permits/inspection fees	150,000	96,377	(53,623)	126,649
Other permits	40,200	52,380	12,180	46,630
Filing fees	-	690	690	1,114
Total	<u>190,200</u>	<u>149,447</u>	<u>(40,753)</u>	<u>174,393</u>
Sales and Services:				
Parking penalties	-	50	50	25
Court costs and fees	11,000	6,530	(4,470)	9,785
Cemetery revenue	-	5,042	5,042	15,735
Golf cart rentals	71,500	64,409	(7,091)	71,720
Recreation revenue	260,350	262,646	2,296	222,988
Garbage disposal fees	684,000	693,202	9,202	692,362

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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Recycling fees	260,000	260,730	730	133,418
Utility late fees	200,000	200,200	200	168,350
Airport fuel sales	320,000	315,238	(4,762)	362,652
Other rent	14,500	13,987	(513)	16,485
Total	<u>1,821,350</u>	<u>1,822,034</u>	<u>684</u>	<u>1,693,520</u>
Investment Earnings	<u>58,500</u>	<u>(105,692)</u>	<u>(164,192)</u>	<u>160,662</u>
Miscellaneous:				
Student resource officer	114,000	114,000	-	114,000
Public nuisance	55,000	65,915	10,915	63,054
Donations	-	202	202	-
Other	17,100	79,117	62,017	83,262
Total	<u>186,100</u>	<u>259,234</u>	<u>73,134</u>	<u>260,316</u>
Total revenues	<u>15,247,674</u>	<u>15,406,477</u>	<u>158,803</u>	<u>15,615,800</u>
Expenditures:				
General Government:				
Mayor and council	44,650	42,014	2,636	45,738
Administration and general	180,405	162,175	18,230	196,166
Finance	318,342	309,059	9,283	275,159
Purchasing	27,360	33,908	(6,548)	14,040
Legal	12,700	12,630	70	9,529
Human resources	261,270	202,850	58,420	229,817
City hall	124,820	109,973	14,847	186,632
Building and zoning	292,640	256,064	36,576	288,390
Community development	371,760	370,515	1,245	353,429
Special appropriations	735,388	570,810	164,578	446,750
Total general government	<u>2,369,335</u>	<u>2,069,998</u>	<u>299,337</u>	<u>2,045,650</u>
Public Safety:				
Police department	5,664,554	5,657,098	7,456	5,759,180
Fire department	<u>3,383,216</u>	<u>3,334,419</u>	<u>48,797</u>	<u>3,253,207</u>
Total public safety	<u>9,047,770</u>	<u>8,991,517</u>	<u>56,253</u>	<u>9,012,387</u>
Transportation:				
Streets and highways	1,007,683	1,000,965	6,718	916,449
Street maintenance and repairs - Powell Bill	250,130	221,934	28,196	338,599
Street construction and improvement - Powell Bill	580,146	293,007	287,139	213,325
Garage	416,940	408,129	8,811	389,097
Airport	<u>481,160</u>	<u>444,414</u>	<u>36,746</u>	<u>468,194</u>
Total transportation	<u>2,736,059</u>	<u>2,368,449</u>	<u>367,610</u>	<u>2,325,664</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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Environmental Protection:				
Sanitation	1,429,240	1,377,542	51,698	1,549,347
Recycling	259,900	257,690	2,210	375,655
Total environmental protection	<u>1,689,140</u>	<u>1,635,232</u>	<u>53,908</u>	<u>1,925,002</u>
Cultural and Recreational:				
Parks and recreation	<u>1,991,619</u>	<u>1,944,162</u>	<u>47,457</u>	<u>1,978,618</u>
Debt Service:				
Principal retirement	821,716	821,675	41	692,284
Interest	79,490	79,403	87	89,280
Total debt service	<u>901,206</u>	<u>901,078</u>	<u>128</u>	<u>781,564</u>
Total expenditures	<u>18,735,129</u>	<u>17,910,436</u>	<u>824,693</u>	<u>18,068,885</u>
Revenue over (under) expenditures	<u>(3,487,455)</u>	<u>(2,503,959)</u>	<u>983,496</u>	<u>(2,453,085)</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,460,000	2,460,000	-	2,334,350
Transfers (to) other funds	(315,150)	(315,100)	50	(932,921)
Long-term debt issued	683,850	658,126	(25,724)	811,838
Proceeds from the sale of capital assets	25,000	21,456	(3,544)	21,175
Appropriated fund balance	<u>633,755</u>	<u>-</u>	<u>(633,755)</u>	<u>-</u>
Total other financing sources (uses)	<u>3,487,455</u>	<u>2,824,482</u>	<u>(662,973)</u>	<u>2,234,442</u>
Net change in fund balance	<u>\$ -</u>	<u>320,523</u>	<u>\$ 320,523</u>	<u>(218,643)</u>
Fund Balance:				
Beginning of year - July 1		<u>7,701,814</u>		<u>7,920,457</u>
End of year - June 30		<u>\$ 8,022,337</u>		<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 Project Funds

- **Capital Projects Fund** – This fund is used to account for the acquisition or construction of various City assets.
- **Economic Development Project Fund** – This fund is used to account for City projects that support economic development efforts for the area.
- **Economic Development Reserve Fund** – This fund is used to account for financing transactions related to economic development efforts.

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, 2013

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total
Assets:				
Cash and cash equivalents	\$ 733,058	\$ 2,067,750	\$ -	\$ 2,800,808
Receivables, net:				
Taxes	4,538	-	-	4,538
Accounts	500	-	11,294	11,794
Interest	527	1,381	-	1,908
Loans	73,523	-	-	73,523
Due from other governments	666	252,277	-	252,943
Cash and cash equivalents - restricted	-	-	627,670	627,670
Total assets	<u>\$ 812,812</u>	<u>\$ 2,321,408</u>	<u>\$ 638,964</u>	<u>\$ 3,773,184</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,860	\$ 13,968	\$ -	\$ 15,828
Due to other funds	-	470,131	-	470,131
Due to other governments	-	1,200	-	1,200
Total liabilities	<u>1,860</u>	<u>485,299</u>	<u>-</u>	<u>487,159</u>
Deferred Inflows of Resources:				
Taxes receivable	4,538	-	-	4,538
Other receivables	73,523	-	-	73,523
Total deferred inflows of resources	<u>78,061</u>	<u>-</u>	<u>-</u>	<u>78,061</u>
Fund Balances:				
Non-spendable:				
Perpetual	-	-	638,964	638,964
Restricted:				
Stabilization by State statute	1,693	253,658	-	255,351
Public safety	421,821	-	-	421,821
Assigned:				
Economic development	309,377	1,616,976	-	1,926,353
Unassigned	-	(34,525)	-	(34,525)
Total fund balances	<u>732,891</u>	<u>1,836,109</u>	<u>638,964</u>	<u>3,207,964</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 812,812</u>	<u>\$ 2,321,408</u>	<u>\$ 638,964</u>	<u>\$ 3,773,184</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, 2013**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Fund	Nonmajor Permanent Funds	Total
Revenues:				
Ad valorem taxes	\$ 109,180	\$ -	\$ -	\$ 109,180
Restricted intergovernmental	51,821	1,292,701	-	1,344,522
Investment earnings	(2,820)	(7,357)	410	(9,767)
Miscellaneous	7,500	133,197	-	140,697
Donations	-	-	61,980	61,980
Total revenues	<u>165,681</u>	<u>1,418,541</u>	<u>62,390</u>	<u>1,646,612</u>
Expenditures:				
General government	-	-	7,333	7,333
Public safety	100,877	-	-	100,877
Economic development	-	1,402,156	-	1,402,156
Housing and redevelopment	<u>221,476</u>	<u>-</u>	<u>-</u>	<u>221,476</u>
Total expenditures	<u>322,353</u>	<u>1,402,156</u>	<u>7,333</u>	<u>1,731,842</u>
Revenues over (under) expenditures	<u>(156,672)</u>	<u>16,385</u>	<u>55,057</u>	<u>(85,230)</u>
Other Financing Sources (Uses):				
Transfers from other funds	144,250	1,770,850	-	1,915,100
Transfers (to) other funds	-	(1,500,000)	-	(1,500,000)
Proceeds from sale of assets	<u>-</u>	<u>1,699,475</u>	<u>-</u>	<u>1,699,475</u>
Total other financing sources (uses)	<u>144,250</u>	<u>1,970,325</u>	<u>-</u>	<u>2,114,575</u>
Net change in fund balances	(12,422)	1,986,710	55,057	2,029,345
Fund Balances:				
Beginning of year - July 1	<u>745,313</u>	<u>(150,601)</u>	<u>583,907</u>	<u>1,178,619</u>
End of year - June 30	<u>\$ 732,891</u>	<u>\$ 1,836,109</u>	<u>\$ 638,964</u>	<u>\$ 3,207,964</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	Emergency Telephone System Fund	Economic Development Commission Fund	Total Nonmajor Special Revenue Funds
Assets:			
Cash and cash equivalents	\$ 422,958	\$ 310,100	\$ 733,058
Receivables, net:			
Taxes	-	4,538	4,538
Accounts	-	500	500
Interest	-	527	527
Loans	-	73,523	73,523
Due from other governments	-	666	666
Total assets	<u>\$ 422,958</u>	<u>\$ 389,854</u>	<u>\$ 812,812</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	<u>\$ 1,137</u>	<u>\$ 723</u>	<u>\$ 1,860</u>
Total liabilities	<u>1,137</u>	<u>723</u>	<u>1,860</u>
Deferred Inflows of Resources:			
Taxes receivable	-	4,538	4,538
Other receivables	-	73,523	73,523
Total deferred inflows of resources	<u>-</u>	<u>78,061</u>	<u>78,061</u>
Fund Balances:			
Restricted:			
Stabilization by state statute	-	1,693	1,693
Public safety	421,821	-	421,821
Assigned:			
Economic development	-	309,377	309,377
Total fund balances	<u>421,821</u>	<u>311,070</u>	<u>732,891</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 422,958</u>	<u>\$ 389,854</u>	<u>\$ 812,812</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, 2013**

	Emergency Telephone System Fund	Economic Development Commission Fund	Total Nonmajor Special Revenue Funds
Revenues:			
Ad valorem taxes	\$ -	\$ 109,180	\$ 109,180
Restricted intergovernmental	42,842	8,979	51,821
Investment earnings	-	(2,820)	(2,820)
Miscellaneous income	-	7,500	7,500
Total revenues	<u>42,842</u>	<u>122,839</u>	<u>165,681</u>
Expenditures:			
Public safety	100,877	-	100,877
Housing and redevelopment	-	221,476	221,476
Total expenditures	<u>100,877</u>	<u>221,476</u>	<u>322,353</u>
Revenues over (under) expenditures	<u>(58,035)</u>	<u>(98,637)</u>	<u>(156,672)</u>
Other Financing Sources (Uses):			
Transfers from other funds	-	144,250	144,250
Total other financing sources (uses)	<u>-</u>	<u>144,250</u>	<u>144,250</u>
Net change in fund balances	(58,035)	45,613	(12,422)
Fund Balances:			
Beginning of year - July 1	<u>479,856</u>	<u>265,457</u>	<u>745,313</u>
End of year - June 30	<u>\$ 421,821</u>	<u>\$ 311,070</u>	<u>\$ 732,891</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, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental	\$ 47,808	\$ 42,842	\$ (4,966)
Total revenues	<u>47,808</u>	<u>42,842</u>	<u>(4,966)</u>
Expenditures:			
Public safety:			
Software	30,868	31,566	(698)
Hardware	1,000	2,014	(1,014)
Phone system	200,158	67,297	132,861
Total expenditures	<u>232,026</u>	<u>100,877</u>	<u>131,149</u>
Revenues over (under) expenditures	<u>(184,218)</u>	<u>(58,035)</u>	<u>126,183</u>
Other Financing Sources (Uses):			
Appropriated fund balance	184,218	-	(184,218)
Total other financing sources (uses)	<u>184,218</u>	<u>-</u>	<u>(184,218)</u>
Net change in fund balance	<u>\$ -</u>	<u>(58,035)</u>	<u>\$ (58,035)</u>
Fund Balance:			
Beginning of year - July 1		<u>479,856</u>	
End of year - June 30		<u>\$ 421,821</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, 2013

	2013		
	Budget	Actual	Variance Over/Under
Revenues:			
Ad valorem taxes	\$ 109,250	\$ 109,180	\$ (70)
Restricted intergovernmental	327,447	8,979	(318,468)
Investment earnings	3,000	(2,820)	(5,820)
Miscellaneous income	-	7,500	7,500
Total revenues	<u>439,697</u>	<u>122,839</u>	<u>(316,858)</u>
Expenditures:			
Housing and redevelopment	<u>583,947</u>	<u>221,476</u>	<u>362,471</u>
Revenues over (under) expenditures	<u>(144,250)</u>	<u>(98,637)</u>	<u>45,613</u>
Other Financing Sources (Uses):			
Transfers from other funds	<u>144,250</u>	<u>144,250</u>	<u>-</u>
Total other financing sources (uses)	<u>144,250</u>	<u>144,250</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>45,613</u>	<u>\$ 45,613</u>
Fund Balance:			
Beginning of year - July 1		<u>265,457</u>	
End of year - June 30		<u>\$ 311,070</u>	

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2013

	Capital Projects Fund	Economic Development Project Fund	Economic Development Reserve Fund	Total Nonmajor Capital Project Funds
Assets:				
Cash and cash equivalents	\$ 445,454	\$ 1,422,821	\$ 199,475	\$ 2,067,750
Receivables, net	1,381	-	-	1,381
Due from other governments	<u>159,832</u>	<u>92,445</u>	-	<u>252,277</u>
Total assets	<u>\$ 606,667</u>	<u>\$ 1,515,266</u>	<u>\$ 199,475</u>	<u>\$ 2,321,408</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 8,648	\$ 5,320	\$ -	\$ 13,968
Due to other funds	470,131	-	-	470,131
Due to other governments	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>1,200</u>
Total liabilities	<u>479,979</u>	<u>5,320</u>	<u>-</u>	<u>485,299</u>
Fund Balances:				
Restricted:				
Stabilization by state statute	161,213	92,445	-	253,658
Assigned:				
Economic development	-	1,417,501	199,475	1,616,976
Unassigned	<u>(34,525)</u>	<u>-</u>	<u>-</u>	<u>(34,525)</u>
Total fund balances	<u>126,688</u>	<u>1,509,946</u>	<u>199,475</u>	<u>1,836,109</u>
Total liabilities and fund balances	<u>\$ 606,667</u>	<u>\$ 1,515,266</u>	<u>\$ 199,475</u>	<u>\$ 2,321,408</u>

CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013**

	Capital Projects Fund	Economic Development Project Fund	Economic Development Reserve Fund	Total Nonmajor Capital Project Funds
Revenues:				
Restricted intergovernmental	\$ 1,200,278	\$ 92,423	\$ -	\$ 1,292,701
Investment earnings	(7,357)	-	-	(7,357)
Miscellaneous income	-	133,197	-	133,197
Total revenues	<u>1,192,921</u>	<u>225,620</u>	<u>-</u>	<u>1,418,541</u>
Expenditures:				
Economic development	<u>1,186,482</u>	<u>215,674</u>	<u>-</u>	<u>1,402,156</u>
Total expenditures	<u>1,186,482</u>	<u>215,674</u>	<u>-</u>	<u>1,402,156</u>
Revenues over (under) expenditures	<u>6,439</u>	<u>9,946</u>	<u>-</u>	<u>16,385</u>
Other Financing Sources (Uses):				
Transfers from other funds	270,850	1,500,000	-	1,770,850
Transfers to other funds	-	-	(1,500,000)	(1,500,000)
Proceeds from sale of assets	-	-	1,699,475	1,699,475
Total other financing sources (uses)	<u>270,850</u>	<u>1,500,000</u>	<u>199,475</u>	<u>1,970,325</u>
Net change in fund balances	277,289	1,509,946	199,475	1,986,710
Fund Balances:				
Beginning of year - July 1	<u>(150,601)</u>	<u>-</u>	<u>-</u>	<u>(150,601)</u>
End of year - June 30	<u>\$ 126,688</u>	<u>\$ 1,509,946</u>	<u>\$ 199,475</u>	<u>\$ 1,836,109</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, 2013

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Airport improvements grants	\$ 3,445,003	\$ 3,163,655	\$ 64,060	\$ 3,227,715
2010 Airport Grant	158,333	2,700	154,161	156,861
Airport apron pavement rehab	712,499	700,027	(241)	699,786
Weed and Seed Grant	774,856	716,326	-	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	848	39,848
Safe Routes to Schools '11	173,875	-	-	-
Trail Grant	75,000	25,000	50,000	75,000
Airport Grant 2011	166,667	-	48,791	48,791
Rural Center building reuse	799,500	-	799,500	799,500
Airport land easement	727,650	-	83,159	83,159
Investment earnings	-	76,160	(7,357)	68,803
Total revenues	<u>8,146,083</u>	<u>5,694,561</u>	<u>1,192,921</u>	<u>6,887,482</u>
Expenditures:				
Airport improvements	4,320,704	4,257,170	44,718	4,301,888
2010 Airport Grant	166,667	3,000	162,116	165,116
Airport apron pavement rehab	749,999	736,619	-	736,619
Weed and Seed Grant	803,806	657,971	-	657,971
Fit community program	56,000	29,722	-	29,722
Destination Cleveland County	370,350	379,059	519	379,578
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	1,293,757	-	1,293,757
Ballistic recovery system	39,000	39,000	-	39,000
Safe Routes to Schools '11	173,875	15,188	1,184	16,372
Carolina Thread Trail	75,000	-	19,960	19,960
Airport Grant 2011	166,667	-	51,449	51,449
Rural Center building reuse	819,000	-	819,000	819,000
Airport land easement	808,500	-	87,536	87,536
Total expenditures	<u>11,638,499</u>	<u>9,166,983</u>	<u>1,186,482</u>	<u>10,353,465</u>
Revenues over (under) expenditures	<u>(3,492,416)</u>	<u>(3,472,422)</u>	<u>6,439</u>	<u>(3,465,983)</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,082,416	2,071,821	270,850	2,342,671
Long-term debt issued	<u>1,410,000</u>	<u>1,250,000</u>	-	<u>1,250,000</u>
Total other financing sources (uses)	<u>3,492,416</u>	<u>3,321,821</u>	<u>270,850</u>	<u>3,592,671</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ (150,601)</u>	<u>\$ 277,289</u>	<u>\$ 126,688</u>

CITY OF SHELBY, NORTH CAROLINA

ECONOMIC DEVELOPMENT PROJECT - NONMAJOR CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
County grant	\$ 1,500,000	\$ -	\$ 92,423	\$ 92,423
Miscellaneous	<u>-</u>	<u>-</u>	<u>133,197</u>	<u>133,197</u>
Total revenues	<u>1,500,000</u>	<u>-</u>	<u>225,620</u>	<u>225,620</u>
Expenditures:				
Shelby #2	<u>3,000,000</u>	<u>-</u>	<u>215,674</u>	<u>215,674</u>
Revenues over (under) expenditures	<u>(1,500,000)</u>	<u>-</u>	<u>9,946</u>	<u>9,946</u>
Other Financing Sources (Uses):				
Transfers from other funds	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total other financing sources (uses)	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,509,946</u>	<u>\$ 1,509,946</u>

CITY OF SHELBY, NORTH CAROLINA

ECONOMIC DEVELOPMENT RESERVE - NONMAJOR CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Other Financing Sources (Uses):				
Transfers to other funds	\$ (1,500,000)	\$ -	\$ (1,500,000)	\$ (1,500,000)
Proceeds from sale of assets	<u>1,500,000</u>	<u>-</u>	<u>1,699,475</u>	<u>1,699,475</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>199,475</u>	<u>199,475</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,475</u>	<u>\$ 199,475</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	<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>326,969</u>	<u>300,701</u>	<u>627,670</u>
Total assets	<u>\$ 338,263</u>	<u>\$ 300,701</u>	<u>\$ 638,964</u>
Fund Balances:			
Non-spendable:			
Perpetual	<u>\$ 338,263</u>	<u>\$ 300,701</u>	<u>\$ 638,964</u>
Total fund balances	<u>\$ 338,263</u>	<u>\$ 300,701</u>	<u>\$ 638,964</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, 2013**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
Revenues:			
Investment earnings	\$ 410	\$ -	\$ 410
Donations	<u>2,160</u>	<u>59,820</u>	<u>61,980</u>
Total revenues	<u>2,570</u>	<u>59,820</u>	<u>62,390</u>
Expenditures:			
General government	<u>7,333</u>	<u>-</u>	<u>7,333</u>
Total expenditures	<u>7,333</u>	<u>-</u>	<u>7,333</u>
Net change in fund balances	(4,763)	59,820	55,057
Fund Balances:			
Beginning of year - July 1	<u>343,026</u>	<u>240,881</u>	<u>583,907</u>
End of year - June 30	<u>\$ 338,263</u>	<u>\$ 300,701</u>	<u>\$ 638,964</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 3,885,403	\$ 4,061,160	\$ 175,757
Water taps	35,000	34,945	(55)
Water cutoffs	2,000	1,440	(560)
Other	118,850	162,227	43,377
Total operating revenues	<u>4,041,253</u>	<u>4,259,772</u>	<u>218,519</u>
Non-operating revenues:			
Grant - refund of interest expense	105,153	105,153	-
Investment earnings	12,000	(30,558)	(42,558)
Total non-operating revenues	<u>117,153</u>	<u>74,595</u>	<u>(42,558)</u>
Total revenues	<u>4,158,406</u>	<u>4,334,367</u>	<u>175,961</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	698,490	674,290	24,200
Operations	639,290	625,289	14,001
Maintenance and repairs	162,123	119,089	43,034
Treatment plant	1,322,838	1,150,163	172,675
Capital outlay	319,764	200,503	119,261
Total costs of sales and services	<u>3,142,505</u>	<u>2,769,334</u>	<u>373,171</u>
Debt service:			
Principal retirement	673,389	581,358	92,031
Interest	501,018	453,888	47,130
Total debt service	<u>1,174,407</u>	<u>1,035,246</u>	<u>139,161</u>
Total operating expenditures	<u>4,316,912</u>	<u>3,804,580</u>	<u>512,332</u>
Revenue over (under) expenditures	<u>(158,506)</u>	<u>529,787</u>	<u>688,293</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers (to) other funds	(253,031)	(253,031)	-
Long-term debt issued	95,000	106,979	11,979
Refunding bonds issued	4,029,784	4,029,784	-
Payment to bonded escrow agent	(3,752,019)	(3,752,019)	-
Appropriated fund balance	38,772	-	(38,772)
Total other financing sources (uses)	<u>158,506</u>	<u>131,713</u>	<u>(26,793)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>661,500</u>	<u>\$ 661,500</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Reconciling items:			
Debt principal		581,358	
Payment to bonded escrow agent		3,752,019	
Long-term debt issued		(106,979)	
Refunding bonds issued		(4,029,784)	
Capital outlay		200,503	
Decrease (increase) in compensated absences		4,913	
Decrease (increase) in other post-employment benefits		(25,933)	
Depreciation		(807,377)	
Water capital projects fund activity		19,087	
Water capital projects fund intrafund transfer		<u>253,031</u>	
Total reconciling items		<u>(159,162)</u>	
Change in net position		<u>\$ 502,338</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, 2013

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Capital Grants:				
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	79,461	-	79,461
Project #828 - Baldor Water Metering Vault	17,835	-	16,617	16,617
Project #830 - Atree Washburn Rd Water Line	419,900	-	-	-
Investment earnings	-	66,986	2,470	69,456
Total revenues	<u>673,432</u>	<u>271,073</u>	<u>19,087</u>	<u>290,160</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	159,533	-	159,533
Project #826 - Water Treatment Plant FY11	515,000	447,513	3,311	450,824
Project #827 - Keeter Stadium Water Line	119,133	100,304	-	100,304
Project #828 - Baldor Water Metering Vault	34,379	2,500	29,169	31,669
Project #829 - Plato Lee Water Line Relocation	105,700	5,700	-	5,700
Project #830 Artee Washburn Rd Water Line	419,900	-	14,785	14,785
Total expenditures	<u>7,512,562</u>	<u>6,680,333</u>	<u>47,265</u>	<u>6,727,598</u>
Revenues over (under) expenditures	<u>(6,839,130)</u>	<u>(6,409,260)</u>	<u>(28,178)</u>	<u>(6,437,438)</u>
Other Financing Sources (Uses):				
Transfers from other funds	299,244	152,244	253,031	405,275
Transfers to other funds	-	-	-	-
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>5,625,813</u>	<u>253,031</u>	<u>5,878,844</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (783,447)</u>	<u>\$ 224,853</u>	<u>\$ (558,594)</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 4,566,250	\$ 4,714,248	\$ 147,998
Other fees	50,000	36,527	(13,473)
Other operating revenues	<u>76,000</u>	<u>175,805</u>	<u>99,805</u>
Total operating revenue	<u>4,692,250</u>	<u>4,926,580</u>	<u>234,330</u>
Non-operating revenues:			
Grant - refund of interest expense	42,988	42,988	-
Investment earnings	<u>7,500</u>	<u>(14,127)</u>	<u>(21,627)</u>
Total non-operating revenues	<u>50,488</u>	<u>28,861</u>	<u>(21,627)</u>
Total revenues	<u>4,742,738</u>	<u>4,955,441</u>	<u>212,703</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	634,655	660,547	(25,892)
Line operation	411,110	420,212	(9,102)
Maintenance and repairs	373,885	290,541	83,344
Treatment plant	1,290,334	1,203,517	86,817
Capital outlay	<u>748,559</u>	<u>544,097</u>	<u>204,462</u>
Total costs of sales and services	<u>3,458,543</u>	<u>3,118,914</u>	<u>339,629</u>
Debt service:			
Principal retirement	1,260,735	2,597,031	(1,336,296)
Interest	<u>341,774</u>	<u>367,130</u>	<u>(25,356)</u>
Total debt service	<u>1,602,509</u>	<u>2,964,161</u>	<u>(1,361,652)</u>
Total operating expenditures	<u>5,061,052</u>	<u>6,083,075</u>	<u>(1,022,023)</u>
Revenues over (under) expenditures	<u>(318,314)</u>	<u>(1,127,634)</u>	<u>(809,320)</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers (to) other funds	(234,300)	(234,300)	-
Long-term debt issued	144,000	155,375	11,375
Refunded debt issued	5,369,145	5,369,145	-
Payment to bond escrow agent	(3,877,123)	(3,877,123)	-
Appropriated fund balance	<u>254,456</u>	<u>-</u>	<u>(254,456)</u>
Total other financing sources (uses)	<u>1,656,178</u>	<u>1,413,097</u>	<u>(243,081)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ 1,337,864</u>	<u>285,463</u>	<u>\$ (1,052,401)</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Long-term debt issued		(5,524,520)	
Payment to bonded escrow agent		3,877,123	
Debt principal		2,597,031	
Capital outlay		544,097	
(Increase) decrease in compensated absences		2,487	
(Increase) decrease in other post-employment benefits		(27,959)	
Depreciation		(968,226)	
Net sewer capital projects fund activity		<u>329,903</u>	
Total reconciling items		<u>829,936</u>	
Change in net position		<u>\$ 1,115,399</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, 2013

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #843 - Westside sewer - Rural Center Grant	\$ 3,890,000	\$ 3,448,622	\$ -	\$ 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	750,000	-	750,000
Project #859 - Clearwater Sewer - rural center	41,400	38,608	-	38,608
Project #860 - Keeter Stadium sewer line	58,831	51,907	-	51,907
Project #861 - Artee sewer line extension project	172,400	-	-	-
Project #863 - Baldor sewer pump station project	119,355	-	94,572	94,572
Investment earnings	-	70,024	1,031	71,055
Total revenues	<u>6,195,986</u>	<u>5,115,989</u>	<u>95,603</u>	<u>5,211,592</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	408,040	-	408,040
Project #846 - Shelby Middle School sewer project	422,600	413,465	-	413,465
Project #857 - Parks sewer project	-	65,664	-	65,664
Project #858 - Chestnut street CDBG sewer project	961,600	951,587	-	951,587
Project #859 - Clearwater sewer project	82,750	78,736	-	78,736
Project #860 - Keeter Stadium sewer line	79,422	82,291	-	82,291
Project #862 - Mall area lift station project	1,014,750	63,185	205,187	268,372
Project #863 - Baldor sewer pump station project	240,000	14,740	166,186	180,926
Project #864 - Artee Road Sewer Line Relocation	172,400	-	7,030	7,030
Project #865 - First Broad Wastewater Treatment Plant Improvements	8,550,660	-	115,977	115,977
Project #866 - Wastewater Outfall Line Improvements	3,398,640	-	105,272	105,272
Total expenditures	<u>25,400,722</u>	<u>11,231,845</u>	<u>599,652</u>	<u>11,831,497</u>
Revenues over (under) expenditures	<u>(19,204,736)</u>	<u>(6,115,856)</u>	<u>(504,049)</u>	<u>(6,619,905)</u>
Other Financing Sources (Uses):				
Transfers from other funds	13,475,195	238,645	234,300	472,945
Long-term debt issued	4,546,600	5,182,427	-	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>19,204,736</u>	<u>6,421,072</u>	<u>234,300</u>	<u>6,655,372</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 305,216</u>	<u>\$ (269,749)</u>	<u>\$ 35,467</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 19,946,880	\$ 20,022,264	\$ 75,384
Other fees	225,000	-	(225,000)
Other operating revenues	<u>169,850</u>	<u>236,377</u>	<u>66,527</u>
Total operating revenue	<u>20,341,730</u>	<u>20,258,641</u>	<u>(83,089)</u>
Non-Operating Revenues:			
Investment earnings	<u>25,500</u>	<u>(38,002)</u>	<u>(63,502)</u>
Total non-operating revenues	<u>25,500</u>	<u>(38,002)</u>	<u>(63,502)</u>
Total revenues	<u>20,367,230</u>	<u>20,220,639</u>	<u>(146,591)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	909,730	933,241	(23,511)
Line operation	17,999,954	17,480,816	519,138
Capital outlay	<u>511,581</u>	<u>336,349</u>	<u>175,232</u>
Total costs of sales and services	<u>19,421,265</u>	<u>18,750,406</u>	<u>670,859</u>
Debt service:			
Principal repayment	484,993	474,486	10,507
Interest and fees	<u>256,013</u>	<u>173,205</u>	<u>82,808</u>
Total debt service	<u>741,006</u>	<u>647,691</u>	<u>93,315</u>
Total expenditures	<u>20,162,271</u>	<u>19,398,097</u>	<u>764,174</u>
Revenues over (under) expenditures	<u>204,959</u>	<u>822,542</u>	<u>617,583</u>
Other Financing Sources (Uses):			
Transfers to other funds	(535,000)	(535,000)	-
Intrafund transfers	(590,000)	(590,000)	-
Long-term debt issued	3,985,109	3,985,109	-
Payment to bonded escrow agent	(3,730,469)	(3,730,469)	-
Appropriated fund balance	<u>665,401</u>	<u>-</u>	<u>(665,401)</u>
Total other financing sources (uses)	<u>(204,959)</u>	<u>(870,360)</u>	<u>(665,401)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(47,818)</u>	<u>\$ (47,818)</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, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		474,486	
Refunded debt issued		(3,985,109)	
Payment to bonded escrow agent		3,730,469	
Capital outlay		336,349	
(Increase) decrease in compensated absences		25,095	
Depreciation		(586,940)	
Electric Capital Projects Fund activity		29,606	
Electric Capital Projects Fund intrafund transfer		590,000	
Net Electric Reserve Fund activity		<u>(3,754)</u>	
Total reconciling items		<u>591,334</u>	
Change in net position		<u>\$ 543,516</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, 2013

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #859 - Cleveland County Contribution	\$ 2,353,000	\$ 2,267,633	\$ 13,248	\$ 2,280,881
Project #859 - Golden Leaf Grant	1,000,000	838,756	-	838,756
Project #859 - Commerce Grant	800,000	500,000	-	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	-	20,600	20,600
Investment earnings	-	119,295	(4,242)	115,053
Total revenues	<u>4,376,100</u>	<u>3,872,938</u>	<u>29,606</u>	<u>3,902,544</u>
Expenditures:				
Project #853 - Aerial mapping	523,550	471,443	-	471,443
Project #859 - Foothills Commerce Center	6,210,000	5,893,241	11,277	5,904,518
Project #860 - Dekalb street	39,100	-	-	-
Project #861 - Electric line extension	642,400	984,477	-	984,477
Project #862 - Solar farm electric line	320,000	284,215	-	284,215
Project #863 - Underground cable FY11	150,000	129,678	-	129,678
Project #864 - UOC Lighting Project	40,000	-	38,983	38,983
Project #865 - Artee Rd Electric Line Reloc	114,000	-	8,121	8,121
Project #866 - Country club Gardens Cable Project	476,000	-	94,205	94,205
Total expenditures	<u>8,515,050</u>	<u>7,763,054</u>	<u>152,586</u>	<u>7,915,640</u>
Revenues over (under) expenditures	<u>(4,138,950)</u>	<u>(3,890,116)</u>	<u>(122,980)</u>	<u>(4,013,096)</u>
Other Financing Sources (Uses):				
Transfers from other funds	3,305,400	1,294,457	590,000	1,884,457
Long-term debt issued	523,550	523,550	-	523,550
Appropriated fund balance	310,000	-	-	-
Total other financing sources (uses)	<u>4,138,950</u>	<u>1,818,007</u>	<u>590,000</u>	<u>2,408,007</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (2,072,109)</u>	<u>\$ 467,020</u>	<u>\$ (1,605,089)</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Non-operating revenues:			
Investment earnings	\$ -	\$ (3,754)	\$ (3,754)
Total non-operating revenues	<u>-</u>	<u>(3,754)</u>	<u>(3,754)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (3,754)</u>	<u>\$ (3,754)</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 12,633,881	\$ 13,016,458	\$ 382,577
Other fees	40,000	36,213	(3,787)
Other operating revenues	<u>65,500</u>	<u>89,816</u>	<u>24,316</u>
Total operating revenue	<u>12,739,381</u>	<u>13,142,487</u>	<u>403,106</u>
Non-Operating Revenues:			
Grant - refund of interest expense	12,202	12,202	-
Investment earnings	<u>22,500</u>	<u>(3,311)</u>	<u>(25,811)</u>
Total non-operating revenues	<u>34,702</u>	<u>8,891</u>	<u>(25,811)</u>
Total revenues	<u>12,774,083</u>	<u>13,151,378</u>	<u>377,295</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	1,233,570	1,216,597	16,973
Line operation	8,358,005	8,220,081	137,924
Capital outlay	<u>434,823</u>	<u>175,015</u>	<u>259,808</u>
Total costs of sales and services	<u>10,026,398</u>	<u>9,611,693</u>	<u>414,705</u>
Debt service:			
Principal repayment	854,901	853,316	1,585
Interest and fees	<u>172,107</u>	<u>230,450</u>	<u>(58,343)</u>
Total debt service	<u>1,027,008</u>	<u>1,083,766</u>	<u>(56,758)</u>
Total expenditures	<u>11,053,406</u>	<u>10,695,459</u>	<u>357,947</u>
Revenues over (under) expenditures	<u>1,720,677</u>	<u>2,455,919</u>	<u>735,242</u>
Other Financing Sources (Uses):			
Transfers to other funds	(2,025,000)	(2,025,000)	-
Intrafund transfers	(1,304,555)	(1,304,555)	-
Long-term debt issued	96,000	83,851	(12,149)
Refunding bonds issued	3,770,963	3,770,963	-
Payment to bonded escrow agent	(3,609,661)	(3,609,661)	-
Appropriated fund balance	<u>1,472,384</u>	<u>-</u>	<u>(1,472,384)</u>
Total other financing sources (uses)	<u>(1,599,869)</u>	<u>(3,084,402)</u>	<u>(1,484,533)</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, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ 120,808	(628,483)	\$ (749,291)
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		853,316	
Long-term debt issued		(83,851)	
Refunded debt issued		(3,770,963)	
Payment to bonded escrow agent		3,609,661	
Capital outlay		175,015	
(Increase) decrease in compensated absences		4,291	
(Increase) decrease in other post-employment benefits		(26,147)	
Depreciation		(604,988)	
Gas Capital Project Fund interest		(4,809)	
Gas Capital Project Fund intrafund transfer		604,555	
Gas Capital Reserve Fund intrafund transfer		<u>700,000</u>	
Total reconciling items		<u>1,456,080</u>	
Change in net position		<u>\$ 827,597</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, 2013

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #879 - Artee Washburn				
Road Gas line relocation	\$ 492,500	\$ -	\$ -	\$ -
Investment earnings	-	43,704	(4,809)	38,895
Total revenues	<u>492,500</u>	<u>43,704</u>	<u>(4,809)</u>	<u>38,895</u>
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	2,478	11,091
Project #879 - Artee/Washburn Road				
Gas line relocation	492,500	-	26,390	26,390
Project #880 - NC226 Polkville Road				
Gas line relocation	241,000	-	13,325	13,325
Project #881 - R2707AA US 74 Gas				
line relocation	<u>337,510</u>	-	<u>204,474</u>	<u>204,474</u>
Total expenditures	<u>1,993,010</u>	<u>821,559</u>	<u>246,667</u>	<u>1,068,226</u>
Revenues over (under) expenditures	<u>(1,500,510)</u>	<u>(777,855)</u>	<u>(251,476)</u>	<u>(1,029,331)</u>
Other Financing Sources (Uses):				
Transfers from other funds	690,510	112,000	604,555	716,555
Long-term debt issued	<u>810,000</u>	<u>635,161</u>	-	<u>635,161</u>
Total other financing sources (uses)	<u>1,500,510</u>	<u>747,161</u>	<u>604,555</u>	<u>1,351,716</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (30,694)</u>	<u>\$ 353,079</u>	<u>\$ 322,385</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND

GAS CAPITAL RESERVE FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers from other funds	\$ 250,000	\$ 700,000	\$ 450,000
Transfers to other funds	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
Total other financing sources (uses)	<u>-</u>	<u>700,000</u>	<u>700,000</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 700,000</u>	<u>\$ 700,000</u>

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, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 525,100	\$ 575,939	\$ 50,839
Other operating revenues	5,000	5,796	796
Total operating revenue	<u>530,100</u>	<u>581,735</u>	<u>51,635</u>
Non-Operating Revenues:			
Operating and capital grants	145,000	538,445	393,445
Investment earnings	27,000	(11,152)	(38,152)
Total non-operating revenues	<u>172,000</u>	<u>527,293</u>	<u>355,293</u>
Total revenues	<u>702,100</u>	<u>1,109,028</u>	<u>406,928</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	350,000	345,745	4,255
Operating and maintenance	647,910	637,998	9,912
Capital outlay	306,524	304,719	1,805
Total expenditures	<u>1,304,434</u>	<u>1,288,462</u>	<u>15,972</u>
Revenues over (under) expenditures	<u>(602,334)</u>	<u>(179,434)</u>	<u>422,900</u>
Other Financing Sources (Uses):			
Transfers to other funds	(239,750)	(239,750)	-
Appropriated fund balance	842,084	-	(842,084)
Total other financing sources (uses)	<u>602,334</u>	<u>(239,750)</u>	<u>(842,084)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(419,184)</u>	<u>\$ (419,184)</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Capital outlay		304,719	
Decrease (increase) in compensated absences		7,388	
Decrease (increase) in other post-employment benefits		(10,740)	
Intrafund transfer		239,750	
Depreciation		<u>(207,532)</u>	
Total reconciling items		<u>333,585</u>	
Change in net position		<u>\$ (85,599)</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, 2013

	<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>24,898</u>	<u>-</u>	<u>24,898</u>
Revenues over (under) expenditures	<u>(239,750)</u>	<u>(24,898)</u>	<u>-</u>	<u>(24,898)</u>
Other Financing Sources (Uses):				
Transfers from other funds	<u>239,750</u>	<u>-</u>	<u>239,750</u>	<u>239,750</u>
Total other financing sources (uses)	<u>239,750</u>	<u>-</u>	<u>239,750</u>	<u>239,750</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (24,898)</u>	<u>\$ 239,750</u>	<u>\$ 214,852</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, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 7,758,657	\$ 7,485,384	\$ 273,273
2011-2012	228,248	-	180,164	48,084
2010-2011	51,635	-	17,881	33,754
2009-2010	29,868	-	4,729	25,139
2008-2009	20,606	-	2,899	17,707
2007-2008	17,605	-	2,131	15,474
2006-2007	17,321	-	1,307	16,014
2005-2006	17,237	-	1,737	15,500
2004-2005	13,982	-	1,432	12,550
2003-2004	13,913	-	1,072	12,841
2002-2003	15,477	-	15,477	-
Total	<u>\$ 425,892</u>	<u>\$ 7,758,657</u>	<u>\$ 7,714,213</u>	470,336
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(216,000)</u>
Ad valorem taxes receivable, net				<u>\$ 254,336</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 7,612,112
Ad valorem taxes - Special Revenue Fund				109,180
Interest and penalties collected				(45,779)
Discounts allowed				17,220
Miscellaneous adjustments				6,003
Arrears written off for tax year 2002-2003 per Statute of Limitations				<u>15,477</u>
Total collections and credits				<u>\$ 7,714,213</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, 2013

	<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	\$ 1,683,634,483	\$ 0.435	\$ 7,323,810	\$ 6,793,927	\$ 529,883
Municipal service district taxed at current year's rate	<u>48,975,878</u>	0.655	<u>320,792</u>	<u>303,453</u>	<u>17,339</u>
Total	<u>1,732,610,361</u>		<u>7,644,602</u>	<u>7,097,380</u>	<u>547,222</u>
Discoveries:					
Property taxed at current year's rate	36,527,126	0.435	158,893	157,641	1,252
Municipal service district taxed at current year's rate	<u>58,015</u>	0.655	<u>380</u>	<u>380</u>	<u>-</u>
Total	<u>36,585,141</u>		<u>159,273</u>	<u>158,021</u>	<u>1,252</u>
Abatements:					
Property taxed at current year's rate	10,183,908	0.435	44,300	30,531	13,769
Municipal service district taxed at current year's rate	<u>140,153</u>	0.655	<u>918</u>	<u>461</u>	<u>457</u>
Total	<u>10,324,061</u>		<u>45,218</u>	<u>30,992</u>	<u>14,226</u>
Total property valuation	<u>\$ 1,758,871,441</u>				
Net Levy			7,758,657	7,224,409	534,248
Uncollected taxes at June 30, 2013			<u>273,273</u>	<u>197,532</u>	<u>75,741</u>
Current Year's Taxes Collected			<u>\$ 7,485,384</u>	<u>\$ 7,026,877</u>	<u>\$ 458,507</u>
Current Levy Collection Percentage			<u>96.48%</u>	<u>97.27%</u>	<u>85.82%</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, 2013

	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	\$ 1,683,634,483	\$ 0.435	\$ 7,323,810	\$ 6,793,927	\$ 529,883
Discoveries:					
Property taxed at current year's rate	36,527,126	0.435	158,893	157,641	1,252
Abatements:					
Property taxed at current year's rate	<u>10,183,908</u>	0.435	<u>44,300</u>	<u>30,531</u>	<u>13,769</u>
Total property valuation	<u>\$ 1,709,977,701</u>				
Net Levy			7,438,403	6,921,037	517,366
Uncollected taxes at June 30, 2013			<u>265,381</u>	<u>191,155</u>	<u>74,226</u>
Current Year's Taxes Collected			<u>\$ 7,173,022</u>	<u>\$ 6,729,882</u>	<u>\$ 443,140</u>
Current Levy Collection Percentage			<u>96.43%</u>	<u>97.24%</u>	<u>85.65%</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, 2013

	<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	\$ 4,897,878	\$ 0.655	\$ 320,792	\$ 303,453	\$ 17,339
Discoveries:					
Property taxed at current year's rate	58,015	0.655	380	380	-
Abatements:					
Property taxed at current year's rate	<u>140,153</u>	0.655	<u>918</u>	<u>461</u>	<u>457</u>
Total property valuation	<u>\$ 4,815,740</u>				
Net Levy			320,254	303,372	16,882
Uncollected taxes at June 30, 2013			<u>7,892</u>	<u>6,377</u>	<u>1,515</u>
Current Year's Taxes Collected			<u>\$ 312,362</u>	<u>\$ 296,995</u>	<u>\$ 15,367</u>
Current Levy Collection Percentage			<u>97.54%</u>	<u>97.90%</u>	<u>91.03%</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, 2013

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	Assets:			
	Current assets:			
	Cash:			
111	Cash - unrestricted	\$ 182,309	\$ -	\$ 182,309
114	Cash - tenant security deposits	38,400	-	38,400
100	Total cash	<u>220,709</u>	<u>-</u>	<u>220,709</u>
	Accounts and notes receivables:			
124	Accounts receivable - other governments	321	-	321
126	Accounts receivable - tenant - dwelling rents	4,440	-	4,440
129	Accrued interest receivable	2,092	-	2,092
120	Total receivables, net allowances for uncollectibles	<u>6,853</u>	<u>-</u>	<u>6,853</u>
131	Investments - unrestricted	1,955,138	-	1,955,138
142	Prepaid expenses and other assets	965	-	965
150	Total current assets	<u>2,183,665</u>	<u>-</u>	<u>2,183,665</u>
	Non-current assets:			
	Fixed assets:			
161	Land	259,309	-	259,309
162	Buildings	9,037,996	294,989	9,332,985
163	Furniture, equipment and machinery - dwellings	303,422	-	303,422
166	Accumulated depreciation	(4,998,028)	-	(4,998,028)
160	Total fixed assets, net of accumulated depreciation	<u>4,602,699</u>	<u>294,989</u>	<u>4,897,688</u>
180	Total non-current assets	<u>4,602,699</u>	<u>294,989</u>	<u>4,897,688</u>
190	Total assets	<u>\$ 6,786,364</u>	<u>\$ 294,989</u>	<u>\$ 7,081,353</u>
	Liabilities and Equity:			
	Liabilities:			
	Current liabilities:			
312	Accounts payable < 90 days	\$ 2,559	\$ -	\$ 2,559
321	Accrued wages/payroll taxes payable	6,177	-	6,177
322	Accrued compensated absences	17,000	-	17,000
341	Tenant security deposits	38,400	-	38,400
310	Total current liabilities	<u>64,136</u>	<u>-</u>	<u>64,136</u>
	Non-current liabilities:			
354	Accrued compensated absences - non-current	7,476	-	7,476
	Other post-employment benefits	56,498	-	56,498
350	Total non-current liabilities	<u>63,974</u>	<u>-</u>	<u>63,974</u>
300	Total liabilities	<u>128,110</u>	<u>-</u>	<u>128,110</u>
	Net position:			
508.1	Net investment in capital assets	4,602,699	294,989	4,897,688
512.1	Unrestricted net position	2,055,555	-	2,055,555
513	Total net position	<u>6,658,254</u>	<u>294,989</u>	<u>6,953,243</u>
600	Total liabilities and net position	<u>\$ 6,786,364</u>	<u>\$ 294,989</u>	<u>\$ 7,081,353</u>

CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Revenue:				
703	Net tenant rental revenue	\$ 570,439	\$ -	\$ 570,439
704	Tenant revenue - other	5,500	-	5,500
705	Total tenant revenue	575,939	-	575,939
706	HUD PHA operating grants	243,456	-	243,456
706.1	HUD PHA capital grants	-	294,989	294,989
711	Investment income - unrestricted	(11,152)	-	(11,152)
715	Other revenues	5,796	-	5,796
700	Total revenues	814,039	294,989	1,109,028
Expenses:				
Administrative:				
911	Administrative salaries	252,154	-	252,154
912	Audit services	7,794	-	7,794
915	Employee benefit contributions - administrative	98,864	-	98,864
Tenant services:				
924	Tenant services - other	2,225	-	2,225
Utilities:				
931	Water	101,304	-	101,304
932	Electricity	129,489	-	129,489
933	Gas	118,304	-	118,304
942	Ordinary maintenance and operation - materials and other	87,344	-	87,344
943	Ordinary maintenance and operation - contract costs	56,250	-	56,250
General expenses:				
961	Insurance premiums	53,474	-	53,474
962	Other general expenses	18,056	-	18,056
962.1	Compensated absences	24,476	-	24,476
963	Payments in lieu of taxes	25,517	-	25,517
964	Bad debt - tenant rents	5,844	-	5,844
969	Total operating expenses	981,095	-	981,095
970	Excess operating revenue over operating expenses	(167,056)	294,989	127,933
971	Extraordinary maintenance	6,000	-	6,000
974	Depreciation expense	207,532	-	207,532
900	Total expenses	1,194,627	-	1,194,627
1000	Excess (deficiency) of revenue over expenses	\$ (380,588)	\$ 294,989	\$ (85,599)
MEMO Account Information:				
1103	Beginning equity	\$ 6,639,610	\$ 399,232	\$ 7,038,842
1104	Prior period adjustments, equity transfers and corrections of errors	399,232	(399,232)	-
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, 2013**

Program Name	CFDA #	Funds Approved		Funds Advanced		Funds Expended		Excess (Deficiency)	
		Ending Balance	Prior Audit	Current Year	Ending Balance	Prior Audit	Current Year	Funds Approved	Funds Advanced
Capital Fund Program (CFP): NC19PO3450110	14.872	\$ 243,001	\$ 113,835	\$ 129,166	\$ 243,001	\$ 116,584	\$ 126,417	\$ -	\$ -
Capital Fund Program (CFP): NC19PO3450110	14.872	\$ 213,624	\$ -	\$ 165,823	\$ 168,572	\$ -	\$ 168,572	\$ 47,801	\$ (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 107-112)

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 113-116)

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

Debt Capacity (Page 117-122)

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 123-125)

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 126-127)

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 Position by Components
 Last Ten Fiscal Years
 (accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
Net investment in capital assets	\$ 19,086	\$ 18,667	\$ 18,755	\$ 24,599	\$ 25,834	\$ 26,977	\$ 29,009	\$ 32,852	\$ 30,598	\$ 31,063
Restricted	718	755	832	1,035	1,183	1,465	1,571	5,639	4,687	5,882
Unrestricted	4,233	4,151	5,283	5,576	5,490	6,281	4,906	(1,565)	1,360	2,207
Total governmental activities net position	\$ 24,037	\$ 23,573	\$ 24,870	\$ 31,210	\$ 32,507	\$ 34,723	\$ 35,486	\$ 36,926	\$ 36,645	\$ 39,152
Business-Type Activities										
Net investment in capital assets	\$ 41,302	\$ 38,561	\$ 41,578	\$ 44,008	\$ 46,892	\$ 56,416	\$ 53,425	\$ 60,461	\$ 63,276	\$ 65,346
Unrestricted	16,735	21,173	20,507	23,828	23,064	18,436	24,731	22,245	22,427	23,260
Total business-type activities net position	\$ 58,037	\$ 59,734	\$ 62,085	\$ 67,836	\$ 69,956	\$ 74,852	\$ 78,156	\$ 82,706	\$ 85,703	\$ 23,260
Primary Government										
Net investment in capital assets	\$ 60,388	\$ 57,228	\$ 60,333	\$ 68,607	\$ 72,726	\$ 83,393	\$ 82,434	\$ 93,313	\$ 93,874	\$ 96,409
Restricted	718	755	832	1,035	1,183	1,465	1,571	5,639	4,687	5,882
Unrestricted	20,968	25,324	25,790	29,404	28,554	24,717	29,637	20,680	23,787	25,467
Total primary government net position	\$ 82,074	\$ 83,307	\$ 86,955	\$ 99,046	\$ 102,463	\$ 109,575	\$ 113,642	\$ 119,632	\$ 122,348	\$ 127,758

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

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

	Fiscal Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 2,018	\$ 1,882	\$ 1,846	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344	\$ 1,492
Public safety	7,998	8,429	8,114	8,683	8,899	9,565	9,669	9,701	10,054	9,402
Transportation	2,263	2,122	1,955	1,677	2,160	2,108	2,532	2,481	2,638	3,960
Environmental protection	1,682	1,755	1,420	1,390	1,427	1,563	1,444	1,479	1,876	1,570
Cultural and recreational	1,984	2,130	2,029	1,982	2,039	2,140	1,967	939	2,151	2,106
Housing and redevelopment	328	310	281	856	103	192	209	267	321	222
Interest on long-term debt	125	152	175	144	130	75	95	73	68	79
Total governmental activities expenses	<u>16,398</u>	<u>16,780</u>	<u>15,820</u>	<u>16,940</u>	<u>17,161</u>	<u>18,046</u>	<u>18,228</u>	<u>18,198</u>	<u>19,452</u>	<u>18,831</u>
Business-type activities:										
Water	2,620	3,007	2,920	2,970	3,334	3,605	3,321	3,693	3,761	3,851
Sewer	2,660	3,003	2,790	2,852	2,976	3,522	3,407	3,687	3,716	3,936
Electric	13,874	14,199	14,806	14,897	15,814	15,980	16,999	17,888	18,519	19,168
Gas	24,020	27,704	34,113	15,780	18,404	16,222	12,806	11,453	8,408	10,294
Housing assistance	1,140	1,330	1,180	1,140	1,030	1,119	1,083	1,163	1,138	1,195
Total business-type activities expenses	<u>44,314</u>	<u>49,243</u>	<u>55,809</u>	<u>37,639</u>	<u>41,558</u>	<u>40,448</u>	<u>37,616</u>	<u>37,884</u>	<u>35,542</u>	<u>38,444</u>
Total primary governmental expenses	<u>\$ 60,712</u>	<u>\$ 66,023</u>	<u>\$ 71,629</u>	<u>\$ 54,579</u>	<u>\$ 58,719</u>	<u>\$ 58,494</u>	<u>\$ 55,844</u>	<u>\$ 56,082</u>	<u>\$ 54,994</u>	<u>\$ 57,275</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 194	\$ 223	\$ 33	\$ 19	\$ 15	\$ 2	\$ 4	\$ 365	\$ 441	\$ 406
Public safety	6	6	229	248	357	228	265	23	21	27
Transportation	-	-	1	1	110	195	209	261	377	329
Environmental protection	476	565	595	598	631	873	833	863	994	1,154
Cultural and recreational	259	272	276	280	309	320	338	318	294	327
Housing and redevelopment	-	-	-	-	-	-	-	127	141	139
Operating grants and contributions:										
General government	258	384	10	-	-	154	4	55	144	1,075
Public safety	12	9	245	524	252	268	476	1,098	1,048	1,050
Transportation	-	-	-	-	-	26	20	15	20	20
Environmental protection	-	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	-	-	-	-	-	5	-	-
Housing and redevelopment	-	-	11	560	3	81	93	-	-	-
Capital grants and contributions										
General government	-	-	-	-	-	32	-	-	-	-
Public safety	-	-	-	-	-	250	112	242	6	32
Transportation	2,070	1,008	1,004	1,329	2,051	2,236	1,664	315	785	435
Cultural and recreational	-	-	-	821	-	-	44	456	-	-
Housing and redevelopment	-	-	-	-	-	194	-	-	-	-
Total governmental activities program revenues	<u>3,275</u>	<u>2,467</u>	<u>2,404</u>	<u>4,380</u>	<u>3,728</u>	<u>4,859</u>	<u>4,062</u>	<u>4,143</u>	<u>4,271</u>	<u>4,994</u>
Business-type activities:										
Charges for services:										
Water	3,265	3,171	3,519	3,397	3,464	3,372	3,318	3,909	3,859	4,260
Sewer	2,834	3,319	3,440	3,735	3,763	4,030	3,983	4,485	4,388	4,926
Electric	14,803	14,895	15,529	16,907	17,333	17,398	17,591	18,659	18,924	20,259
Gas	27,853	30,742	36,599	18,758	20,017	18,517	15,676	14,486	9,555	13,142
Housing assistance	487	484	505	514	521	564	577	575	570	582
Operating grants and contributions										
Water	8	15	-	-	-	-	-	105	111	122
Sewer	-	57	-	-	-	-	-	43	46	43
Electric	-	-	-	214	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	12	13	12
Housing assistance	524	724	500	474	425	430	476	414	258	243
Capital grants and contributions										
Water	110	16	-	18	-	-	-	90	114	-
Sewer	-	-	-	112	-	1,670	955	1,589	833	95
Electric	-	-	-	-	-	696	242	1,036	1,779	34
Housing assistance	312	73	263	261	284	576	227	200	399	295
Total business-type activities program revenues	<u>50,196</u>	<u>53,496</u>	<u>60,355</u>	<u>44,390</u>	<u>45,807</u>	<u>47,253</u>	<u>43,045</u>	<u>45,603</u>	<u>40,849</u>	<u>44,013</u>
Total primary governmental program revenues	<u>\$ 53,471</u>	<u>\$ 55,963</u>	<u>\$ 62,759</u>	<u>\$ 48,770</u>	<u>\$ 49,535</u>	<u>\$ 52,112</u>	<u>\$ 47,107</u>	<u>\$ 49,746</u>	<u>\$ 45,120</u>	<u>\$ 49,007</u>
Net (expense)/revenue										
Governmental activities	\$ (13,123)	\$ (14,313)	\$ (13,416)	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)	\$ (13,837)
Business-type activities	5,882	4,253	4,546	6,751	4,249	6,805	5,429	7,719	5,307	5,569
Total primary governmental net expenses (revenues)	<u>\$ (7,241)</u>	<u>\$ (10,060)</u>	<u>\$ (8,870)</u>	<u>\$ (5,809)</u>	<u>\$ (9,184)</u>	<u>\$ (6,382)</u>	<u>\$ (8,737)</u>	<u>\$ (6,336)</u>	<u>\$ (9,874)</u>	<u>\$ (8,268)</u>

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Position									
Governmental activities:									
Taxes:									
Property taxes, levied for general purpose	\$ 5,966	\$ 6,540	\$ 6,739	\$ 7,144	\$ 7,277	\$ 7,856	\$ 7,587	\$ 7,663	\$ 7,719
Sales tax	2,394	2,522	2,759	2,972	2,967	2,831	2,669	2,732	2,866
Franchise tax	1,458	1,303	1,362	1,385	1,503	1,551	1,540	1,582	1,560
Other taxes	401	344	241	230	298	303	237	95	109
Miscellaneous	100	145	335	454	264	270	261	-	-
Unrestricted Investment earnings	105	145	399	300	304	197	173	143	212
Contributions to permanent fund principal	11	7	17	59	25	42	108	-	-
Transfers	3,007	2,844	2,859	2,110	2,091	2,351	2,350	3,280	2,434
Total governmental activities	<u>13,442</u>	<u>13,850</u>	<u>14,711</u>	<u>14,654</u>	<u>14,729</u>	<u>15,401</u>	<u>14,925</u>	<u>15,495</u>	<u>14,900</u>
Business-type activities:									
Unrestricted Investment earnings	216	425	663	1,004	996	441	225	111	123
Miscellaneous	30	15	-	106	-	-	-	-	-
Transfers	(3,007)	(2,844)	(2,859)	(2,110)	(2,091)	(2,351)	(2,350)	(3,280)	(2,434)
Total business-type activities	<u>(2,761)</u>	<u>(2,404)</u>	<u>(2,196)</u>	<u>(1,000)</u>	<u>(1,095)</u>	<u>(1,910)</u>	<u>(2,125)</u>	<u>(3,169)</u>	<u>(2,311)</u>
Total primary government	<u>\$ 10,681</u>	<u>\$ 11,446</u>	<u>\$ 12,515</u>	<u>\$ 13,654</u>	<u>\$ 13,634</u>	<u>\$ 13,491</u>	<u>\$ 12,800</u>	<u>\$ 12,326</u>	<u>\$ 12,589</u>
Change in Net Position									
Governmental activities	319	(463)	1,295	2,094	1,296	2,214	759	1,440	(281)
Business-type activities	3,121	1,849	2,350	5,751	3,154	4,895	3,304	4,550	2,996
Total primary government	<u>\$ 3,440</u>	<u>\$ 1,386</u>	<u>\$ 3,645</u>	<u>\$ 7,845</u>	<u>\$ 4,450</u>	<u>\$ 7,109</u>	<u>\$ 4,063</u>	<u>\$ 5,990</u>	<u>\$ 2,715</u>

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 2,535	\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088	\$ -	\$ -	\$ -
Unreserved	3,526	3,721	3,271	3,189	3,424	3,851	2,987	-	-	-
Non-spendable	-	-	-	-	-	-	-	521	437	436
Restricted	-	-	-	-	-	-	-	6,732	3,955	4,101
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	88	64	465
Unassigned	-	-	-	-	-	-	-	580	3,246	3,020
Total General Fund	\$ 6,061	\$ 6,287	\$ 6,486	\$ 6,192	\$ 6,551	\$ 7,344	\$ 8,075	\$ 7,921	\$ 7,702	\$ 8,022
All other governmental funds										
Reserved	\$ 238	\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285	\$ 487	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Fund	326	315	262	324	286	328	247	-	-	-
Capital Projects Fund	(517)	-	-	(88)	-	-	-	-	-	-
Non-spendable:										
Permanent funds	-	-	-	-	-	-	-	522	584	639
Restricted:										
Special Revenue Fund	-	-	-	-	-	-	-	90	745	424
Capital Projects Fund	-	-	-	-	-	-	-	762	122	254
Assigned:										
Special Revenue Fund	-	-	-	-	-	-	-	164	-	1,582
Capital Projects Fund	-	-	-	-	-	-	-	-	-	309
Unassigned:										
Capital Projects Fund	-	-	-	-	-	-	-	(730)	(272)	-
Total all other governmental funds	\$ 47	\$ 590	\$ 524	\$ 777	\$ 731	\$ 1,613	\$ 734	\$ 808	\$ 1,179	\$ 3,208

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Ad valorem taxes	\$ 5,923	\$ 6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731	\$ 7,721
Other taxes and licenses	2,403	2,524	2,762	2,976	2,969	2,858	2,682	2,733	2,866	2,863
Unrestricted intergovernmental revenues	1,850	1,644	1,627	1,686	1,864	1,887	1,793	1,837	1,733	1,761
Restricted intergovernmental revenues	2,340	1,400	1,307	2,415	2,328	3,172	2,338	1,933	2,006	2,390
Permits and fees	127	140	221	237	216	213	254	272	174	149
Sales and services	809	926	913	910	1,207	1,405	1,396	1,472	1,694	1,822
Investment earnings	100	145	335	300	304	197	173	143	212	(115)
Donations	11	7	17	69	25	42	108	47	58	62
Miscellaneous	119	135	205	319	167	187	189	206	260	400
Total revenues	13,682	13,466	14,157	15,641	16,772	17,912	16,688	16,329	16,734	17,053
Expenditures										
General government	1,686	1,638	1,674	2,094	2,280	2,222	2,067	3,034	2,141	2,077
Public safety	6,906	7,898	7,706	8,336	8,598	8,677	8,877	9,814	9,497	9,092
Transportation	2,497	988	1,692	1,362	1,872	1,763	2,034	2,490	3,205	3,771
Environmental protection	1,384	1,917	1,158	1,078	1,111	1,225	1,219	1,277	1,925	1,635
Cultural and recreational	1,799	1,700	1,810	1,731	1,794	1,826	1,703	2,083	1,979	1,944
Housing and redevelopment	590	890	287	855	103	192	209	267	321	222
Capital outlay	2,630	2,542	1,984	1,240	1,788	3,216	3,356	-	-	-
Debt service:										
Principal	425	612	1,027	1,147	1,124	1,004	869	716	713	822
Interest and other charges	124	124	186	168	136	79	95	82	68	79
Total expenditures	18,041	18,309	17,524	18,011	18,806	20,204	20,429	19,763	19,849	19,642
Excess of revenues over (under) expenditures	(4,359)	(4,843)	(3,367)	(2,370)	(2,034)	(2,292)	(3,741)	(3,434)	(3,115)	(2,589)
Other financing sources (uses)										
Transfers from other funds	3,182	2,982	2,936	2,381	2,155	2,695	2,886	3,685	3,367	4,375
Transfers from component unit	-	-	-	-	-	-	-	-	-	-
Transfers to other funds	(175)	(137)	(77)	(271)	(64)	(344)	(536)	(404)	(933)	(1,815)
Installment debt issued	858	2,747	509	172	246	1,616	707	510	812	658
Proceeds from sale of assets	6	21	131	47	11	13	28	54	21	1,721
Increase in inventory	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,871	5,613	3,499	2,329	2,348	3,980	3,085	3,845	3,267	4,939
Net change in fund balance	\$ (488)	\$ 770	\$ 132	\$ (41)	\$ 314	\$ 1,688	\$ (656)	\$ 411	\$ 152	\$ 2,350
Debt services as a percentage of non-capital expenditures	3.56%	4.67%	7.81%	7.84%	7.40%	6.38%	5.65%	4.04%	3.93%	4.59%

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
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
2013	7,692,762	2,862,052	-	1,571,869	84,396	-	-	-	12,211,079

* Includes General and Special Revenue Funds.

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

<u>Year Ended June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies</u>	<u>Total Assessed Value*</u>	<u>Total Direct Tax Rate</u>
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	1,353,708	350,630	36,011	1,740,349	0.435
2013	1,366,296	356,518	36,057	1,758,871	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>
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
2013	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)

<u>Taxpayer</u>	<u>2013</u>			<u>2004</u>		
	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
PPG Industries Inc.	\$ 97,819	1	5.56%	\$ -		0.00%
Wal-Mart Stores	50,854	2	2.89%	75,595	1	5.43%
Curtis Wright Controls Inc	21,017	3	1.19%	10,405	7	0.75%
Lowe's Home Centers Inc.	14,150	4	0.80%	7,523	10	0.54%
Wal-Mart Real Estate Business	11,581	5	0.66%	9,075	8	0.65%
Shelby Mall LLC	10,751	6	0.61%	11,541	6	0.83%
Cleveland Yutaka Corporation	9,524	7	0.54%	-		0.00%
Kendrion Shelby, Inc	8,277	8	0.47%	-		0.00%
Cleve. Co. Industrial Fac & Pol Con	7,423	9	0.42%	-		0.00%
Carlisle At Delta Park LLC	7,134	10	0.41%	-		0.00%
Duke Energy Corp			0.00%	8,198	9	0.59%
Copeland Corp			0.00%	45,169	2	3.24%
Kemet Electronics			0.00%	17,305	3	1.24%
Bell South Telephone Company			0.00%	13,301	4	0.95%
Honeywell International			0.00%	11,981	5	0.86%
Totals	<u>\$ 238,530.00</u>		<u>13.56%</u>	<u>\$ 210,093</u>		<u>15.08%</u>
Total Taxable Assessed Value	<u>\$ 1,758,871</u>			<u>\$ 1,393,220</u>		

Source: Cleveland County Tax Assessor's Office (Chris Green)

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
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%	7	249	6,716	99.90%
2007	7,148	6,489	90.78%	5	654	7,143	99.93%
2008	7,300	7,033	96.34%	7	260	7,293	99.90%
2009	7,791	7,474	95.93%	9	308	7,782	99.89%
2010	7,641	7,398	96.82%	17	226	7,624	99.78%
2011	7,635	7,403	96.96%	25	207	7,610	99.68%
2012	7,688	7,460	97.03%	39	189	7,649	99.49%
2013	7,759	7,486	96.48%	273	-	7,486	96.48%

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
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	3,026,601	1.23%	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
2013	3,119	-	25,921	-	1,301	30,341	N/A	N/A	N/A	1,502

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>
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
2013	-	0.00%	N/A

City of Shelby, North Carolina
Direct and Overlapping Governmental Activities Debt
As of June 30, 2013

	<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>655,713</u>	25.19%	<u>165,174</u>
Total direct and overlapping debt	<u>\$ 655,713</u>		<u>\$ 165,174</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)

Year Ended June 30	Debt Limits 8% of Assessed Value	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to Limit as a Percentage of Debt Limit
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%
2013	140,710	4,436	136,274	3.15%

**City of Shelby, North Carolina
 Computation of Legal Debt Margin
 June 30, 2013**

Assessed value of taxable property									<u>\$ 1,758,871</u>
Debt limit -- eight percent (8%) of assessed value									140,710
Gross debt:									
Revenue bonds	\$		25,906						
Other financing agreements/notes payable			4,436	\$		30,342			
Total amount of debt applicable to debt limitation									<u>30,342</u>
Legal debt margin									<u>\$ 110,368</u>

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

Year Ended June 30	Gross Revenues*	Operating Expenses**	Net Revenue Available For Debt Service	Debt Service Requirements***			Coverage
				Principal	Interest	Total	
2004	48,754,821	40,363,242	8,391,579	615,000	664,486	1,279,486	656%
2005	52,126,682	44,445,623	7,681,059	645,000	634,351	1,279,351	600%
2006	59,087,999	51,392,662	7,695,337	1,290,000	971,269	2,261,269	340%
2007	42,797,066	33,504,075	9,292,991	1,325,000	931,264	2,256,264	412%
2008	44,577,279	37,208,269	7,369,010	1,345,000	1,097,683	2,442,683	302%
2009	43,317,051	35,794,720	7,522,331	1,772,387	1,175,118	2,947,505	255%
2010	40,568,116	32,886,694	7,681,422	1,838,028	910,078	2,748,106	280%
2011	41,539,114	32,635,437	8,903,677	1,982,814	1,283,712	3,266,526	273%
2012	36,726,720	30,290,507	6,436,213	1,850,024	1,263,076	3,113,100	207%
2013	43,169,216	34,043,599	9,125,617	2,198,610	868,377	3,066,987	298%

* 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
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	31,046	39.0	15,721	12.1%	3,026,601
2012	20,202	N/A	40.5	15,374	10.9%	N/A
2013	20,270	N/A	40.8	15,259	10.5%	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	2013		2009	
		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+
Wal-Mart Distribution Center	Retail Distribution	3	1000+	4	500-999
Cleveland County Government	Public Administration	4	500-999	3	500-999
Baldor Electric Company	Manufacturing	5	500-999	5	500-999
PPG Fiber Glass Products	Industrial Supplies	6	500-999	6	250-499
Cleveland Community College	Education	7	500-999	8	250-499
Curtis-Wright Controls	Transportation Equipment	8	250-499	7	250-499
White Oak Manor Inc.	Education and Health Services	9	250-499	9	250-499
City of Shelby	Public Administration	10	250-499	10	250-499
Shelby Personnel Services	Professional and Business Services				

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

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government	33.5	32.5	31.5	30.0	38.0	38.0	38.0	38.0	39.0	40.0
Public safety:										
Police	82.0	83.0	86.0	86.0	87.0	87.0	87.0	86.0	86.0	86.0
Fire	56.0	56.0	56.0	54.0	53.0	53.0	53.0	53.0	58.0	57.0
Transportation	21.0	20.5	20.0	18.0	19.0	19.0	19.0	19.0	17.0	22.0
Environmental protection	38.0	38.0	19.0	17.0	17.0	17.0	17.0	17.0	19.0	16.0
Cultural and recreation	24.0	24.0	23.0	19.0	19.0	19.0	19.0	19.0	22.0	32.0
Housing and redevelopment	9.5	10.0	8.5	8.0	9.0	9.0	9.0	9.0	9.0	9.0
Business-type activities:										
Water	17.2	17.75	18.5	18.5	17.5	17.5	17.5	17.5	19.0	17.0
Sewer	19.75	19.5	19.5	21.0	18.5	18.5	18.5	18.3	21.0	19.0
Electric	10.88	11.25	12.5	11.5	10.5	10.5	10.5	10.4	14.0	12.0
Gas	18.67	19.0	20.0	20.5	18.5	18.5	18.5	18.7	18.0	17.0
Housing	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	7.0	7.0
Total	336.5	337.5	320.5	309.5	313.0	313.0	313.0	312.0	329.0	334.0

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public safety:										
Police:										
Number of calls for service	48,388	46,794	46,006	43,246	43,310	40,251	39,741	37,303	39,068	35877
Uniform Crime Report Part I Crimes Reported	1,987	1,875	1,500	1,348	1,489	1,149	1,149	1,039	1,025	887
Uniform Crime Report Part II Crimes Reported	836	848	771	712	649	625	625	529	554	475
Fire:										
Number of responses	1,724	1,740	1,929	1,848	1,883	1,913	1,976	2,179	1,945	1984
Number of inspections	1,408	1,683	1,645	1,169	1,355	707	1,426	1,502	1,530	1365
Transportation:										
Miles of street repaved	2.9	2.6	1.6	1.2	-	3.0	-	1.6	1.6	1.83
Environmental protection:										
Tons of Solid Waste Collected	9,133	8,978	8,387	9,928	9,925	10,608	7,937	7,233	6,930	6354
Tons of Recycling Collected										728
Cultural and recreational:										
Number of Youth Sport Program Participants	1,540	1,570	1,754	2,019	2,276	2,247	3,566	2,309	3,130	3385
Number of Adult Sport Program Participants	820	890	832	1,106	1,044	622	758	944	1,026	1141
Number of Golf Rounds Played	11,115	10,458	10,894	10,936	12,341	11,818	11,240	10,283	10,491	9761
Housing and redevelopment:										
Building inspections										
Number of permits issued	1,263	1,137	1,064	994	1,072	1,057	919	1,076	1,261	1,167
Number of inspections	5,473	4,084	3,866	4,067	4,621	4,343	4,205	4,376	5,437	3,634
Business-type activities:										
Water system:										
Customers at June 30	10,137	10,083	10,048	10,090	10,048	9,554	9,601	9,587	9,691	9,746
Average of daily consumption **	4.53	4.39	4.39	4.68	4.33	4.97	4.06	4.41	3.87	4.731
Peak daily consumption **	5.70	6.50	6.50	6.32	7.02	7.09	5.78	6.10	7.64	7.647
Sewer system:										
Customers at June 30	8,397	8,356	8,350	8,362	8,282	7,826	7,866	7,840	7,952	8,031
Average of daily treatment **	2.62	2.81	2.81	2.77	2.42	2.72	2.26	2.25	2.41	2.95
Peak daily treatment **	6.00	6.00	6.00	3.20	5.29	7.55	9.98	6.61	5.86	12.86
Electric system:										
Customers at June 30	8,322	8,230	8,212	8,245	8,268	8,290	7,432	7,409	7,414	7504
Natural gas system:										
Customers at June 30	10,248	10,350	10,372	10,437	10,404	9,755	9,793	9,649	9,615	9582

* 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**

	Fiscal Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Function										
Public safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	22	22	22	31	32	43	43	47	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	120.09	121.55	120.82	121.14	121.33	121.52	122.41	122.34	122.72	122.72
Miles of unpaved roads	0.19	0.20	0.20	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Miles of sidewalks	36.0	36.0	36.0	27.8	27.8	27.8	27.8	27.8	28.0	28
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	340
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	220	220	206	206	215	214	219	218	221
Number of fire hydrants	1,176	1,273	1,273	1,305	1,301	1,305	1,343	1,271	1241	1358
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	181	191	202	204	203	195	190
Miles of storm sewers	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5		10
Electric system:										
Number of sub-stations	3	3	4	4	4	4	4	4	4	4
System capacity **	52	52	52	65	65	65	65	65	65	65
Miles of primary lines	207	207	207	133	134	135	141	141	141	146
Miles of secondary lines	175	175	175	222	222	202	203	204	163	210
Natural gas system:										
Miles of gas mains	450	462	462	463	465	496	473	506	479	482

* In millions of gallons

** In mega-watts

Source: Various City Departments

*** Updated total for Hannah Property and Royster donations prior to FY13





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 For Each Major Federal Program; Report On Internal Control Over Compliance In Accordance With OMB Circular A-133; And the State Single Audit Implementation Act

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance In Accordance With OMB Circular A-133; And the State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



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

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

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

Independent Auditor's Report

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2013. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shelby's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Shelby's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Shelby's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide and opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

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

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

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Commissioners
City of Shelby, North Carolina

Report On Compliance for Each Major Federal Program

We have audited City of Shelby, North Carolina'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, 2013. 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 Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major Federal programs based on our audit of the types of compliance requirements referred to above. 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*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Shelby's compliance.

Opinion On Each Major Federal Program

In our opinion, the City of Shelby complied, in all material respects, with the types of 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, 2013.

Report On Internal Control Over Compliance

Management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, 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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shelby's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

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

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Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance In Accordance with OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report On Compliance for Each Major State Program

We have audited the City of Shelby, North Carolina's, compliance with the types of compliance requirements described in 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 State programs for the year ended June 30, 2013. The City of Shelby's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, 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 on compliance for each major State program. However, our audit does not provide a legal determination of the City of Shelby's compliance.

Opinion On Each Major State Program

In our opinion, the City of Shelby complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Shelby's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 31, 2013

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major Federal programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Capital Fund Program (CFP) Cluster	14.872, 14.884, 14.885
Airport Improvement Program	20.106

Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Auditor's Results (continued):

State Awards

Internal control over major State programs:

- Material weakness identified? No
- Significant deficiency identified not considered to be material weaknesses None reported

Type of auditor's report issued on compliance for major State programs Unmodified

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
Rural Center Grant

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

None reported

3. Findings and Questioned Costs Related to the Audit of Federal Awards

None reported

4. Findings and Questioned Costs Related to the Audit of State Awards

None reported

CITY OF SHELBY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

No prior year findings.

CITY OF SHELBY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Federal (Direct Pass-Through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
<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	\$ 243,456	\$ -
CPF Cluster				
Capital Fund Program (CFP)--2011	14.872	NC19P034501-11	131,501	-
Capital Fund Program (CFP)--2012	14.872	NC19P034501-12	173,218	-
Total U.S. Dept. of Housing and Urban Development			<u>548,175</u>	<u>-</u>
<u>U.S. Dept. of Justice</u>				
Direct Program:				
Justice Assistance Grant	16.736	N/A	13,689	-
Bulletproof Vest Partnership Program	16.607	N/A	5,004	-
Passed-through the N.C. Department of Crime Control and Public Safety:				
Project Safe Neighborhoods	16.609	N/A	-	-
Total U.S. Dept. of Justice			<u>18,693</u>	<u>-</u>
<u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
Airport Improvement Program	20.106	36237.16.9.1	44,718	-
Airport Improvement Program	20.106	36237.16.10.1	162,116	-
Airport Improvement Program	20.106	36237.16.11.1	51,449	-
State Aid to Airports Program	N/A	36244-23.10.1	-	-
State Aid to Airports Program	N/A	36244.23.11.1	-	87,536
State and Community Highway Safety--Governors Highway Safety Program	20.106	52011.5.18	-	-
Total U.S. Dept. of Transportation			<u>258,284</u>	<u>87,536</u>
Total assistance - federal programs			<u>825,152</u>	<u>87,536</u>
State Grants:				
<u>N.C. Department of Transportation:</u>				
Powell Bill	N/A	32570	-	548,710
<u>N.C. Department of Environment & Natural Resources:</u>				
Recycling Grant	N/A		-	7,500
<u>N.C. Rural Economic Development Center, Inc.:</u>				
Clean Water Supplemental Grants:				
-				
Economic Infrastructure Grants:				
Rural Center Grant - Baldor Water Meter & Sewer Lift Station		2012-125-40401-107	-	111,188
Rural Center Grant - Schletter vacant Building Reuse Grant		2013-029-60501-107	-	780,000
Total NC Rural Economic Development Center, Inc.			<u>-</u>	<u>891,188</u>
Total assistance - State programs			<u>-</u>	<u>1,447,399</u>
Total assistance			<u>\$ 825,152</u>	<u>\$ 1,534,934</u>

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

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